

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 18-71 Financial Audit

Department of the Air Force's Construction
of the Afghan Ministry of Defense
Headquarters Facility: Audit of Costs
Incurred by Gilbane Federal

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



SIGAR 18-71-FA/MOD HQ

SEPTEMBER
2018

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On April 21, 2009, the 772nd Enterprise Sourcing Squadron, in support of the Air Force Center for Engineering and the Environment, issued a cost-plus-fixed-fee task order for \$48,739,238 to Innovative Technical Solutions Inc. (ITSI) to build the Afghan Ministry of Defense's headquarters facility. After 14 modifications, the task order's funding increased to \$107,343,542, and the period of performance was extended from October 11, 2011, to December 30, 2014.

In 2010, Gilbane Federal (Gilbane) acquired ITSI, and in 2012, the Air Force Center for Engineering and the Environment reorganized into the Air Force Civil Engineer Center.

SIGAR's financial audit, performed by Crowe LLP (Crowe), reviewed \$5,880,740 charged to the task order from November 30, 2013, through December 30, 2014. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in Gilbane's internal controls related to the task order; (2) identify and report on instances of material noncompliance with the terms of the task order and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether Gilbane has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of Gilbane's Special Purpose Financial Statement (SPFS). See Crowe's report for the precise audit objectives.

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

September 2018

Department of the Air Force's Construction of the Afghan Ministry of Defense Headquarters Facility: Audit of Costs Incurred by Gilbane Federal

SIGAR 18-71-FA

WHAT THE AUDIT FOUND

Crowe identified 7 material weaknesses and 3 significant deficiencies in Gilbane's internal controls, and 11 instances of material noncompliance with the terms and conditions of the task order and applicable regulations. For example, Crowe found that Gilbane did not provide adequate supporting documentation for 39 of 74 transactions tested, resulting in \$1,785,321 in questioned costs. Moreover, according to an invoice, Gilbane charged the government \$175,166 for "lost days due to delay on work schedule." Crowe determined that work on the project was not performed and that the government did not receive any benefit for the costs. Furthermore, Gilbane did not keep supporting documentation for 47 of 60 items it purchased for the U.S. government, resulting in \$176,845 in questioned costs.

Because of these internal control deficiencies and instances of noncompliance, Crowe identified \$2,450,895 in total questioned costs, consisting of \$175,532 in ineligible costs—costs prohibited by the task order, applicable laws, or regulations—and \$2,275,363 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Category	Ineligible Costs	Unsupported Costs
Inadequately supported sole source justifications	\$0	\$133,605
Invoice for work not performed	\$175,166	\$0
Inadequate supporting documentation for costs incurred	\$0	\$1,785,193
Missing support for petty cash transaction	\$0	\$1,904
Ineligible general purpose office equipment purchases	\$366	\$0
Inadequate supporting documentation for receipt of government property	\$0	\$176,845
Undocumented foreign currency translation procedures	\$0	\$39
Possible construction services provided outside the authorized period	\$0	\$177,777
Totals	\$175,532	\$2,275,363
Total Questioned Costs		\$2,450,895

Crowe identified and reviewed three prior audit reports that may have material impacts on the SPFS for this audit. The auditors found 11 findings that needed corrective action. Based on the review, Crowe concluded that Gilbane took adequate corrective action to address three of the findings. Crowe determined that Gilbane did not take adequate corrective action on the other eight and noted similar findings in this audit. For example, in July 2016, SIGAR found that Gilbane could not provide supporting documentation for the incurred costs. As noted above, Crowe found that Gilbane did not provide documentation for 39 of 74 transactions tested. Therefore, Crowe determined that the finding had not been resolved.

Crowe would have issued an adverse opinion on Gilbane's SPFS if it had provided a signed management representation letter. However, because Gilbane did not, Crowe issued a disclaimer of opinion on the SPFS.

WHAT SIGAR RECOMMENDS

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

1. Determine the allowability of and recover, as appropriate, \$2,450,895 in questioned costs identified in the report.
2. Advise Gilbane to address the report's 10 internal control findings.
3. Advise Gilbane to address the report's 11 noncompliance findings.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

September 7, 2018

The Honorable James N. Mattis
Secretary of Defense

The Honorable Heather Wilson
Secretary of the Air Force

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

General Austin Scott Miller
Commander, U.S. Forces-Afghanistan and
Commander, Resolute Support

Mr. Edwin H. Oshiba
Director, Air Force Civil Engineer Center

We contracted with Crowe LLP (Crowe) to audit the costs incurred by Gilbane Federal (Gilbane) under the Air Force Civil Engineer Center's task order to build the Afghan Ministry of Defense headquarters facility.¹ Crowe's audit reviewed \$5,880,740 that Gilbane charged to the task order from November 30, 2013, through December 30, 2014. Our contract with Crowe 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, \$2,450,895 in questioned costs identified in the report.**
- 2. Advise Gilbane to address the report's 10 internal control findings.**
- 3. Advise Gilbane to address the report's 11 noncompliance findings.**

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

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

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-118)

¹ The contract number is FA8903-06-D-8513, and task order is number 0030.



Gilbane Federal

Construction of the Afghanistan Ministry of Defense Headquarters Facility

Special Purpose Financial Statement

Contract Number FA8903-06-D-8513, Task Order 0030

For the Period November 30, 2013, through December 31, 2014

(With Independent Auditor's Report Thereon)

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TRANSMITTAL LETTER

August 17, 2018

To the Board of Directors and Management of Gilbane Federal
1655 Grant Street, Suite 1200
Concord, California 94520

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 Gilbane Federal's ("Gilbane") contract task order with the United States Department of the Air Force funding the construction of the Afghanistan Ministry of Defense Headquarters Facility.

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 Gilbane, 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, fieldwork, and reporting phases. Management's final written responses to the findings have been incorporated as an appendix to this report and are followed by the auditor's rebuttal.

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

Sincerely,

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

Bert Nuehring, CPA, Partner
Crowe LLP

SUMMARY

Background

On April 21, 2009, Gilbane Federal ("Gilbane" or "the Auditee") entered into a cost plus fixed fee task order with the 772nd Enterprise Sourcing Squadron in support of the Air Force Center for Engineering and the Environment. The Air Force Center for Engineering and the Environment ("AFCEE") was reorganized in 2012 as the Air Force Civil Engineer Center ("AFCEC"). Contract number FA8903-06-D-8513, task order 0030 (initially valued at \$48,739,238), was used to fund the construction of the Afghanistan Ministry of Defense (MOD) headquarters. The initial period of performance was from the beginning of the award date and until October 11, 2011. Through fourteen (14) subsequent modifications to the task order, the period of performance was extended to December 30, 2014, and the total award amount increased to \$107,343,542, of which \$ 5,092,953 could be charged as a fixed fee. The total costs incurred within the audit period from November 30, 2013 through December 30, 2014, and subject to Crowe's procedures, were \$5,980,740, inclusive of \$100,000 in fixed fee.

At the time of award, the Auditee was known as Innovative Technical Solutions, Inc. ("ITSI"). In 2010, Gilbane acquired ITSI. Therefore, the Auditee is referred to as Gilbane Federal or the Auditee throughout this report.

The goal of the contract was to provide a 48,000 square-meter, five-story office building for the MOD's senior leadership and support staff. It would have an auditorium, training rooms, a secure national command center, a 1,650-square-meter parking lot, power plant, and sewage treatment facility. The contract also called for storm water management design and construction. Throughout the program's period of performance, Gilbane collaborated with numerous vendors, subcontractors, construction companies and AFCEC to execute upon the scope of work identified in the contract. Construction activities were to be completed by December 31, 2013, with a task order completion date of March 1, 2014, and a warranty oversight and final period of performance date ending on December 30, 2014.

Work Performed

Crowe LLP ("Crowe") was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") to conduct a financial audit of costs incurred by Gilbane under contract number FA8903-06-D-8513, task order 0030 and associated modifications, as indicated in a Special Purpose Financial Statement ("SPFS") for the period November 30, 2013 through December 30, 2014.

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 Gilbane's Special Purpose Financial Statement for the contract task order presents fairly, in all material respects, revenues earned, costs incurred, items directly procured by the U.S. government, and balance for the period audited in conformity with the terms of the contract task order and generally accepted accounting principles or other comprehensive basis of accounting.

Audit Objective 2 – Internal Controls

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

Audit Objective 3 – Compliance

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

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations

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

Scope

The scope of the audit included the period November 30, 2013 through December 30, 2014. The audit was limited to those matters and procedures pertinent to the contract task order that have a direct and material effect on the 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 whether there were material misstatements and whether 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 whether 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 whether 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 Gilbane. The system of internal control is intended to provide reasonable assurance of achieving reliable financial and performance reporting and compliance with applicable laws and regulations. Crowe corroborated internal controls identified by the Auditee and conducted testing of select key controls to understand whether 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 Gilbane, 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, vouchers submitted to the Government for payment, procurements, and property and equipment dispositions for testing. Supporting documentation was provided by the Auditee and subsequently evaluated to assess Gilbane's compliance. Testing of indirect costs was limited to determining whether, for the vouchers submitted for reimbursement to the government, the correct rates were used and applied against the correct base for the amounts calculated in accordance with approved indirect cost rates. Crowe also reviewed whether the adjustments to billings based on preliminary or proposed rates were made, as required and applicable.

Regarding Audit Objective 4, Crowe inquired of Gilbane, AFCEC and SIGAR regarding prior audits and reviews to obtain an understanding of the nature of audit reports and other assessments that were completed and the required corrective action. We obtained and reviewed three audit reports, noted within **SECTION 2**, over other contract task orders issued under contract number FA8903-06-D-8513. See report information below:

- DCAA Audit Report No. 4281-2014I10180001, "*Independent Audit Report on Gilbane Federal's (Formerly Innovative Technical Solutions Inc.) Direct Costs Under Contract No. FA8903-06-D-8513, Task Orders 0030 and 0049*";
- SIGAR Report No. 16-41-FA performed by Crowe LLP, "*Gilbane Company Special Purpose Financial Statement For the Construction of Afghan National Police (ANP) Border Patrol Headquarters (HQ) at Lashkar Gah and Construction of Afghan National Civil Order Police (ANCOP) Brigade Headquarters (HQ) at Marjah, Afghanistan for the Period January 10, 2011 through May 9, 2014*"; and
- SIGAR Report No. 16-42-FA performed by Crowe LLP, "*Gilbane Company Special Purpose Financial Statement For the Construction of the 1st Special Forces Regional Training Center Kandak and 1st Commando Brigade Headquarters and Transient Kandak, at Gardez, Afghanistan For the Period March 15, 2011, through July 8, 2014*."

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 thirteen (13) findings because they met one or more of the following criteria: (1) significant deficiencies in internal control, (2) material weaknesses in internal control, (3) noncompliance with rules, laws, regulations, or the terms and conditions of the contract task order; and/or (4) questioned costs resulted from identified instances of noncompliance. Other matters that did not meet the criteria were communicated verbally to Gilbane.

Crowe issued a disclaimer of opinion on the SPFS due to an inability to obtain the required management representation letter from Gilbane. Pursuant to the applicable auditing standards, a representation letter is required from management and should include matters such as Gilbane's assertion that it takes responsibility for the SPFS and accompanying notes prepared by Gilbane, complied in all material respects with applicable compliance requirements, acknowledges responsibility for implementing corrective action on audit findings, and other matters. Crowe also noted that Gilbane did not provide adequate supporting documentation to demonstrate that a material amount of costs incurred and recorded to the project were allowable. In the event that Crowe had received a management representation letter that met the applicable requirements, Crowe would have issued an adverse opinion on the SPFS.

While Crowe issued a disclaimer of opinion for the SPFS as a whole, Crowe reported separately on both Gilbane's compliance with the applicable laws, rules, regulations, and the terms and conditions of the contract task order and the internal controls over financial reporting. We identified seven (7) material weaknesses, three (3) significant deficiencies in internal control, and eleven (11) instances of noncompliance were reported. Where internal control and compliance findings pertained to the same matter, they were consolidated within a single finding.

Based on Crowe's procedures, a total of \$2,450,895 in costs reported on the SPFS were questioned because they were ineligible or unsupported. Ineligible costs are explicitly questioned because they are unreasonable; prohibited by the task order or applicable laws and regulations; or not award related. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

Additional costs totaling \$7,602,013 are in question because property items disposed of during the audit period lacked proper supporting information. However, because these items may have been acquired in periods prior to the audit, they do not appear on the SPFS and are not included in the questioned cost amounts appearing on the SPFS. Questioned costs appearing on the SPFS are summarized in TABLE A, which reports questioned costs identified in each finding as well as cumulative unique questioned costs, which adjusts the total questioned costs to prevent double-counting costs that are questioned in multiple findings.

In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under *Government Auditing Standards*. Evidence of such items was not identified by our testing.

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to Gilbane's financial performance under the contract task order. According to communications with Gilbane, SIGAR and AFCEC, there were three (3) audits issued pertaining to other contract task orders issued under contract number FA903-06-D-8513. Based on our review of the audits, we noted eleven (11) findings that required follow-up. Crowe determined that Gilbane had taken adequate corrective action to address three (3) of the prior findings. However, the same or similar issues resulting in eight (8) of the prior audit findings were also noted in the current audit. The results of the follow-up procedures and the status of the findings are noted within Section 2.

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

TABLE A: Summary of Findings and Questioned Costs

Finding Number	Matter	Questioned Costs	Cumulative Unique Questioned Costs
2018-01	Revenue Misstated on the SPFS and Accompanying Notes to the Statement	\$0	\$0
2018-02	Inadequately Supported Sole Source Justifications	\$133,605	\$133,605
2018-03	Invoice for Work Not Performed	\$175,166	\$308,771
2018-04	Inadequate Supporting Documentation for Costs Incurred	\$1,785,321	\$2,094,092
2018-05	Missing Support for Petty Cash Transaction	\$1,904	\$2,095,996

Finding Number	Matter	Questioned Costs	Cumulative Unique Questioned Costs
2018-06	Ineligible General Purpose Office Equipment Purchases	\$366	\$2,096,234
2018-07	Incomplete Property Records	\$0	\$2,096,234
2018-08	Receiving Support for Government Property Not Provided	\$176,845	\$2,273,079
2018-09	Financial Reporting: Transactions Improperly Recorded to the SPFS	\$0	\$2,273,079
2018-10	Quarterly Property Inventories Not Performed	\$0	\$2,273,079
2018-11	Inadequate Supporting Documentation for the DD1149	\$176,813	\$2, 273,079
2018-12	Undocumented Foreign Currency Translation Procedures	\$39	\$2,273,118
2018-13	Possible Construction Services Provided Outside of the Authorized Period	\$177,777	\$2,450,895
Total Questioned Costs			\$2,450,895

Summary of Management Comments

Management partially disagreed or disagreed with all findings except Findings 2018-05 and 2018-11. Note that the finding numbers referenced below align with the draft report, which included one finding (2018-06) that was cleared following receipt of additional documentation. A summary of management's comments follows:

- Regarding finding 2018-01, management did not concur with Crowe's interpretation of the revenue recognition requirements prescribed in the Accounting Standards Codification.
- Finding 2018-02 pertained to inadequate support for sole source procurements; however, management disagreed that the procurements were executed as sole source purchases and provided alternative support for consideration regarding the reasonableness of costs.
- Management disagreed with Finding 2018-03 because Gilbane's subcontract with its subcontractor required it to pay the subcontractor for lost work time whether or not work was performed on that date.
- Management disagreed with finding 2018-04 based on Gilbane's assertion that the identified costs recorded in the general ledger were not billed to the Government.
- Management agreed that the documentation referenced in Finding 2018-05 was not provided during fieldwork. Gilbane provided supporting documentation for review with its management responses.
- Management disagreed with finding 2018-06 and provided documentation for Crowe to consider.
- Management concurred, for purposes of cost settlement, with the \$128 of the \$366 in questioned costs denoted in Finding 2018-07. Management asserted that it did not bill the Government for \$328 of the \$366 in questioned costs associated with three property items selected for testing.
- Management disagreed with finding 2018-08 based on Gilbane's understanding that the inventory sheets accompanying the property transfer and disposition document provided to Crowe represented the final inventory. Gilbane did not provide additional information regarding the cause of its disagreement with other components of the finding.

- Gilbane disagreed with finding 2018-09 because Gilbane was unable to access AFCEE's Systems Management database and GFE module and also based on Gilbane's understanding that it complied with the terms of the Statement of Work and because Gilbane has an approved purchasing system.
- Regarding finding 2018-10, management did not concur with Crowe's interpretation of the revenue recognition requirements prescribed in the Accounting Standards Codification.
- Gilbane agreed with the facts appearing in finding 2018-11 and noted that, in Gilbane's opinion, the Auditee complied with the terms of the Statement of Work.
- Gilbane disagreed with finding 2018-12 because Gilbane was unable to access AFCEE's Systems Management database and GFE module and also based on Gilbane's understanding that it complied with the terms of the Statement of Work and because the Auditee has an approved purchasing system.
- Management neither agreed nor disagreed with the facts underlying finding 2018-13. Gilbane noted that the Auditee was unable to access AFCEE's Systems Management database and GFE module. Further, Gilbane indicated that it is the Auditee's understanding that it complied with the terms of the Statement of Work and also noted that it has an approved purchasing system.
- Management disagreed with finding 2018-14, which pertains to costs incurred outside of the authorized work period denoted in Gilbane's task order with the AFCEC. Management's disagreement was based on the dates that the subcontracts and associated modifications were issued. Management did not comment on the dates that the work was performed and corresponding costs were incurred. Management did, however, assert that there were no out-of-period costs.

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 Board of Directors and Management of Gilbane Federal
1655 Grant Street, Suite 1200
Concord, California 94520

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 were engaged to audit the Special Purpose Financial Statement ("the Statement") of Gilbane Federal ("Gilbane"), and related notes to the Statement, with respect to the Construction of the Afghanistan Ministry of Defense Headquarters Facility in Kabul, Afghanistan, funded by contract number FA8903-06-D-8513, task order 0030, for the period November 30, 2013 through December 31, 2014.

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"). 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 Statement based on conducting the audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Management elected not to provide a signed representation letter as required by the aforementioned auditing standards. Pursuant to AU-C 580, *Written Representations*, failure to obtain management's representations regarding fraud, uncorrected misstatements, estimates, related parties, and subsequent events represents a scope limitation and is cause to issue a disclaimer of opinion. In the absence of the representations, we were unable to obtain sufficient, appropriate audit evidence to conclude that the Statement is free of material misstatement.

As discussed in Note 4, management included reimbursable costs and fees billed during the period covered by the Statement, including amounts billed that were associated with reimbursable costs incurred prior to the start of the audit period. Federal Acquisition Regulation (FAR) Section 31.201-2(a)(3), to which Gilbane must comply as per its contract, requires compliance with accounting principles generally accepted in the United States of America (GAAP). GAAP requires that revenue be recognized when earned, and revenues are considered to have been earned when the entity has substantially accomplished what it must do to be entitled to the benefits represented by the revenues. The amount by which this departure would affect the revenues earned and associated costs incurred was an estimated \$2,225,761. In the event a disclaimer of opinion had not been identified, these items would have resulted in the issuance of an adverse opinion on the Statement as the matter is both pervasive and material to the Statement.

Disclaimer Opinion

Because of the significance of the matter described discussed in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Statement.

Basis of Presentation

We draw attention to Note 1 to the Statement, which describes the basis of presentation. The Statement was prepared by Gilbane in accordance with the requirements specified by SIGAR and presents those expenditures as permitted under the terms of contract number FA8903-06-D-8513, task order 0030, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Other Matter

As per the DD1149, "Requisition and Invoice/Shipping Document," provided by Gilbane, Gilbane transferred a reported \$16,655,837 in government property at the conclusion of the project's period of performance. We identified instances in which adequate documentation supporting the existence of and transfer of government property noted on the DD1149 was not provided such that the proper disposition and transfer of the items is in question. Whereas the period under audit did not encompass the full project period, the costs incurred to acquire government property transferred at the end of the audit period are not fully reflected within the Statement. Therefore, there are costs in question due to identified instances of noncompliance that are not incorporated on the Statement. We draw attention to Finding 2018-11 in our report.

Restriction on Use

This report is intended for the information of Gilbane, the United States Department of the Air Force, and the SIGAR. 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 July 17, 2018, on our consideration of Gilbane's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Gilbane's internal control over financial reporting and compliance.

Crowe LLP

Crowe LLP

July 17, 2018
Washington, D.C.

Gilbane Federal
Special Purpose Financial Statement
Contract Number FA8903-06-D-8513, Task Order 0030
For the Period November 30, 2013 through December 31, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Questioned Costs</u> <u>Unsupported</u>	<u>Notes</u>
Revenues					
Contract No. FA8903-06-D-851	\$ 6,705,431	\$ 5,980,740			4
Total Revenue	<u>\$ 6,705,431</u>	<u>\$ 5,980,740</u>			
Costs Incurred					5
CLIN 000801	\$ 1,117,940	\$ 1,060,627	\$ 128	\$ -	F
CLIN 000802	148,250	(19,887)	-	-	
CLIN 000803	811,781	541,633	-	-	
CLIN 000804	4,527,460	4,298,367	175,166	179,681	A,B,D,E,J
Total Costs Incurred	<u>\$ 6,605,431</u>	<u>\$ 5,880,740</u>	238	2,095,682	A,C,F,G,I
Fixed Fee	\$ 100,000	\$ 100,000			
Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 175,532</u>	<u>\$ 2,275,363</u>	6, H

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

Gilbane Federal
Notes to the Special Purpose Financial Statement
For the Period November 30, 2013 through December 30, 2014

Note 1. Basis of Presentation

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Contract number FA8903-06-D-8513, Task Order 0030, for the Construction of Afghanistan Ministry of Defense Headquarters Facility, Kabul, Afghanistan for the period November 30, 2009 through December 30, 2014. Because the Statement presents only a selected portion of the operations of the Gilbane Federal ("Gilbane"), it is not intended to and does not present the financial position, changes in net assets, or cash flows of Gilbane. 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 represent costs as Gilbane became contractually entitled to reimbursement of costs and the applicable fees pursuant to the guidance in Financial Accounting Standards Board, Accounting Standards Codification (ASC) 912-605-25 *Contractors-Federal Government—Recognition of Fees Under Cost-Plus-Fixed-Fee Contracts*. Such expenditures are recognized following the cost principles contained in Title 48, Subpart 31.2 of the United States Code of Federal Regulations, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Foreign Currency Conversion Method

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

Note 4. Revenues

Revenues on the Statement represent the amount of funds to which Gilbane is entitled to receive from the Air Force Civil Engineer Center (AFCEC)¹ for allowable, eligible costs incurred under HERC Task Order (TO) 0030 and fees earned during the period audited.

Note 5. Revenue Recognition

Revenue is recognized on cost-plus-fixed-fee contracts on the basis of partial performance as costs are incurred together with an estimate of applicable fees as Gilbane becomes contractually entitled to reimbursement of costs and the applicable fees pursuant to the guidance in ASC 912-605-25 *Contractors-Federal Government—Recognition of Fees Under Cost-Plus-Fixed-Fee Contracts*.

Note 6. Costs Incurred by Budget Category

The budget categories presented and associated amounts reflect the budget line items presented within the final, approved contract budget adopted up through Task Order 0030 Modification 14 (Mod 14) to the contract dated April 1, 2013.

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

Description	CLIN 000801		CLIN 000802		CLIN 000803		CLIN 000804		TASK ORDER 0030 TOTAL		
	Cost	Fee	Cost	Fee	Cost	Fee	Cost	Fee	Cost	Fee	TOTAL
Award	45,593,300	3,145,938							45,593,300	3,145,938	48,739,238
Mod 01									-	-	-
Mod 02	120,333	8,303							120,333	8,303	128,636
Mod 03			130,670	9,134					130,670	9,134	139,804
Mod 04									-	-	-
Mod 05			14,766,506	797,391					14,766,506	797,391	15,563,897
Mod 06			608,045	41,955	257,774	17,786			865,819	59,741	925,560
Mod 07									-	-	-
Mod 08									-	-	-
Mod 09									-	-	-
Mod 10					19,860,108	1,072,446			19,860,108	1,072,446	20,932,554
Mod 11									-	-	-
Mod 12									-	-	-
Mod 13									-	-	-
Mod 14							20,913,854		20,913,854	-	20,913,854
	<u>45,713,633</u>	<u>3,154,241</u>	<u>15,505,221</u>	<u>848,480</u>	<u>20,117,882</u>	<u>1,090,232</u>	<u>20,913,854</u>	<u>-</u>	<u>102,250,590</u>	<u>5,092,953</u>	<u>107,343,543</u>

Note 7. Balance

The balance presented on the Statement represents the difference between revenues earned and costs incurred such that an amount greater than \$0 would reflect that revenues have been earned that exceed the costs incurred or charged to the contract and an amount less than \$0 would indicate that costs have been incurred, but are pending additional evaluation before a final determination of allowability and amount of revenue earned may be made.

Note 8. Currency

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

Note 9. Program Status

The work under Task Order FA8903-06-D8513-0030 has been completed. However, the task order has not been closed pending finalization of indirect cost rates by the Government.

Note 10. Reconciliation to Invoiced Amounts

Invoiced amounts, for the audit period, were the basis for the expenditures reported on the Statement.

NOTES TO THE QUESTIONED COSTS PRESENTED ON THE SPECIAL PURPOSE FINANCIAL STATEMENT²

Note A. Inadequately Supported Sole Source Justifications

Finding 2018-02 questioned \$133,605 for one subcontractor [REDACTED] due to inadequate documentation to support the sole source procurement and reasonableness of costs incurred as a result of the procurement.

Note B. Payment of Invoice for Work Not Performed

Finding 2018-03 questioned \$175,166 in costs charged to the task order from one vendor [REDACTED] and pertained to lost work time. Specifically, the vendor invoiced Gilbane for "lost days due to delay on work schedule," thus indicating that work on the project was not performed and the Government did not receive benefit for the invoiced costs.

Note C. Inadequate Supporting Documentation for Costs Incurred

Finding 2018-04 questioned \$1,785,321 for costs charged to the contract due to Gilbane's inability to provide adequate supporting documentation to demonstrate that costs incurred and recorded to the project ledger were allowable and allocable.

Note D. Missing Support for Petty Cash Transaction

Finding 2018-05 questioned \$1,904 in costs incurred for one petty cash transaction considered another direct cost included on reimbursement request voucher number 3068R.

Note E. Ineligible General Purpose Office Equipment Purchases

Finding 2018-06 questioned \$366 in costs incurred due to four instances of unallowable general purpose office equipment being purchased.

Note F. Incomplete Property Records

Finding 2018-08 questioned \$176,845 in costs incurred for 47 items that were unsupported by evidence of receipt. The items were included on the DD1149, *Requisition and Invoice/Shipping Document*, which management represented to be the government property inventory.

Note G. Receiving Support for Government Property Not Provided

Finding 2018-11 identified \$176,813 in questioned costs based on our sample. The costs were questioned due to management's not providing sufficient documentation to demonstrate that government property items were transferred, or otherwise disposed of, in accordance with the U.S. Government's instructions. Whereas the items contributing to the \$176,813 were selected from the DD1149 (also referenced in Note F, above) which was not signed by the recipient of the transferred items and did not reconcile to supporting schedules identifying the items to be transferred, the unreconciled amount of \$7,778,826 is also in question. The amounts in question are not allocated by Contract Line Item Number due to the lack of available detailed supporting documentation and the acquisition potentially having been completed prior to the audit period.

Note H. Undocumented Foreign Currency Translation Procedures

Finding 2018-12 questioned \$39 in costs incurred due to overbilling the Government resulting from improper foreign currency conversions.

Note I. Possible Construction Services Provided Outside of the Authorized Period

Finding 2018-13 questioned \$177,777 in costs incurred for two subcontractors [REDACTED] due to construction costs being incurred outside the allowable period of construction activities.

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 Board of Directors and Management of Gilbane Federal
1655 Grant Street, Suite 1200
Concord, California 94520

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

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Statement") of Gilbane Federal ("Gilbane"), and related notes to the Statement, with respect to the Construction of the Afghanistan Ministry of Defense Headquarters Facility in Kabul, Afghanistan, funded by contract number FA8903-06-D-8513, task order 0030, for the period November 30, 2013 through December 31, 2014. We have issued our report thereon dated July 17, 2018, within which we have disclaimed an opinion because management did not provide an executed representation letter, thereby resulting in our being unable to obtain sufficient, appropriate audit evidence to conclude that the Statement is free of material misstatement.

Internal Control over Financial Reporting

Gilbane's management is responsible for establishing and maintaining effective internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the 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 connection with our engagement to audit the Statement for the period November 30, 2013 through December 31, 2014, we considered Gilbane'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 Gilbane's internal control. Accordingly, we do not express an opinion on the effectiveness of Gilbane's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified 10 deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies noted in Findings 2018-01, 2018-02, 2018-04, 2018-07, 2018-08, 2018-09, and 2018-11 in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency noted in Findings 2018-10, 2018-12, and 2018-13 in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

We noted certain matters that we reported to Gilbane's management in a separate letter dated July 17, 2018.

Gilbane Federal's Response to the Findings

Gilbane's response to the findings was not subject to the auditing procedures applied in the audit of the special purpose financial statement, and accordingly, we express no opinion on it.

Purpose of this Report

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

Restriction on Use

This report is intended for the information of Gilbane, the United States 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 LLP

Crowe LLP

July 17, 2018
Washington, D.C.



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the Board of Directors and Management of Gilbane Federal
1655 Grant Street, Suite 1200
Concord, California 94520

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

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Statement") of Gilbane Federal ("Gilbane"), and related notes to the Statement, with respect to the Construction of the Afghanistan Ministry of Defense Headquarters Facility in Kabul, Afghanistan, funded by contract number FA8903-06-D-8513, task order 0030, for the period November 30, 2013 through December 31, 2014. We have issued our report thereon dated July 17, 2018, within which we have disclaimed an opinion because management did not provide an executed representation letter, thereby resulting in our being unable to obtain sufficient, appropriate audit evidence to conclude that the Statement is free of material misstatement.

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 Gilbane.

Compliance and Other Matters

In connection with our engagement to audit the Statement of Gilbane, 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 11 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Findings 2018-02, 2018-03, 2018-04, 2018-05, 2018-06, 2018-07, 2018-08, 2018-10, 2018-11, 2018-12, and 2018-13 in the accompanying Schedule of Findings and Questioned Costs. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the Statement, other instances of noncompliance or other matters may have been identified and reported herein.

Gilbane Federal's Response to the Findings

Gilbane's response to the findings was not subject to the auditing procedures applied in the audit of the special purpose financial statement, and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

This report is intended for the information of Gilbane, the United States 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 LLP

Crowe LLP

July 17, 2018
Washington, D.C.

SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2018-01: Revenue Misstated on the SPFS and Accompanying Notes to the Statement

Material Weakness

Condition: Gilbane recognized revenue under the contract based on when costs that had previously been incurred were billed to the Government. This approach is inconsistent with accounting principles generally accepted in the United States of America ("GAAP"). According to Gilbane's financial records, the revenues and corresponding costs incurred resulting in the earned revenues should have been reported as approximately \$3,754,979. The resulting estimated misstatement is \$2,225,761 – the difference between \$5,980,740 in reported revenues on the Special Purpose Financial Statement ("SPFS") and \$3,754,979 in earned revenues per the transaction detail provided by management. This overstatement of reported revenues on the SPFS resulted from Gilbane recognizing revenue when the costs were billed as opposed to when they had been incurred. We did not question the amount of this misstatement.

In addition, we noted the following with respect to the notes to the SPFS:

- The notes to the SPFS reflect a period that differs from period of transactions presented on the SPFS.
- Note 3 indicates that conversions from local currency to U.S. dollars were not required. However, we identified instances in which currency conversions were required due to incurred costs having originally been denominated in foreign currency.

Furthermore, we requested, but did not receive, a copy of Gilbane's official revenue recognition policy.

Criteria: Accounting Standards Codification section 605-10-25-1 states that that "an entity's revenue-earning activities involve delivering or producing goods, rendering services, or other activities that constitute its ongoing major or central operations, and revenues are considered to have been earned when the entity has substantially accomplished what it must do to be entitled to the benefits represented by the revenues."

Also, Notes 2 and 4 to the SPFS indicate that Gilbane has reported revenues and expenditures on the accrual basis of accounting and in accordance with GAAP.

Pursuant to FAR 31.201-2(a), "A cost is allowable when the cost complied 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, [and] (5) Any limitations set forth in FAR 31.2."

Questioned Costs: None.

Effect: The Government may rely upon inaccurate financial data when managing and closing out the Gilbane task order.

Cause: Gilbane misinterpreted the revenue recognition standard. Gilbane indicated that there was an exception to the revenue recognition requirement pertaining to both the costs incurred and the fixed fee due to the award's being structured as a cost plus fixed fee agreement; however, the matter referenced by Gilbane restricting recognition to billable amounts pertains to the fixed fee, not to costs incurred that are considered reimbursable. Furthermore there was no procedure over preparation of the SPFS and notes, as they were prepared and approved by the same individual.

Recommendation: We recommend that Gilbane:

1. Design, document, and implement a procedure for financial reporting that requires segregation of duties and that mandates review and sourcing of information used in notes disclosures, including revenue recognition;
2. Develop a revenue recognition policy, if one does not already exist; and
3. Complete the notes to the SPFS, including the reconciliation of the SPFS to amounts invoiced, so as to clearly demonstrate to the Government that the accounting issues noted have not resulted in improper or duplicated billings.

Finding 2018-02: Inadequately Supported Sole Source Justifications

Material Weakness and Non-Compliance

Condition: We selected 15 procurements from the population of 35 purchase orders and subcontracts for testing. During our testing, we identified five noncompetitive procurements. Two of the five procurement files (identified below) included sole source justification documents; however, the statements within the justifications were inadequately supported such that the use of noncompetitive procurement procedures is in question. In addition, we noted that Gilbane's procurement procedures did not specify or otherwise provide direction regarding the specific situations in which noncompetitive procurements may be appropriate and what type of documentation is required to demonstrate or otherwise adequately support the use of noncompetitive procurements.

Purchase Order Number	Vendor	Purchase Order Amount	Auditor Comments	Questioned Costs
8069	[REDACTED]	\$410,446	<p>The Justification of Non-Competitive Procurement form provided with the procurement support indicated that the miscellaneous construction goods and services provided included "Domestic Water, Fire Suppression, Basement Sump Pumps and Lift Station Pumps. Also included miscellaneous flanges and fittings."</p> <p>Documentation was not provided to indicate that there were no other providers of the referenced goods and services.</p> <p>The price analysis support provided in support of the bid presented an average price of \$276,841 based on a previous competitive bid. The \$133,605 difference (\$410,446 - \$276,841) between the average competitive bid amount and the sole source amount is in question.</p>	\$133,605 is in question. This amount represents the portion of the purchase order amount that was considered to be unreasonable.
5516	[REDACTED]	\$856,828	<p>The approved Sole/Single Source Justification form indicates that no efforts were taken to solicit competitive bids due to [REDACTED] "[having] a wide selection of equipment for rent in the Kabul area on an immediate basis." No documentation was provided to support that [REDACTED] was the only supplier capable of providing excavators, flatbed trucks, roller drums, and other equipment items as referenced in the procurement file support.</p>	No costs are in question due to management's having provided adequate supporting documentation to demonstrate that the costs and prices in the award amount are reasonable.
Total:		\$1,267,274		

Criteria: FAR 52.244-5, *Competition in Subcontracting*, states, "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 C.12, *Sole Source Procurements*, included within Gilbane's Procurement Procedures states that "[a]ny Procurement Requisition which includes a request to the Procurement Department for award of a non-competitive procurement shall include detailed reason(s) why the sole source award is justified under the circumstances."

Questioned Costs: \$133,605

Effect: Gilbane may incur costs that are unreasonable or otherwise exceed those that a prudent person would pay and subsequently pass those costs onto the Government. As such, the Government may have been charged more than necessary.

Cause: Gilbane's internal sole source approval process failed to detect that a detailed explanation or justification was not provided in support of the selected procurement method. Further, Gilbane's procurement procedures pertaining to noncompetitive procurements were improperly designed.

Recommendation: We recommend that Gilbane revise its procurement procedures to include a listing of circumstances in which noncompetitive procurements are appropriate. We further recommend that Gilbane either provide documentation to support the reasonableness of all costs incurred under purchase order 8069 or otherwise reimburse the Government \$133,605.

Finding 2018-03: Invoice for Work Not Performed

Non-Compliance

Condition: During our testing of costs incurred under the task order, we identified one invoice for \$175,166 for lost work time. The vendor invoiced Gilbane for "lost days due to delay on work schedule," thus indicating that work on the project was not performed and the Government did not receive benefit for the invoiced costs.

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

31.201–2 Determining allowability.

- (a) A cost is allowable only when the cost complies with all of the following requirements:
- (1) Reasonableness.
 - (2) Allocability.
 - (3) Standards promulgated by the CAS Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the circumstances.
 - (4) Terms of the contract.
 - (5) Any limitations set forth in this subpart.

31.201–4 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: \$175,166

Effect: The Government funded charges for which it did not receive benefit, which may be considered wasteful and classified as an improper payment.

Cause: Gilbane's project management function failed to address schedule delays or otherwise failed to communicate to Gilbane's finance personnel that the costs should not be charged to the Government. In addition, those individuals with responsibility for conducting reviews for allowability and invoicing the government did not possess adequate training to detect the ineligible costs in a timely manner.

Recommendation: We recommend that Gilbane:

1. Reimburse the government for the amount of \$175,166 or otherwise produce documentation showing that the Government received benefit for the invoiced time;
2. Expand its accounts payable policy to incorporate a review of invoices for work that was not performed or did not otherwise benefit the Government; and
3. Develop and deliver training regarding the revised policy to those individuals with responsibility for conducting reviews of documentation for allowability and invoicing the government.

Finding 2018-04: Inadequate Supporting Documentation for Costs Incurred

Material Weakness and Non-Compliance

Condition: Gilbane did not provide adequate supporting documentation to demonstrate that costs incurred and recorded to the project ledger were allowable for 39 of 74 sample transactions. The population consisted of 2,572 items at a total value of \$5,584,592. The total amount of the 39 transactions is \$5,171,805, including accrual estimates and reversals. The total amount of costs in question is \$1,785,321 – the portion of the \$5,171,805 remaining after excluding accrual estimates and reversals.

Criteria: Pursuant to FAR 31.201-2(d), "A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported."

According to the Gilbane Federal Procedure Document PR-AC-018 Version R00, *Accounts Payable*, "Accounts Payable is responsible for timely processing requests for payment that are properly prepared and approved for payment. Documents that constitute a request for payment are categorized as follows.

- Vendor Invoices,
- Subcontract Invoices, and
- Check Requests

Prior to scanning, the Submitter will review each request for payment for the following attributes:

- **Invoice Amount.** Ascertain whether the amount requested for payment is adequately supported (e.g., number of units x price is correctly calculated, price plus sales tax is correct, etc.)."

Questioned Costs: \$1,785,321

Effect: The Government may have been charged for unallowable, unreasonable, or improperly allocated costs.

Cause: Gilbane did not have adequate procedures in place to ensure retention of supporting documentation for all transactions.

Recommendation: We recommend that Gilbane either locate supporting documentation that demonstrates the costs recorded to the project account are allowable or reimburse the Government \$1,785,321. Gilbane needs to provide information sufficient to conclude that the costs were not already billed and reimbursed. We recommend repayment of those costs that have already been reimbursed to Gilbane. We further recommend that Gilbane develop and require training on the procedures to retain records for its Afghanistan-related programs in accordance with the FAR and to prevent future lost documentation occurrences.

Finding 2018-05: Missing Support for Petty Cash Transaction

Non-Compliance

Condition: During our testing of costs incurred under the task order, we found that Gilbane could not provide supporting documentation for one (1) Other Direct Cost transaction included on reimbursement request voucher number 3068R submitted to the Government. The transaction in question was a petty cash transaction totaling \$1,904 used to pay invoice number V1214312. The transaction date was February 28, 2013.

Criteria: Pursuant to FAR 31.201-2(d), "A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported."

Questioned Costs: \$1,904

Effect: In the absence of supporting documentation, costs may be charged to the Government that were not incurred or did not benefit the Federal program.

Cause: Gilbane did not implement an adequate process for the retention of petty cash purchase support.

Recommendation: We recommend that Gilbane develop and implement a procedure to require retention of petty cash transaction records. In addition, Gilbane should either locate supporting documentation for the \$1,904 in costs or otherwise reimburse the Government \$1,904.

Finding 2018-06: Ineligible General Purpose Office Equipment Purchases

Non-Compliance

Condition: Of the sixty (60) government property items sampled, with a reported value of at least \$2,134,995, three (3) were identified as General Purpose Office Equipment with a total purchase cost of \$238. The three (3) items purchased were an office desk and two (2) revolving desk chairs.

We also identified one office desk/revolving chair purchase as part of our transaction testing. The total amount of this purchase was \$128. The total costs in question due to purchase of GPOE is \$366.

Criteria: Gilbane's indefinite delivery/indefinite quantity contract governing the task order includes the following provision:

PKV-H010 NOTICE OF NON-ALLOWABILITY OF DIRECT CHARGES FOR GENERAL PURPOSE OFFICE EQUIPMENT AND GENERAL PURPOSE AUTOMATED DATA PROCESSING EQUIPMENT (MAY 2005)

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

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

Questioned Costs: \$366

Effect: The Government was improperly charged for ineligible items.

Cause: Gilbane did not have adequate procedures in place to prevent the purchase and subsequent reimbursement of office equipment purchases.

Recommendation: We recommend that Gilbane reimburse the government for \$366 or otherwise produce documentation indicating that the PKV-H010 provision was waived.

Finding 2018-07: Incomplete Property Records

Material Weakness and Non-Compliance

Condition: To assess the adequacy and completeness of Gilbane's government property records and procedures, we requested a copy of the final physical inventory showing all contractor-acquired and government-furnished property items used on the project and sought to reconcile the inventory to the financial records. Management indicated that the DD1149, "Requisition and Invoice/Shipping Document," represented the final physical inventory. We noted the following during our assessment of the DD1149:

1. Property record information provided on the DD1149 for TO 0030 and its supporting schedules did not include sufficient detailed information to tie the property records to source documentation provided by management. Examples of missing information include acquisition dates and costs. As such, the records were unauditable.
2. The DD1149 was dated April 2, 2014, thus indicating that the physical inventory was not completed at the project close.
3. Nine (9) of eleven (11) vendors selected with costs incurred in the audit period per the general ledger and for which costs were classified as government property, equipment, or government property consumables were not located in the population provided by Gilbane. Total property-related costs incurred for the nine vendors was \$134,213, which represents an omission from the property records.
4. Equipment leases were classified within the financial records as government property. However, leases do not qualify as government property, which includes Government-furnished property and all property acquired by the Contractor, title to which vests in the Government.
5. Management was unable to produce an accurate reconciliation between the DD1149 and the financial records.

In consideration of the above, we noted that the property records were incomplete and the final physical inventory was not performed at the required time.

Criteria: Pursuant to FAR 52.245-05, Gilbane is required to comply with the government property requirements codified in FAR 45.5. FAR 45.505 states that the contractor's property control records shall constitute the Government's official property records and the contractor shall establish and maintain adequate control records for all Government property. Further, the records must identify all Government property and provide a complete, current, auditable record of all transactions.

FAR 45.508-1 states, "Immediately upon termination or completion of a contract, the contractor shall perform and cause each subcontractor to perform a physical inventory, adequate for disposal purposes, of all Government property applicable to the contract, unless the requirement is waived by the property administrator.

Section 5.5 of Gilbane's Government Property Control Plan states that "[Government Property] records are maintained to identify all GP and provide a complete, current and auditable record of all GP transactions."

Questioned Costs: None

Effect: Equipment used during the contract was not properly supported, tracked, or reported, and the likelihood that the Government's property records include inaccurate or incomplete data is elevated.

Cause: Gilbane applied an improper definition of government property, failed to implement a procedure that would detect errors in the property records, and inadequately trained personnel.

Recommendation: We recommend that Gilbane conduct a full reconciliation of its government property records to the financial records for the task order. We further recommend that Gilbane design and implement training for government property procedures to ensure that correct definitions are applied, records are complete, and inventories are performed timely.

Finding 2018-08: Receiving Support for Government Property Not Provided

Material Weakness and Non-Compliance

Condition: We selected a sample of 60 Government property items and requested evidence of receipt to determine that the items existed and the corresponding recorded cost was properly supported. During our testing, we noted that Gilbane was unable to produce adequate evidence of receipt for 47 of 60 items totaling \$176,845. As such, using documentation provided by Gilbane, we could not substantiate whether the costs were incurred and are allocable to the project.

Criteria: Section 5.2 of Gilbane's Government Property Control Plan states that "All GP shall be received by the assigned Government Property Custodian. Documentation of receipt can be in any of the following manner: signing and dating either the receiving copy of the ITSI Purchase Order, or packing slip or invoice."

FAR 31.201-2(d) states that "a contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles[.]"

FAR 31.201-1(b) limits the total costs to the Government to those allowable, allocable costs pursuant to FAR Part 31 and agency supplements.

Questioned Costs: \$176,845

Effect: The costs associated with the Government property items may have been charged to the Government, but the items may not have been received and/or utilized to benefit TO 0030.

Cause: Gilbane did not retain supporting documentation for the receipt of equipment and Gilbane did not have a monitoring process nor procedures to ensure that documentation was maintained.

Recommendation: We recommend that Gilbane either provide alternative support to demonstrate the Government property items were received and utilized for TO 0030 or otherwise reimburse the Government \$176,845. We further recommend that Gilbane design and implement a periodic monitoring process to ensure that evidence of receipt is retained for Government property items going forward.

Finding 2018-09: Financial Reporting: Transactions Improperly Recorded to the SPFS

Material Weakness

Condition: During our testing of 74 transactions, we identified ten (10) transactions totaling \$835,043 that were incurred outside of the SPFS's period. The invoice dates of the supporting documentation ranged from June 18, 2011 to October 17, 2013. Management removed the \$835,043 from the SPFS following identification of the misstatement by the auditor.

Criteria: According to Gilbane's accounts payable procedures document PR-AC-018, "Gilbane Federal records expenses on an accrual basis consistent with Generally Accepted Accounting Principles (GAAP)."

Accounting principles generally accepted in the United States of America indicate that revenues should be recognized as services are rendered to Gilbane's customer, and expenses should be recognized in the same period as revenues earned.

Questioned Costs: None

Effect: The total costs incurred for the period covered by the Statement, November 30, 2013 through December 31, 2014, are misstated.

Cause: Gilbane improperly applied the revenue recognition requirements.

Recommendation: We recommend that Gilbane conduct an assessment of the remaining costs recorded to TO 0030 prior and subsequent to the period under audit to assess whether there are additional costs improperly allocated to the award. No additional corrective action is recommended with respect to the SPFS.

Finding 2018-10: Quarterly Property Inventories Not Performed

Significant Deficiency and Non-Compliance

Condition: Gilbane did not produce evidence that quarterly Government property inventories were performed.

Criteria: Section 5.6 of Gilbane's Government Property Control Plan requires that quarterly government property inventories be conducted.

In addition, FAR 45.508 as applied to Gilbane pursuant to FAR 52.245-5, Gilbane is required to conduct periodic physical inventories of "all Government property (except materials issued from stock for manufacturing, research, design, or other services required by the contract) in its possession of control and shall cause subcontractors to do likewise."

Questioned Costs: None

Effect: Government property may be lost, stolen, damaged, or destroyed, misallocated, or improperly used without management's knowledge.

Cause: Gilbane did not implement a process to ensure that quarterly inventories were performed.

Recommendation: We recommend that Gilbane establish and implement a process that periodically reviews and confirms that quarterly inventories are being completed, as required.

Finding 2018-11: Inadequate Supporting Documentation for the DD1149

Material Weakness and Non-Compliance

Condition: In response to our request for the Government-approved disposition schedule, Gilbane provided a copy of the DD1149, "Requisition and Invoice/Shipping Document" that is supposed to document the property that transferred from task order (TO) 0030 to TO 0049 of the same contract. During our testing of the DD1149, we noted the following:

1. The DD 1149 was not signed by Gilbane indicating that the personnel responsible for TO 0049 received the items post transfer. The DD1149 was signed by the Government representative authorizing the transfer.
2. The disposition support indicated that material and equipment with a total cost of \$16,655,837 was to be transferred. However, the supporting schedules showing the itemized listing of items subject to transfer included a total of \$8,877,011. Therefore, \$7,778,826 worth of material and equipment was unexplained. We noted that some items in the supporting schedule did not include total or unit cost information such that the full value of items subject to transfer is presently unknown.
3. Information in the DD1149 did not match the information contained in supporting documentation provided for 55 of 60 government property sample selections. Accordingly, it is unknown whether the items were disposed of or transferred in accordance with the FAR.

Criteria: Pursuant to FAR 52.245-5(e) *Property administration*, (1) The Contractor shall be responsible and accountable for all Government property provided under the contract and shall comply with Federal Acquisition Regulation (FAR) subpart 45.5, as in effect on the date of this contract.

Pursuant to FAR 45.505, (b) The contractor's property control system shall provide financial accounts for Government-owned property in the contractor's possession or control. The system shall be subject to internal control standards and be supported by property records for such property.

(c) Official Government property records must identify all Government property and provide a complete, current, auditable record of all transactions.

Section 5.9 of Gilbane's Government Property Control Plan states the following with regard to Government Property Disposition:

Transfer of Government Property. When requested by the Program/Project Manager, the GP Manager shall submit a written request to the Contracting Officer or higher-tier Contracting Officer Representative to transfer property to another contract or delivery/task order. When instructions are received, the GP Manager will advise the Program/Project Manager who will, in turn, instruct the Government Property Custodian. For GP to be transferred to another Contract/Delivery/Task Order, the Government Property Custodian will:

- Deliver the GP to the other contract/delivery/task order
- Obtain a signed receipt for the GP
- Make final entry onto the report, transfer the inventory to the receiving CPV, placing a copy of the inventory and transfer report in the project file, and send a copy to the GP Manager.

Questioned Costs: \$176,813 in known questioned costs were identified through testing. The unreconciled amount of \$7,778,826 is in question due to insufficient supporting documentation to assess proper disposition.

Effect: Government property may have been improperly disposed of without the U.S. Government's knowledge or the U.S. Government having been compensated for loss.

Cause: Gilbane did not implement adequate property management controls to ensure that all Government property was accurately tracked and accounted for at the time of disposition and transfer.

Recommendation: We recommend that Gilbane complete a full reconciliation of Government property identified on the DD1149 to all Government property charged to the task order as per its financial records and provide the reconciliation to the U.S. Air Force. Any items that cannot be fully supported and/or located should be refunded to the U.S. Government.

Finding 2018-12: Undocumented Foreign Currency Translation Procedures

Significant Deficiency and Non-Compliance

Condition: We noted that Gilbane did not have a formal policy or procedure communicating the process for translating transactions denominated in foreign currencies to U.S. dollars. During our testing of 18 transactions denominated in Afghanis, we identified a \$39 overbilling. This amount is in question.

Criteria: The commercial cost principles contained within 48 CFR Part 31 includes the following requirement:

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.

Part 31.201-2(b) goes on to state, "When contractor accounting practices are inconsistent with this subpart 31.2, costs resulting from such inconsistent practices in excess of the amount that would have resulted from using practices consistent with this subpart are unallowable."

Accounting Standards Codification Topic 830, *Foreign Currency Matters*, states that, "At the date a foreign currency transaction is recognized, each asset, liability, revenue, expense, gain, or loss arising from the transaction shall be measured initially in the functional currency of the recording entity by use of the exchange rate in effect at that date."

The Accounting Standards Codification defines "transaction date" as "The date at which a transaction (for example, a sale or purchase of merchandise or services) is recorded in accounting records in conformity with generally accepted accounting principles (GAAP). A long-term commitment may have more than one transaction date (for example, the due date of each progress payment under a construction contract is an anticipated transaction date)."

Questioned Costs: \$39

Effect: Without a standard process in place that is formally communicated to employees, there is an increased risk of the Government being improperly billed.

Cause: Management did not consider it necessary to have a policy or document a procedure based on its assessment of perceived risk.

Recommendation: We recommend that Gilbane develop, document, and implement a foreign currency translation policy and procedure. We further recommend that Gilbane reimburse the Government \$39.

Finding 2018-13: Possible Construction Services Provided Outside of the Authorized Field Performance Completion Period

Significant Deficiency and Non-Compliance

Condition: During our testing of 74 transactions from a universe of 2,572 transactions at a total value of \$5,584,592, we identified two construction invoices that included service periods extending beyond the authorized period. The invoices in question and associated service periods are summarized below. According to a review of the invoices and accompanying documentation provided by management, it is unclear which services were provided on which dates. Therefore, it is unclear whether the construction services were provided within the authorized field performance period or if the services were rendered within the task completion and/or warranty period – each of which concluded subsequent to the end of the authorized field performance period.

Sample Item #	Vendor	Invoice Number	Service Period	Invoice Amount
30		6135 02	9/8/2011 - 2/15/2014	\$69,985.45
74		8921-08	9/20/2013 - 1/28/2014	\$107,791.56
Totals				\$177,777.01

Criteria: Pursuant to Modification No. 14 to the contract task order, field performance was required to conclude by December 31, 2013.

Questioned Costs: \$177,777

Effect: The Government may have been invoiced for costs that were ineligible for reimbursement.

Cause: Gilbane's invoicing procedures did not require that the costs associated with services delivered outside of the performance period be separately invoiced or otherwise itemized to ensure that reviewers may detect and correct instances in which ineligible costs are billed.

Recommendation: We recommend that Gilbane either locate and provide documentation demonstrating that all construction performance-related costs included on the invoices were incurred prior to the end of the field performance period (12/31/2013) or otherwise reimburse the Government \$177,777.

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

Through discussion with Gilbane, SIGAR, and representatives of the U.S. Air Force, five prior audits, reviews, or assessments were identified. We conducted a review of each report to identify matters that may be direct and material to the SPFS under audit. Based on our review, we identified three audits that contained findings and recommendations that could be direct and material to the SPFS. For each applicable finding, we have included below the results of our assessment of the adequacy of corrective action taken by Gilbane.

Report: *Independent Auditor's Report on Gilbane Federal's (Formerly Innovative Technical Solutions, Inc.) Direct Costs Under Contract No. F8903-06-D-8513, Task Orders 0030 and 0049*

Issue: The Defense Contract Audit Agency ("DCAA") questioned \$11,596,634 and \$6,716,606 in claimed subcontract and material costs for TO 0030 and TO 0049, respectively. DCAA considered the costs to be unreasonable and unallowable.

Status: Through inquiry with Gilbane and the U.S. Air Force, we noted that the Government sustained the questioned costs, in part. However, the matter is under appeal and a final determination has not yet been rendered regarding the amount of funds that must be repaid, if any. During our procedures, we identified unallowable and unreasonable subcontract and material costs such that we do not consider the corrective action taken to be adequate. See findings 2018-02, 2018-04, 2018-06, and 2018-13 pertaining to unallowable and unreasonable subcontract and material costs.

Report: *SIGAR 16-41 Financial Audit, July 2016*

Finding 2015-01: Costs Exceeded CLIN Budgets

Issue: \$6,245,590 was questioned due to Gilbane's exceeding the allowable budget per Contract Line Item Number ("CLIN").

Status: We conducted procedures to assess whether Gilbane exceeded CLIN funding limits for TO 0030. We did not identify any overages; however, due to Gilbane's having improperly recognized revenues and expenses on the SPFS, we could not conclude that the allocations reported are accurate. Accordingly, we have not concluded that the corrective action taken is adequate to address the previously identified issues.

Finding 2015-02: Lack of Support Over Costs Incurred

Issue: \$131,741 in costs were questioned due to a lack of supporting documentation.

Status: We selected a sample of 74 transactions from a population of 2,572 total transactions charged to TO 0030. During our testing of the sample, we identified \$1,785,321 in costs that were inadequately supported. This matter is not considered resolved. See Finding 2018-04.

Finding 2015-03: Improper Allocation of Costs and Lack of Controls Over Approvals

Issue: The auditor identified \$48,377 in ineligible costs that resulted from payroll charges and business receipt tax costs having been improperly allocated to the task order.

Status: During our testing of direct costs, we did not identify any improperly allocated payroll or business receipt tax costs. This matter is not repeated within our report.

Findings 2015-04 and 2015-05: Lack of Documentation and Controls Over Equipment and Unallowable Office Equipment

Issue: \$230,312 was questioned due to both missing documentation to support equipment costs charged to the contract and Gilbane's having purchased office equipment that is prohibited by the base contract.

Status: We tested the allowability of equipment and property purchases as well as documentation supporting receipt and proper disposal or transfer of government property. Our procedures resulted in the identification of ineligible office equipment purchases and missing documentation to support the purchase, receipt, and proper disposition of Government property. The corrective action taken by Gilbane is, therefore, considered to be inadequate. See Findings 2018-06, 2018-08, and 2018-11.

Findings 2015-06: Costs Incurred Outside Contract Task Order Period of Performance

Issue: \$2,379 in payroll costs incurred subsequent to the contract task order's period of performance were identified and questioned by the auditor.

Status: We did not identify any instances in which costs were incurred and charged to the contract task order subsequent to the period of performance. However, we did identify construction invoices with service periods extending beyond the authorized construction work period. This matter is not considered to be resolved. See Finding 2018-13.

Report: SIGAR 16-42 Financial Audit, July 2016

Finding 2015-01: Lack of Support Over Costs Incurred

Issue: \$876,136 in unsupported costs were questioned by the auditor due to Gilbane's not providing support for subcontractor costs and related procurements as well as labor costs.

Status: We selected a sample of 74 transactions from a population of 2,572 total transactions charged to TO 0030. During our testing of the sample, we identified \$1,785,321 in costs that were inadequately supported. This matter is not considered resolved. See Finding 2018-04.

Finding 2015-02: Improper Allocation of Costs

Issue: \$206,585 in ineligible costs resulted from Gilbane's charging improper indirect cost rates and incorrectly allocating business receipt tax costs to the task order.

Status: Our tests of indirect costs did not identify any instances in which incorrect rates were used to invoice the Government. We also did not identify any instances in which business receipt taxes were improperly charged to the task order. This matter is not repeated.

Finding 2015-03: Costs Exceeded CLIN Budgets

Issue: The auditor questioned \$188,574 in costs due to Gilbane's having exceeded the authorized CLIN limits.

Status: We conducted procedures to assess whether Gilbane exceeded CLIN funding limits for TO 0030. We did not identify any overages; however, due to Gilbane's having improperly recognized revenues and expenses on the SPFS, we could not conclude that the allocations reported were accurate. Accordingly, we have not concluded that the corrective action taken was adequate to address the previously identified issues.

Findings 2015-04 and 2015-05: Lack of Documentation Over Equipment and Unallowable Office Equipment

Issue: \$49,947 in ineligible and unsupported costs were questioned. The questioned costs resulted from Gilbane's having billed the Government for office equipment that was prohibited by the base contract as well as Gilbane's inability to produce supporting documentation for equipment purchases billed to the Government.

Status: We tested the allowability of equipment and property purchases as well as documentation supporting receipt and proper disposal or transfer of Government property. Our procedures resulted in the identification of ineligible office equipment purchases and missing documentation to support the purchase, receipt, and proper disposition of Government property. The corrective action taken by Gilbane is, therefore, considered to be inadequate. See Findings 2018-06, 2018-08, and 2018-11.

APPENDIX A: VIEWS OF RESPONSIBLE OFFICIALS

The following pages contain management's responses to the draft audit report. Due to the volume of management's comments, the narrative responses have been included herein; but, appendices have been provided directly to SIGAR for transmission to the United States Air Force, as appropriate and necessary. In addition, management did not provide a Page 12 or Page 13 within its management responses. Accordingly, the page numbers denoted in management response are not fully sequential.

Crowe Name Change: Effective June 4, 2018, Crowe Horwath LLP changed its name to Crowe LLP. Due to the draft report having been provided to management prior to the name change, management has referenced "Crowe Horwath LLP" throughout its response. The final report is issued under the firm's current, legal name, Crowe LLP.



June 1, 2018

Mr. Bert Nuehring
Crowe Horwath LLP
1455 Pennsylvania Avenue. NW, Suite 700
Washington, DC 20004-1008

Subject: Crowe Horwath LLP, Draft Audit Report on SIGAR Audit No. 118 over Gilbane Federal's Contract Number FA8903-06-D-8513, Task Order 0030

Mr. Nuehring,

We are providing the management response requested by your office on May 16, 2018, for the Crowe Horwath LLP (Crowe Horwath), *Draft Report on SIGAR Audit No. 118 over Gilbane Federal's Contract Number FA8903-06-D-8513, task order 0030* (Attachment A, *Crowe Horwath Draft Report on SIGAR Audit No. 118 over Gilbane Federal's Contract Number FA8903-06-D-8513, Task Order 0030*).

We understand that the Crowe Horwath draft audit report was prepared for the Special Inspector General for Afghanistan Reconstruction (SIGAR) financial audit of incurred costs for FA8903-06-D-8513 Task Order 0030, *Construction of Afghanistan Ministry of Defense Headquarters Facility, Kabul, Afghanistan*, for the partial project performance period December 30, 2013 through December 31, 2014 (Attachment B, *SIGAR letter dated April 27, 2017*).

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

Sincerely,

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

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

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

Crowe Horwath Draft Report on SIGAR Audit No. 118 over Gilbane Federal's Contract Number FA8903-06-D-8513, Task Order 0030 dated May 16, 2018

Background - Contract Number FA8903-06-D-8513, Task Order 0030

The Air Force Center for Engineering and the Environment (AFCEE)¹ used a two-tiered approach to select contractors for its construction projects. First, under its Heavy Engineering, Repair and Construction (HERC) business model, AFCEE solicits proposals, selects contractors, and awards multiple indefinite delivery/indefinite quantity contracts in accordance with the Federal Acquisition Regulation (FAR), to provide heavy construction and engineering activities worldwide. Second, AFCEE headquarters requests proposals covering potential heavy construction and engineering projects exclusively from HERC prime contractors. Contractors interested in competing for the work provide proposals. The AFCEE contracting officer (CO), located in San Antonio, Texas, makes a determination as to which contractor will provide the best value and the selected contractor is awarded the task order.

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

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

The AFCEE processes recognized Afghanistan has very limited engineering/construction capability, difficult logistics and a reputation for poor quality materials and craftsmanship. The nature of the construction market increased costs, compared to more developed markets, and had a negative impact on quality and schedule.

¹ The Air Force Center for Engineering and the Environment (AFCEE) and Air Force Real Property Agency merged with the Air Force Civil Engineer Support Agency and were renamed the Air Force Civil Engineer Center (AFCEC) in October 2012

Crowe Horwath Draft Report on SIGAR Audit No. 118 over Gilbane Federal's Contract Number FA8903-06-D-8513, Task Order 0030 dated May 16, 2018

AFCEE issued a Request For Proposal (RFP) for HERC Contract FA8903-06-D-85xx-0xxx for *Construction of Ministry of Defense Headquarters, Kabul, Afghanistan*, on July 10, 2008. After subsequent Ministry of Defense Headquarters (MoD) RFP amendments, Innovative Technical Solutions, Inc. (ITSI) (now operating under the name "Gilbane Federal") submitted its proposal to the Air Force Center for Engineering and the Environment (AFCEE) for *Construction of the Afghanistan Ministry of Defense (MoD) Headquarters Facility*, March 11, 2009.

ITSI was awarded Cost Plus Fixed Fee (CPFF) Contract FA8903-06-D-8513, Task Order (TO) 0030 for the construction of the Afghanistan Ministry of Defense (MoD) Headquarters Facility, April 21, 2009.

During an April 26, 2009, meeting, General Aziz of the MoD informed ITSI that an existing project, at the proposed MoD construction site, of the United States Army Corps of Engineers, (USACE), (i.e., providing billeting for the Afghan National Army (ANA) and a Dining and Cooking Facility [DFAC] for the MoD) was running behind schedule.

There was existing billeting and a MoD DFAC consisting of four buildings located within the footprint of the proposed MoD Building that were slated for demolition under the ITSI scope of work. However, they were still being used causing ITSI to be delayed from full mobilization. In addition, there was a fifth building within the proposed MOD footprint that was being used as a kitchen/dining facility. This building was also slated for demolition. Four of the buildings could not be demolished until the ANA was relocated to an alternative billeting facility and the fifth building (i.e., the kitchen) could not be demolished until the new DFAC was completed by the USACE. Four of the buildings could be demolished earlier and excavation of the basement and foundation could be started prior to demolition of the existing DFAC Building. ITSI was delayed from full mobilization due mainly from this and other various conditions beyond ITSI and AFCEE control, (i.e., substantial continual delays to access the project site). Several months passed and the USACE never finished the new DFAC. Eventually, ITSI was hired to complete the DFAC so construction of the MoD could begin. The following is a summary of some of the significant causes of delays:

- Occupancy of buildings to be demolished by the Afghanistan National Army (ANA)
 - Continued occupancy of the Ministry of Defense (MoD) dining and cooking facility also designated for demolition
 - ITSI not being allowed to establish and control an exclusive use Entry Control Point (ECP) for construction purposes only
 - Relocation of the ECP by MoD personnel
 - Discovery of unexploded ordnance (UXO) onsite
-

Crowe Horwath Draft Report on SIGAR Audit No. 118 over Gilbane Federal's Contract Number FA8903-06-D-8513, Task Order 0030 dated May 16, 2018

ITSI met on several occasions with AFCEE and the MoD in Kabul as well as AFCEE/San Antonio during May of 2009 to continue to improve the original 35% drawings that were received from AFCEE at award. The goal was to make the building more efficient and cost effective during construction while still meeting the many requirements and objectives of the MoD. Numerous revisions as well as value-engineering concepts were prepared and presented. ITSI also coordinated their efforts with the Government's Title II contractor who was responsible for the original 35% design drawings.

ITSI submitted a demolition plan which was approved by AFCEE and a Construction work plan during the week of May 23, 2009, but was not allowed to start demolition.

After ITSI identification of discrepancies between the Statement of Work (SOW) and engineering drawings, in June 2009 Modification 01 was issued to revise the square footage of the Ministry of Defense building.

During August 2009 ITSI began a Master Utility Plan that was to be based on design drawings, as-built drawings, maps and other information to be provided by MoD; however, the drawings and maps were never provided. Also during this time, ITSI was informed by AFCEE that the lay down area would be reduced in size and ITSI began reviewing the availability of suitable locations offsite.

Modification 02, September 4, 2009, provided for the replacement of the SOW and Statement of Requirements (SOR) with an accompanying increase in funding.

In mid-September 2009, AFCEE notified ITSI to be ready for full mobilization in October 2009. "ITSI was told to start in June, then July, then August, then September and now the USACE states it will be October."²

AFCEE informed ITSI on October 14, 2009 and October 30, 2009, that the mobilization date would likely not be met due to further USACE delays.

November 2, 2009, ITSI met with AFCEE and MoD personnel to discuss the design and path forward for the project. ITSI agreed to revise / re-baseline the project schedule once ITSI received the Notice To Proceed (NTP) for demolition. Further, ITSI would prepare a Cost To Complete (CTC) for the ensuing lost time after the NTP was issued.³

² Mike Smith message, FW: TO30 Inquiry Information, dated August 3, 2012

³ ITSI Meeting Minutes, TO30 MoD HQ Contractor Presentation, November 2, 2009

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AFCEE subsequently confirmed a mobilization date of December 25, 2009, and ITSI continued efforts to prepare for mobilization to include plans to mobilize Third Country National (TCN) staff during the February – March 2010 period. However, the USACE efforts were not complete by December 25, 2009 and ITSI was again not able to fully mobilize staff.

A January 2010 meeting was held with the USACE and AFCEE to discuss the lack of progress on the DFAC project and the ongoing negative impact to the MoD schedule and budget. ITSI was directed to submit pricing to complete the delayed DFAC project. ITSI again contacted subcontractors and conducted site visits to the DFAC throughout January to determine current scope and pricing. In mid-February 2010 ITSI was again notified by AFCEE to stand down as the USACE was going to complete the DFAC project.

In anticipation of mobilization, ITSI started fencing the MoD project site and establishing construction site offices. ITSI was immediately denied access by the ANA and was not able to obtain access until March 26, 2010. And ITSI continued to experience sporadic problems accessing the site afterwards.

March 8, 2010, MoD informs ITSI and AFCEE that they did not have ownership of K Span building which was going to be the temporary MoD facility and therefore could not start moving. MoD would be prepared to move once the K Span buildings are turned-over and the new fuel depot is repaired per intended designs.⁴

ITSI was able to begin demolition of the first building April 18, 2010, but was stopped by ANA who wanted the building materials to be separated for salvage. With assurance that a Work Change Request (WCR) would be provided for the additional costs by the Contracting Officer Representative (COR), ITSI provided for the stockpiling of the debris until it could be removed as salvage.

April 19, 2010, ITSI informed the COR and Title II representative that the construction schedule would be re-baselined when the MoD project site is secured after the completion of the Entry Control Point (ECP).⁵

On April 25, 2010, the ANA requested that the ECP be moved. The original ITSI proposal had assumed full control of the ECP to allow for security and uninterrupted material flow. The ECP was moved to a new location at the main ECP for the MoD facility which, in combination with

⁴ ITSI meeting minutes, TO30 MoD HQ Site Mobilization Meeting, March 8, 2010

⁵ AFCEE, ITSI and Title II Weekly Meeting, April 19, 2010

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traffic on the main road, negatively impacted the schedule (slowed the flow of trucks and equipment).

April 27, 2010, pre-construction discussions provided for preparation of temporary ECP final design drawings once the location of the ECP was determined.⁶

Through May 2010, ITSI demolished buildings as they became vacant. The existing DFAC/kitchen building situated on the MoD building site was still in use which combined with the relocation of the ECP and restrictions on removal of rubble only a night, all contributed to additional project delays.

ITSI was instructed June 5, 2010, to submit a WCR for the completion of DFAC up to a functional level. June 21, 2010, ITSI informed the COR and Title II representative that work on the new DFAC would commence once the COR issued a Notice to Proceed.⁷ ITSI received approval for the WCR and on July 7, 2010, commenced work on the DFAC. On June 26, 2010, ITSI started excavation of the MoD Building 100 foundation. The old MoD DFAC kitchen was vacated August 7, 2010, and ITSI secured the site and started demolition.

Ramadan commenced August 22, 2010, and no local national workforce was available for work. A limited work schedule prevailed throughout the month and another complete work stoppage occurred September 9 – 11, 2010, for Eid.

Unexploded ordnance (UXO) was discovered onsite on August 26, 2010, which forced the immediate evacuation of the project. On August 31, 2010, the UXO was removed from the project site.

The ANA started relocation of the ECP on September 2, 2010, which created delays and further project schedule impacts. And September 16, 2010, the ANA closed the ECP for four days for Afghan National Elections when no workers were allowed on site until Monday, September 20, 2010.

Consistent with the November 2, 2009, guidance, on October 14, 2010, ITSI submitted an Estimate To Complete (ETC) cost proposal for TO 0030 capturing costs for extension of Field Period of Performance (FPOP) delays due to conditions beyond ITSI and AFCEE control as well

⁶ Preparatory/Pre-Construction Meeting for Temporary ECP Construction, April 27, 2010

⁷ AFCEE, ITSI and Title II Weekly Meeting, June 21, 2010

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as price escalation for both labor and materials due to supply/demand-related escalation during the ensuing delay.

Modification / Date		Description	FPOP End	Contract Value
Award	04/21/2009	Award	10/11/2010	48,739,238
Mod 01	05/27/2009	Correct Building Areas	10/11/2010	48,739,238
Mod 02	09/04/2009	To remove existing Fuel Point	10/11/2010	48,739,238
Mod 03	09/14/2010	Renovation/Completion of existing DFAC	01/21/2012	49,007,677
Mod 04	10/05/2010	Extend Field Period of Performance (FPOP)	01/21/2012	49,007,677
Mod 05	08/02/2011	Estimate To Complete (ETC)	01/21/2012	64,571,574
Mod 06	09/15/2011	WWTP additional cost for new design	01/21/2012	65,497,134
Mod 07	10/20/2011	Transfer generator	01/21/2012	65,497,134
Mod 08	01/25/2012	Extend Field Period of Performance (FPOP)	02/15/2012	65,497,134
Mod 09	02/14/2012	Extend Field Period of Performance (FPOP)	02/29/2012	65,497,134
Mod 10	03/09/2012	Estimate To Complete (ETC)	12/25/2012	86,429,688
Mod 11	04/30/2012	Cargo Clause	12/25/2012	86,429,688
Mod 12	11/02/2012	Admin Mod	12/25/2012	86,429,688
Mod 13	03/01/2013	Extend Field Period of Performance (FPOP)	04/01/2013	86,429,688
Mod 14	04/01/2013	Estimate To Complete (ETC)	12/31/2013	107,345,542

Table 1 – HERC TO 0030 Contract Actions

The MoD facility was, and continues to be, a high value target in Kabul, Afghanistan and the MoD Headquarters project was situated in the heart of the MoD compound. Events such as the June 26, 2013, terrorist bombing impacted material deliveries, recruitment of workers and overall productivity. As such, the MoD facility represents a very high security risk that frequently resulted in lock-downs under threat conditions. These frequent lock-downs caused work stoppages and delays as ITSI Gilbane and ITSI Gilbane subcontractors were not able to gain access to the MoD worksite. Material delivery was also affected by these lock-downs creating material shortages and delays.

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ITSI Gilbane subcontractor workers were often available for work but were not able to access the worksite due to unanticipated security shutdowns and security-related delays. Workers often show up available to work only to find that the worksite is shutdown, contrary to direction given the previous day. Representative examples of project delays not reasonably foreseeable included:

- Half-day Friday work due to arbitrary restrictions by the Afghan National Army (ANA)
- September 22 – 24, 2011, MoD shutdown for mourning of former President Rabbani
- November 4 – 11, 2011, MoD shutdown for Greater Eid
- November 16 – 19, 2011, MoD shutdown for Loya Jirga
- December 6, 2011, MoD shutdown for Ashura
- February 29 – March 11, 2012, Stop Work Order related to funding
- March 14, 2012, MoD shutdown for security threat(s)
- March 20 – 24, 2012, MoD shutdown for holiday
- April 15-16, 2012, MoD shutdown for security threat(s)
- April 28 – May 4, 2012, Night work shutdown for security threat(s)
- May 15, 2012, Concrete pour shutdown for security threat(s)
- June 7 – 8, 2012, MoD shutdown for security threat(s)
- June 13 – 15, 2012, MoD shutdown for Heart of Asia
- June 22, 2012, MoD shutdown for security threat(s)
- June 29, 2012, MoD shutdown for security threat(s)
- July 7, 2012, MoD shutdown for security threat(s)
- July 19 – 20, 2012, MoD shutdown for Ramadan
- September 9, 2012, MoD discontinuance of night shifts due to security concern(s)

The above is a representative sample. A daily time lost log was maintained to document work delays and site closures.

Given the substantial delays, on February 28, 2011, ITSI discussed with the Government's COR and Title II representative a Fast Track schedule that had been incorporated into the two week look ahead (schedule) and noted that there were items being added to the schedule. ITSI reiterated that the schedule was a working document wherein the completion of activities change but the end date of the project is being maintained. The COR concurred.⁸ ITSI included a Fast Track procedure into the project schedule in March 2011. ITSI discussed the Fast Track schedule with the COR and Title II representative March 28, 2011. It was agreed that the quality of the project would not be affected by the Fast Track schedule.

⁸ AFCEE, ITSI and Title II Weekly Meeting, February 28, 2011

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The determination to Fast Track the project was made with the concurrence of the COR and the Title II representative from the Government. The Government expressed no objections to fast tracking the project at the time and knew that the effort did not change the contracted end date at that time. ITSI efforts were undertaken to address significant project delays and their impact on project costs.

There are existing buildings within the footprint of the proposed new MOD building that need to be demolished prior to construction of the building. Some of the construction activities; site work, excavation, earthwork (excavation) were scheduled to occur concurrently with completion of the design. The delay caused the inability to demolish the buildings that will have an effect on the overall budget and schedule for the project. ITSI is looking into ways to minimize the impact of the delay.

...

ITSI continues to accrue cost associated with extended overhead for not mobilizing after NTP. CTC to be placed forward for cost associated with over 350 days lost due to occupants in buildings and 35% drawings re do, once project start date is confirmed for planning purposes. The burn rate per day continues to rise due to mobilization of TCN staff and housing.⁹

A Stop Work Order was issued February 29, 2012, due to the exhaustion of funds. The stop work order also resulted in associated delays as electrical, plumbing, CMU and structural subcontractors required time to remobilize (March 11, 2012 to May 11, 2012).

November 2012 the Government authorized ITSI Gilbane to continue working at the project site pending contract modifications but not to incur costs in excess of an additional \$4 million over the obligated contract funding. ITSI Gilbane continued operations in a reduced productivity sustainment mode during the period November 29, 2012 to April 1, 2013, while awaiting additional funding – Interim funding was insufficient for full mobilization of subcontractors and full productivity.

Due to all the ongoing projects in and around Kabul, finding skilled labor became extremely difficult. Subcontractors were compelled to reach out to other provinces such as Parwan, Kapisa, Bamyan, Loaghman and Panjsher. When bringing in skilled labor from these provinces, the subcontractors then must house, feed and supply transportation to and from the project location, thus driving up labor costs beyond those reasonably contemplated originally.

⁹ *Contractor's Progress, Status, and Management Report* (CDRL Reference B004) Reporting Period 28 May 2011 through 10 June 2011

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Crowe Horwath Draft Audit Report

The Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) announced a financial audit of HERC Task Order 0030 for partial project performance period December 30, 2013 through December 31, 2014.¹⁰ SIGAR retained Crowe Horwath LLP (Crowe Horwath) to conduct a financial audit of costs incurred by Gilbane Federal on the subject HERC task order. A Crowe Horwath audit overview and control meeting was conducted October 20, 2017.

At the request of Crowe Horwath, Gilbane Federal prepared a Special Purpose Financial Statement (SPFS) for HERC TO 0030 in accord with those instructions provided by Crowe Horwath LLP and Crowe Horwath then audited the SPFS.

Item	Description	Questioned Cost
2018-01	Improper Revenue Recognition and Notes to the SPFS	-
2018-02	Inadequately Supported Noncompetitive Procurements	133,605
2018-03	Payment of Invoice for Work Not Performed	308,771
2018-04	Inadequate Supporting Documentation for Incurred Costs	1,785,321
2018-05	Lack of Documentation for Other Direct Costs	1,904
2018-06	Missing Evidence of Vendor Existence	42,393
2018-07	Purchase of Unallowable General Purpose Office Equipment	366
2018-08	Incomplete and Inadequately Supported Government Property Records	0
2018-09	Missing Evidence of Receipt for Government Property	176,845
2018-10	Costs Incurred Outside Period of Performance	0
2018-11	Missing Property Inventories	0
2018-12	Incomplete and Inadequately Supported Government Property Records ¹¹	-
2018-13	Lack of a Foreign Currency Translation Policy, Procedures, and Process	39
2018-14	Construction Service Periods Outside the Performance Period	177,777
		<u>2,493,288</u>

Table 2 – Crowe Horwath Draft Audit Report Findings

¹⁰ SIGAR letter dated April 27, 2017

¹¹ See Crowe Horwath Draft Audit Report Item 2018-09, *Missing Evidence of Receipt for Government Property*

Crowe Horwath Draft Report on SIGAR Audit No. 118 over Gilbane Federal's Contract Number FA8903-06-D-8513, Task Order 0030 dated May 16, 2018

Crowe Horwath communicated the results of their SPFS audit in their draft audit report provided May 16, 2018, and requested a formal written Gilbane Federal response by May 31, 2018,¹² which was amended to June 1, 2018.

We organized our response as follows.

- 2018-01 Improper Revenue Recognition and Notes to the SPFS
- 2018-02 Inadequately Supported Noncompetitive Procurements
- 2018-03 Payment of Invoice for Work Not Performed
- 2018-04 Inadequate Supporting Documentation for Incurred Costs
- 2018-05 Lack of Documentation for Other Direct Costs
- Missing Evidence of Vendor Existence
 - Purchase of Unallowable General Purpose Office Equipment
- Incomplete and Inadequately Supported Government Property Records 2018-09
- Missing Evidence of Receipt for Government Property
 - 2018-10 Costs Incurred Outside Period of Performance
 - 2018-11 Missing Property Inventories
 - 2018-12 Incomplete and Inadequately Supported Government Property Records
 - 2018-13 Lack of a Foreign Currency Translation Policy, Procedures, and Process
 - 2018-14 Construction Service Periods Outside the Performance Period

Our response follows.

2018-01 Improper Revenue Recognition and Notes to the SPFS¹³

Gilbane Federal recognized revenue on Contract Number FA8903-06-D-8513 Task Order 0030, a federal government cost-reimbursement Federal contract, as the Company was contractually entitled to reimbursement of costs and the applicable fees. The Company does not concur with the Crowe assertion that revenue was recognized in a manner inconsistent with accounting principles generally accepted in the United States of America ("GAAP").

¹² Crowe Horwath email message dated May 16, 2018

¹³ This item is titled within the Crowe Horwath draft audit report as *Revenue Misstated on the SPFS and Accompanying Notes to the Statement* which is different than the title shown in the Crowe Horwath *Summary of Findings and Questioned Costs*

Crowe Horwath Draft Report on SIGAR Audit No. 118 over Gilbane Federal's Contract Number FA8903-06-D-8513, Task Order 0030 dated May 16, 2018

2018-02 Inadequately Supported Noncompetitive Procurements¹⁶

Crowe Horwath questioned \$133,605 stating:

Finding 2018-02 questioned \$133,605 for one subcontractor ([REDACTED]) due to inadequate documentation to support the sole source procurement and reasonableness of costs incurred as a result of the procurement.

Crowe Horwath further stated:

The Justification of Non-Competitive Procurement form provided with the procurement support indicated that the miscellaneous construction goods and services provided included "Domestic Water, Fire Suppression, Basement Sump Pumps and Lift Station Pumps. Also included miscellaneous flanges and fittings."

Documentation was not provided to indicate that there were no other providers of the referenced goods and services.

¹⁶ This item is titled within the Crowe Horwath draft audit report as *Inadequately Supported Sole Source Justification* which is different than the title shown in the Crowe Horwath *Summary of Findings and Questioned Costs*

Company	Complete Water Supply and Distribution System	Just Sewage Network (piping and manholes)	Complete Fire Hydrant System	Total	Schedule	Comments
██████	1,388,788.00	859,807.00	660,034.00	2,908,629.00	150 days	comprehensive proposal, covered all areas of RFP sufficiently, could be low bidder on the site work which might fit well with this scope
██████	1,175,120.00	771,450.00	200,350.00	2,146,920.00	134 days	Complete proposal, technically sound but price is high, new price minus the WWTP makes them very competitive
██████	420,000.00	380,000.00	150,000.00	950,000	not provided	no narrative/back-up provided, inadequate proposal, should probably DQ based on inadequate proposal, based on their price relative to the other bidders it (sic) obvious they do not grasp the requirements
██████████	no bid	687,001.00	no bid	687,001.00	120 days	schedule provided as narrative no in MS Project/Chart format, firm specializes in WWTP plant and did not bid on other areas because it is outside their expertise, good proposal for the portion submitted
██████	2,736,374.40	5,153,748.00	96,979.00	7,987,101.40		very good proposal, they have proposed a "Ferrari" where we need a Chevy, technically sufficient but more than we need and overpriced, did not receive a response to the request for pricing without the WWTP
Average	2,736,374.40	1,570,401	276,841	2,935,930		

Table 5 – Water Supply, Sewage and Fire Hydrant Systems for North Side Cantonment Area (NSCA), Kabul International Airport (KAIA), Afghanistan

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The price analysis support provided in support of the bid presented an average price of \$276,841 based on a previous competitive bid. The \$133,605 difference (\$410,446 - \$276,841) between the average competitive bid amount and the sole source amount is in question.

The Crowe Horwath statements are not factual.

ITSI procured the installation and commissioning of firefighting equipment to include Domestic Water, Fire Suppression, Basement Sump Pumps and Lift Station Pumps, miscellaneous flanges and fittings under a single source procurement action – *not a sole source procurement*.

Efforts to conduct a competitive procurement for the firefighting equipment were unsuccessful as no other responsive vendor was identified for the supply of needed material nor had the experience to do the installation at the time of the procurement action (see *Justification for Non-Competitive Procurement*).

ITSI ordered the installation and commissioning of firefighting equipment to include Domestic Water, Fire Suppression, Basement Sump Pumps and Lift Station Pumps, miscellaneous flanges and fittings from [REDACTED] on Purchase Order number 8069-07031.3517 in the amount of \$410,446 under a *single source procurement*.

Absent the availability other suppliers for installation and commissioning of firefighting equipment to include Domestic Water, Fire Suppression, Basement Sump Pumps and Lift Station Pumps, miscellaneous flanges and fittings at the time of the procurement action for TO 0030, price reasonableness was based on available acquisition information for a *Fire Hydrant System* (not installation and commissioning of firefighting equipment to include Domestic Water, Fire Suppression, Basement Sump Pumps and Lift Station Pumps, miscellaneous flanges and fittings) for a different project (North Side Cantonment Area (NSCA), Kabul International Airport (KAIA), Afghanistan).

Under the competitive procurement for the Kabul International Airport project, there were five bidders of whom two were responsive, [REDACTED]. Of the three remaining bidders for the Kabul International Airport, [REDACTED] did not provide pricing for the Complete Fire Hydrant System. [REDACTED], who bid \$150,000 was found to have submitted an inadequate proposal with the price analysis stating, "no narrative/back-up provided, inadequate proposal, should probably DQ based on inadequate proposal, based on their price relative to the other bidders it (sic) obvious they do not grasp the requirements." The high bidder, [REDACTED] bid \$7,987,10.40 for the Total System or \$5,000,000 more than any other

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bidder [REDACTED] bid the lowest price for the Complete Fire Hydrant System at \$96,979.00 but did not respond to a request for revised pricing without the WWTP. The pricing for the Complete Fire Hydrant System from the two responsive bidders follows.

[REDACTED]	\$660,034.00
[REDACTED]	<u>200,350.00</u>
Total	\$860,384.00
Number of Responsive Bidders.....	<u>2</u>
Average	<u>\$430,192.00</u>

Table 6 – Complete Fire Hydrant System

The Crowe Horwath questioned cost determination is unsupported and not reasonable as it is based upon pricing for a lesser water system (Fire Hydrant System) that was (a) not normalized for the more complex *installation and commissioning of firefighting equipment to include Domestic Water, Fire Suppression, Basement Sump Pumps and Lift Station Pumps, miscellaneous flanges and fittings* and (b) relied upon bids from non-responsive suppliers.

2018-03 Payment of Invoice for Work Not Performed¹⁷

Crowe Horwath questioned \$175,166 stating:

Finding 2018-03 questioned \$175,166 in costs charged to the task order for one vendor [REDACTED] and pertained to lost work time. Specifically, the vendor invoiced Gilbane for “lost days due to delay on work schedule,” thus indicating that work on the project was not performed and the Government did not receive benefit for the invoiced costs.

Crowe Horwath further stated:

During our testing of costs incurred under the task order, we identified one invoice for \$175,166 for lost work time. The vendor invoiced Gilbane for “lost days due to delay on work schedule,” thus indicating that work on the project was not performed and the Government did not receive benefit for the invoiced costs.

¹⁷ This item is titled within the Crowe Horwath draft audit report as *Invoice for Work Not Performed* which is different than the title shown in the Crowe Horwath *Summary of Findings and Questioned Costs*

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The cost allowability criteria set forth by Crowe Horwath stated, in relevant part:

The "Vendor Invoices" section of Gilbane's Accounts Payable Policy states that, "Consultant and professional services invoices are subject to the provisions of FAR 31.205-33, Professional and Consultant Service Costs. To better assure the costs are deemed allowable costs on government contracts, invoices or billings submitted by consultants are to include sufficient detail as to the time expended and the nature of the actual services provided."

The Crowe Horwath statements are not factual.

ITSI procured services for the installation of the MoD Building 100 electrical system from [REDACTED] under Firm Fixed Price (FFP) subcontract 7387-07031.3517 with a Period of Performance of October 24, 2011 thru November 30, 2012. The Installation of an electrical system is not consultant and professional services as contemplated under FAR 31.205-33, *Professional and Consultant Service Costs*.

ITSI conducted a competitive procurement for the provision of electrical installation at MoD Building 100. A Request for Proposal (RFP) was issued October 2, 2011 to six (6) bidders. [REDACTED] was the low price, technically acceptable bidder. [REDACTED] was issued a Limited Notice to Proceed (LNTP) October 18, 2011.

The [REDACTED] Preparatory/Kick-Off meeting was held November 2, 2011. [REDACTED] confirmed their work schedule of six (6) days per week 7:00am – 4:30pm and no night shift; at least eight (8) to ten people will start the cable tray installations.

[REDACTED] was awarded Firm Fixed Price subcontract 7387-07031.3517 December 22, 2011 in the amount of \$1,166,570 with a Period of Performance (POP) from October 24, 2011 to November 30, 2011.

January 18, 2012 [REDACTED] reports that Harirod was stopped from working and the area is not yet finished. [REDACTED] also reports that the area was shut down for two (2) days for weather.

January 21, 2012 [REDACTED] reports materials required not available.

We are completing home runs in the basement Zone 1 and Zone 3 with 2" pipe and need more material in that part that is not available.

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January 26, 2012 [REDACTED] reports materials required were not available and also:

We are preparing elevators in unit 3 to be ready for working, we received updated drawing for elevator details, there are some changes according to pervious drawing (sic). Still control system for elevator is not clear. Also wood remaining on the wall needs to be removed by [REDACTED].

February 22, 2012 [REDACTED] reports materials required not available to include the following.

We stopped running EMT 2" home run for second level in zone 2,3 and 4, third level, and basement, because no more Pull box available we need the flex conduit and accessories badly to complete the runs too.

For completing home runs in the basement Zone 1 and Zone 3 with 2" pipe we need more material in that part that is not available, specially flex conduit and connector.

It is nearly two months that we are asking for flex conduit but we are not getting that to complete our home runs in the basement and second floor.

February 28, 2012 [REDACTED] reports materials required not available to include the following.

We stopped running EMT 2" home run for second level in zone 2, 3 and 4, third level, and basement, because no more Pull box available we need the flex conduit and accessories badly to complete the runs too.

We stopped laying cable from MLTP to branch panel and MDB electrical room3 because we don't have cable tie to arrange them inside the cable tray. Also we are doing some correction on strapping the pipe that has no enough strap.



Figure 1 – Home Run and Power Outlet in Second Level

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March 13, 2012 [REDACTED] reports materials required not available to include the following.

For installation of home runs we need pull boxes and flex conduit, so in fact there is no more available for running home runs.

We stopped running the EMT pipe 3/4" in basement, first, second, third and fourth level because of no more connector is available. Our guys are just busy with hanging some more temporary lights in upper floor, for future use. And we plan to re-start laying cable in basement from transformer to MLTP.

For completing home runs in the basement Zone1 and Zone 3 with 2" pipe we need more material in that part that is not available specially flex conduit and connector.

March 19, 2012 [REDACTED] reports materials required not available to include the following.

we stopped running EMT 2" home run for second level in zone 2,3 and 4, third level, and basement, because no more Pull box available, we need the flex conduit and accessories badly to complete the runs too, also we are ready for home run in the third floor after we receive pull boxes.

March 29, 2012 [REDACTED] reports materials required not available to include the following.

For installation of home runs we need pull boxes and flex conduit, also there are some of form works remains in between seismic joint of building that need to be removed by [REDACTED] is holding us, so in fact there is no more available for running home runs.

For completing home runs in the basement Zone1 and Zone 3 with 2" pipe we need more material in that part that is not available specially flex conduit and connector.

We stop installing temporary light in third and electrical cable tray for ER2 in third floor. Need more light fixture and temporary cable.

Subcontract 7387-07031.3517 Modification 01 was issued April 14, 2012 for lost days (delays) adding \$4,804 in funding.

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April 19, 2012 [REDACTED] reports materials required not available to include the following.

For installation of home runs we need pull boxes and flex conduit, also there are some form works remains in between seismic joint of building that need to be removed by [REDACTED] is holding us, and more than two weeks we are saying and no action.

We are running EMT 2" home run for second level in zone 2, 3 and 4, third level, and basement, after receiving Pull box, we need the flex conduit and accessories badly to complete the runs too, also we are ready for home run in the fourth floor after we receive pull boxes, but set screw connector 2 " is finished and holding us to complete the work once.

We stop installing temporary light in third and electrical cable tray for ER2 in third floor. Need more light fixture and temporary cable.

[REDACTED] also reported:

To continue running EMT in elevator there is some wood remaining from form work that need to be removed. Also there are some other equipment belong to construction still in our way and need to be removed. Need to mention form work in unit 3 of level two is holding our wiring to be completed.

April 24, 2012 [REDACTED] reports materials required not available to include the following.

For installation of home runs we need pull boxes and flex conduit, also there are some form works remains in between seismic joint of building that need to be removed by [REDACTED] is holding us, and more than three weeks we are saying and no action. Also electrical room in first and second level need to be completed and plastered so we can continue our work.

We are running EMT 2" home run for second level in zone 2, 3 and 4, third level, and basement, after receiving Pull box, we need the flex conduit and accessories badly to complete the runs too, also we are ready for home run in the fourth floor after we receive pull boxes, but set screw connector 2 " is finished and holding us to complete the work. Rigid coupling and flex conduit s required.

We are running the EMT pipe 3/4" in basement, first, second, third and fourth level for emergency lights and power outlet. Flex conduit 2", and rigid coupling is required to complete the home run and start wiring.

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May 3, 2012 [REDACTED] reports materials required not available to include the following.

For completion of home runs we need set screw connector 2", also there are some form works remains in between seismic joint of building that need to be removed by [REDACTED] is holding us, and more than four weeks we are saying and no action. Also electrical room in first and second level need to be completed and plastered so we can continue our work.

We are running EMT 2" in ER1 electrical shaft for above floor. We had one or two team in each floor for making correction in all work performed so we cover any mistake that has been made during installation, flex conduit is required to complete the home runs in basement and second level.

For completing home runs in the basement Zone 2 and 4, with 2" pipe we need more material in that part that is not available specially flex conduit and rigid connector.

[REDACTED] also reported:

All FDB panel is installed in basement. we shift the MDB panels to basement and installed MDB L&P2 to electrical room 2 in basement. Need to complete the electrical room in basement. We are ready for installing panel board in second and third level but civil work is behind schedule and holding our work.

Subcontract 7387-07031.3517 states, in relevant part:

- 1 – This price is calculated accordingly to provided documents and drawings provided by ITSI for RFP, any changes on drawing or situation of work may need changes on the price.
- 2 – Materials that should be installed is provided by ITSI, so any changes after installation of materials that provided and not accepted by client will cost an extra charges for redoing the job.
- 3 – If any Delay on providing materials from the schedule will happen from ITSI side then labor cost of the personnel affected by this delay will be adjusted and discussed with ITSI and [REDACTED].

[REDACTED] was directed by ITSI to perform extra work and ITSI did not contractually attach conditions that the extra work be performed at no cost. After multiple delays in delivering materials that affected the progress of electrical work, ITSI conferred with [REDACTED] and

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directed [REDACTED] to add a shift to maintain the schedule. ITSI paid [REDACTED] for provisioning workers as required under the subcontract.

2018-04 Inadequate Supporting Documentation for Incurred Costs

Crowe Horwath questioned \$1,785,321 stating:

Finding 2018-04 questioned \$1,785,321 for costs charged to the contract due to Gilbane's inability to provide adequate supporting documentation to demonstrate that costs incurred and recorded to the project ledger were allowable and allocable.

Crowe Horwath further stated:

Gilbane did not provide adequate supporting documentation to demonstrate that costs incurred and recorded to the project ledger were allowable for 39 of 74 sample transactions. The population consisted of 2,572 items at a total value of \$5,584,592. The total amount of the 39 transactions is \$5,171,805, including accrual estimates and reversals. The total amount of costs in question is \$1,785,321 – the portion of the \$5,171,805 remaining after excluding accrual estimates and reversals.

Based on that information provided by Crowe Horwath, we understand the questioned costs are for amounts not billed to the Government.

Crowe Horwath Sample Item	Job Phase	Account	JC/GL Batch Number	Amount	Comments
4	A.00.9999ACC	6270.0000	7311510	280,315.41	True up – not billed
13	A.00.0403050	6245.0001	7276710	575,586.00	Net zero – not billed
17	A.00.0408050	6250.0000	-7778948	83,092.50	Net zero – not billed
21	A.00.0423050	6245.0001	7338469	500,000.00	Net zero – not billed
32	A.00.0409050	6245.0001	-7778948	79,218.00	Net zero – not billed
46	A.00.0433572	6250.0000	-7778954	268,500.00	Net zero – not billed
48	A.00.0105200	6240.3010	7294886	(648.70)	True up – not billed
64	A.00.0302100	6250.0001	-7778917	(745.00)	Net zero – not billed
67	A.01.0600000	6240.2010	-7778924	2.83	Fringe – not billed
Total				<u>1,785,321.04</u>	

Table 7 – Questioned Accrual Costs

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Consistent with industry practice, Gilbane Federal did not bill accrued costs on the CPFF task order for HERC TO 0030. It is Gilbane Federal's position that is inappropriate to question the costs (i.e., recommend the refund of costs that were not charged to the Government).

2018-05 Lack of Documentation for Other Direct Costs¹⁸

Crowe Horwath questioned \$1,904 stating:

Finding 2018-05 questioned \$1,904 in costs incurred for one petty cash transaction considered another direct cost included on reimbursement request voucher 3068R.

Crowe Horwath further stated:

During our testing of costs incurred under the task order, we found that Gilbane could not provide supporting documentation for one (1) Other Direct Cost transaction included on reimbursement request voucher number 3068R submitted to the Government. The transaction in question was a petty cash transaction totaling \$1,904 used to pay invoice number V1214312. The transaction date was February 28, 2013.

Account	Account Description	Costs
5031	Project supplies.....	272.37
5031	Project supplies.....	145.91
5031	Project supplies.....	113.81
5031	Project supplies.....	68.09
5031	Project supplies.....	280.16
5031	Project supplies.....	214.01
5031	Project supplies.....	214.01
5031	Project supplies.....	58.37
5031	Project supplies.....	534.67
5031 Total		1,901.39

Table 8 – Cash Voucher No. V1214312

Subsequent to the Crowe Horwath audit request, Gilbane Federal located the vendor receipts for the \$1,904 (Attachment D – *Petty Cash Transaction \$1,904*).

¹⁸ This item is titled within the Crowe Horwath draft audit report as *Missing Support for Petty Cash Transactions* which is different than the title shown in the Crowe Horwath *Summary of Findings and Questioned Costs*

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We apologize for any inconvenience.

2018-06 Missing Evidence of Vendor Existence¹⁹

Crowe Horwath questioned \$42,393 stating:

Finding 2018-06 questioned \$42,393 in costs incurred for one subcontractor [REDACTED] due to Gilbane's not having provided a copy of the vendor's Afghanistan Investment Support Agency business license and an inability to validate the vendor's physical existence.

Crowe Horwath further stated:

For one (1) vendor, [REDACTED], Gilbane did not provide evidence that the entity possessed a valid business license, and the vendor's physical existence in Afghanistan could not be otherwise be validated. We identified \$42,393 in costs charged to the Government for the vendor.

The Crowe Horwath statements are not factual.

Gilbane Federal provided the requested business license to Crowe Horwath March 1, 2018, via their web portal, CiRT, in response to their audit request Proc-01.

2018-07 Purchase of Unallowable General Purpose Office Equipment²⁰

Crowe Horwath questioned \$366 stating:

Finding 2018-07 questioned \$366 in costs incurred due to four instances of unallowable general purpose office equipment being purchased.

¹⁹ This item is titled within the Crowe Horwath draft audit report as *Vendor Licensing and Existence Unable to be Validated* which is different than the title shown in the Crowe Horwath *Summary of Findings and Questioned Costs*

²⁰ This item is titled within the Crowe Horwath draft audit report as *Ineligible General Purpose Office Equipment Purchases* which is different than the title shown in the Crowe Horwath *Summary of Findings and Questioned Costs*

Crowe Horwath Draft Report on SIGAR Audit No. 118 over Gilbane Federal's Contract Number FA8903-06-D-8513, Task Order 0030

Crowe Horwath further stated:

Of the sixty (60) government property items sampled, with a reported value of at least \$2,134,995, three (3) were identified as General Purpose Office Equipment with a total purchase cost of \$238. The three (3) items purchased were an office desk and two (2) revolving desk chairs.

We also identified one office desk/revolving chair purchase as part of our transaction testing. The total amount of this purchase was \$128. The total costs in question due to purchase of GPOE is \$366.

Gilbane Federal did not bill the Government for the General Purpose Office Equipment with a value of \$238.

Sample	Reference	Amount	Description	Comments
17	V0103810	65.98	Office Desk	Not Billed to Government
19	V0103810	82.47	Revolving Desk Chair-Small-Leather	Not Billed to Government
20	V0103810	90.00	Revolving Desk Chair	Not Billed to Government
Total		<u>238.45</u>		

Table 9 – General Purpose Office Equipment Not Billed to the Government

Gilbane Federal was not able to locate additional information for an Office Desk/Revolving Chair (Crowe Horwath sample item 49) in the time available. Given the immaterial questioned cost and in the interests of time and associated administration costs, Gilbane Federal concurs, for the purposes of cost settlement only, with the questioned costs of \$128.

2018-08 Incomplete and Inadequately Supported Government Property Records²¹

Crowe Horwath did not question costs stating in relevant part:

To assess the adequacy and completeness of Gilbane's property records and procedures, we requested a copy of the final physical inventory showing all contractor-acquired and government furnished property items used on the project and sought to

²¹ This item is titled within the Crowe Horwath draft audit report as *Incomplete Property Records* which is different than the title shown in the Crowe Horwath *Summary of Findings and Questioned Costs*

Crowe Horwath Draft Report on SIGAR Audit No. 118 over Gilbane Federal's Contract Number FA8903-06-D-8513, Task Order 0030

reconcile the inventory to the financial records. Management indicated that the DD1149, "Requisition and Invoice/Shipping Document," represented the final physical inventory. We noted the following during our assessment of the DD1149.

1. Property record information provided on the DD1149 for TO 0030 and its supporting schedules did not include sufficient detailed information to tie the property records to source documentation provided by management. Examples of missing information include acquisition dates and costs. As such, the records were unauditible.
2. The DD1149 was dated April 2, 2014, thus indicating that the physical inventory was not completed at the project close.
3. Nine (9) of eleven (11) vendors selected with costs incurred in the audit period per the general ledger and for which costs were classified as government property, equipment, or government property consumables were not located in the population provided by Gilbane. Total property-related costs incurred for the nine vendors was \$134,213, which represents an omission from the property records.
4. Equipment leases were classified within the financial records as government property. However, leases do not qualify as government property, which includes Government-furnished property and all property acquired by the Contractor, title to which vests in the Government.
5. Management was unable to produce an accurate reconciliation between the DD1149 and the financial records.

In consideration of the above, we noted that the property records were incomplete and the final physical inventory was not performed at the required time.

The Crowe Horwath statements are unsupported.

ITSI Gilbane received a DD Form 1149, *Requisition and Invoice/Shipping Document*, dated April 2, 2014, for HERC TO 0030 from [REDACTED] on April 17, 2014. [REDACTED] was the Contracting Officer's Representative (COR). It is our understanding that the inventory sheets attached to the April 17, 2014, email message from the COR were the final physical inventory – the DD Form 1149 itself simply states "See attached inventory sheets."

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Crowe Horwath indicated that they did not audit certain government property record information stating "Property record information provided on the DD1149 for TO 0030 and its supporting schedules did not include sufficient detailed information to tie the property records to source documentation provided by management....As such, the records were unauditable." We understand Crowe Horwath elected to not perform other audit procedures.

Please see our response at 2012-12 *Incomplete and Inadequately Supported Government Property Records*.

2018-09 Missing Evidence of Receipt for Government Property

Crowe Horwath questioned \$176,845 stating:

Finding 2018-09 questioned \$176,845 in costs incurred for 47 items that were unsupported by evidence of receipt. The items were included on the DD 1149, Requisition and Invoice/Shipping Document, which management represented to be the government property inventory.

Crowe Horwath further stated:

We selected a sample of 60 government property items and requested evidence of receipt to determine that the items existed and the corresponding recorded cost was properly supported. During our testing, we noted that Gilbane was unable to produce adequate evidence of receipt for 47 of 60 items totaling \$176,845. As such, using documentation provided by Gilbane, we could not substantiate whether the costs were incurred and are allocable to the project.

The Crowe Horwath statements are unsupported.

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Description	Quantity	Amount	Location
Geotextile	600	1,800	Level 06 Unit 1
Sand	30	540	Outside Unit 7
Juta Finimastic interior paint (18 L)	63	5,985	Unit 7
Welded Wire Mesh	605	1,815	150 pcs Unit 7; 60 pcs Unit 1.
BASF Concrecive	19	760	Unit 7
Anchor 16mm	200	1,000	Container 5
PVC pipe 1/2"	54	270	Container 2
Clamp	24	24	Container 5
PVC Cement 1Kg 45 calibre	287	5,740	Container 1
ADJ Clevis Long Pipe Hanger 2"	25	425	Container 18
PVC Tee 3"	70	462	Container 6
W/NFPA TAP HGR/ Pipe hanger 1 1/4"	38	1,216	Container 18
PVC Elbow 90 deg	4	24	Container 6
Foam Gun	5	110	W.H Office
Kludi PAK Sink Mixer 35001	83	5,644	Container 10
Cross Tee Ceiling Tiles 600mm	142	-	store level 1
Euro Profil Escutcheon Rose X-1000	105	945	Container (0)
Dry Wall Fire Rated	97	-	W.H Yard
Shaft Doors (Metal) Frame & Leaf	76	41,800	Level 1 unit 6
Cross Tee Ceiling Tiles 1200mm	260	-	Store Level 1
Akfix C-900	92	-	Container 1
Plastic Water Stopper	9	-	Container 21
Joint Filler Powder	48	-	W.H Office
Toilet Janitor Doors (D3)	42	8,400	Container 24
Stainless Steel Hinge 120mm High	3205	80,125	Container (0)
Two Hole Strap Clamp	260	260	Container 12
EMT Coupling	180	180	Container 12
Flexible Pipe 50 feet	5	280	Container 14
Heavy Duty Cast Cable Saddle	135	405	Container 4
J Box	15	195	Container 9
EMT Pipe	165	5,775	Container 7
Wire Nut Blue	1000	400	W.H office
AWG Wire 10	20	1,600	Bldg 198
AWG Wire 12 Black color	14	7.70	TO 49
AWG Wire 10 Green	14	1,120	Bldg 198
Jotun Paint Pair	2	460	TO 49
Heaters	5	7,925	TO 49
AWG Wire 10	14	1,120	Site 4
Total		<u>176,845</u>	

Table 10 – Selected Physical Inventory Materials

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The physical inventory schedules included with the DD Form 1149 provided by Contracting Officer Representative (COR) to Gilbane Federal included materials.²² These lists did not include references to receiving documentation that had been requested by Crowe Horwath.

It is our understanding that ITSI Gilbane complied with the provisions of the Statement of Work (SOW) contained in Contract FA8903-06-D-8513, Task Order 0030 provided to Crowe Horwath wherein SOW Section 3.0 *Government-Furnished Information, Equipment, and Property (GFI, GFE, GFP)* states:

3.0 Government-Furnished Information, Equipment, and Property (GFI, GFE, GFP)

The Government will provide information when available. The Government does not have materials and equipment available to provide Contractor in support of the effort. However, contractor acquired property is Government Furnished Equipment and therefore accountable property. The Contractor shall maintain all accountability requirements IAW Federal Acquisition Regulations, instructions from the CO and COR. The Contractor shall maintain all equipment IAW manufacturers' recommendations and operations guidance such that the property is returned to the Government in serviceable condition.

The Contractor shall provide accountability of all AFCEE provided government-owned, furnished equipment, material, or property (GFE/GFM/GFP) in possession of AFCEE. Contractors performing work in support of the Afghanistan Reconstruction Program, to include 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 in Afghanistan document which is provided by AFCEE. The Contractor has access to a web base system. The Contractor shall have access to a web base system (sic). In addition, the Contractor shall account for GFE/GFM/GFP utilizing the GFE module located on the AFCEE Systems Management Database.

²² ITSI Gilbane received a DD Form 1149, *Requisition and Invoice/Shipping Document*, dated April 2, 2014, for HERC TO 0030 from [REDACTED] on April 17, 2014. [REDACTED] was the Contracting Officer's Representative (COR). It is our understanding that the inventory sheets in the April 17, 2014, email message from the COR were the final physical inventory – the DD Form 1149 itself simply states "See attached inventory sheets."

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Please note that Gilbane Federal was not able to access the AFCEE Systems Management Database and the GFE (Government Furnished Equipment) module used to account for GFE/GFM/GFP. Gilbane Federal learned that the web base system is no longer in operation.

And as previously communicated, ITSI Gilbane had an approved government property management system based on evaluations performed by the Defense Contract Management Agency (DCMA) office who had cognizance (see Attachment E – *Approved Government Property Management System*).

Gilbane Federal has made efforts to access the GFE module located on the AFCEE Systems Management Database and we can find no evidence or factual data that that government property items were not received, transferred or otherwise disposed of in accordance with the U.S. Government's instructions.

As we understand the Crowe Horwath writings and supporting documentation provided with the DD Form 1149, Gilbane Federal transferred or disposed of, per Government direction, the materials now questioned by Crowe Horwath. And for those materials provided the Government and now questioned by Crowe Horwath, the auditor is recommending that in addition to providing the Government those materials that Gilbane Federal also pay for those materials that were provided to the Government.

2018-10 Costs Incurred Outside Period of Performance

Crowe Horwath did not question costs stating in relevant part:

During our testing of 74 transactions, we identified ten transactions totaling \$835,043 that were incurred outside of the SPFS's period. Management removed the \$835,043 from the SPFS following identification of the misstatement by the auditor. What are total costs incurred?

Crowe Horwath also stated in relevant part:

Accounting principles generally accepted in the United States of America indicate that revenues should be recognized as services are rendered to Gilbane's customer, and expenses should be recognized in the same period as revenues earned.

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Gilbane Federal prepared the partial performance period financial statement using the amounts billed on the cost-reimbursable fixed fee (CPFF) task order consistent with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 605, *Revenue Recognition*.²³

Crowe Horwath subsequently communicated that the SPFS was not adequate as it was not compliant with ASC 606, *Revenue from Contracts with Customers* on January 25, 2018.

Gilbane Federal asserted the presentation was consistent with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 605, *Revenue Recognition*.²⁴ We did not agree with the Crowe Horwath GAAP interpretation but nonetheless subsequently revised the SPFS, per our understanding of what was understood to be a Crowe Horwath recommendation for the presentation of retention²⁵ in the amount of \$835,043 and also revised the SPFS formatting to align with Crowe Horwath recommendations.

The October 24, 2017 SPFS is a document prepared at the request of Crowe Horwath after work had been completed on HERC TO 0030. The SPFS is not used to manage or administer the performance of the already completed work on HERC TO 0030. Gilbane Federal subsequently agreed to make financial representations as requested, irrespective of GAAP compliance, to satisfy SIGAR financial audit requirements. And Crowe Horwath correspondingly stated there were no questioned costs associated with their GAAP representation.

Please see our response at 2018-01 *Improper Revenue Recognition and Notes to the SPFS*.

2018-11 Missing Property Inventories

Crowe Horwath did not question costs stating in relevant part:

Gilbane did not produce evidence that quarterly government property inventories were performed.

²³ Gilbane Federal accounting and financial representations are subject to ASC 605 and not ASC 606.

²⁴ Gilbane Federal accounting and financial representations are subject to ASC 605 and not ASC 606.

²⁵ Retention "...is the practice, in construction contracts, of the employer retaining a sum of money from interim payments to the contractor as security for the future performance of the contractor's obligations." *Retention of payment in construction contracts*, Lexis PSL

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Gilbane Federal was not able to provide quarterly government property reports requested by Crowe Horwath.

As to the management of HERC TO 0030 Government Property, it is our understanding that ITSI Gilbane complied with the provisions of the Statement of Work (SOW) contained in Contract FA8903-06-D-8513, Task Order 0030 provided to Crowe Horwath wherein SOW Section 3.0 *Government-Furnished Information, Equipment, and Property (GFI, GFE, GFP)* states:

3.0 Government-Furnished Information, Equipment, and Property (GFI, GFE, GFP)

The Government will provide information when available. The Government does not have materials and equipment available to provide Contractor in support of the effort. However, contractor acquired property is Government Furnished Equipment and therefore accountable property. The Contractor shall maintain all accountability requirements IAW Federal Acquisition Regulations, instructions from the CO and COR. The Contractor shall maintain all equipment IAW manufacturers' recommendations and operations guidance such that the property is returned to the Government in serviceable condition.

The Contractor shall provide accountability of all AFCEE provided government-owned, furnished equipment, material, or property (GFE/GFM/GFP) in possession of AFCEE. Contractors performing work in support of the Afghanistan Reconstruction Program, to include 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 in Afghanistan document which is provided by AFCEE. The Contractor has access to a web base system. The Contractor shall have access to a web base system (sic). In addition, the Contractor shall account for GFE/GFM/GFP utilizing the GFE module located on the AFCEE Systems Management Database.

Please note that Gilbane Federal was not able to access the AFCEE Systems Management Database and its GFE (Government Furnished Equipment) module used to account for GFE/GFM/GFP. Gilbane Federal learned that the web base system is no longer in operation.

And as previously communicated, ITSI Gilbane had an approved government property management system based on evaluations performed by the Defense Contract Management

Crowe Horwath Draft Report on SIGAR Audit No. 118 over Gilbane Federal's Contract Number FA8903-06-D-8513, Task Order 0030

Agency (DCMA) office who had cognizance (see Attachment E – *Approved Government Property Management System*).

Gilbane Federal has made efforts to access the GFE module located on the AFCEE Systems Management Database and we can find no evidence or factual data that that government property items were not received, transferred or otherwise disposed of in accordance with the U.S. Government's instructions.

2018-12 Incomplete and Inadequately Supported Government Property Records

Crowe Horwath questioned \$176,813 stating:

Finding 2018-12 identified \$176,813 in questioned costs based on our sample. The costs were questioned due to management's not providing sufficient documentation to demonstrate that government property items were transferred or otherwise disposed of in accordance with the U.S. Government's instructions. Whereas the items contributing to the \$176,813 were selected from the DD1149 (also referenced in Note G, above) which was not signed by the recipient of the transferred items and did not reconcile to the supporting schedules identifying the items to be transferred, the unreconciled amount of \$7,778,826 is also in question. The amounts in question are not allocated by CLIN due to the lack of available supporting documentation and acquisition potentially having been completed prior to the audit period.

Crowe Horwath further stated:

In response to our request for the Government-approved disposition schedule, Gilbane provided a copy of the DD 1149, "Requisition and Invoice/Shipping Document" that is supposed to document the property that transferred from task order (TO) 0030 to TO 0049 of the same contract. During our testing of the DD1149, we noted the following:

1. The DD 1149 was not signed by Gilbane indicating that the personnel responsible for TO 0049 received the items post transfer. The DD1149 was signed by the Government representative authorizing the transfer.
2. The disposition support indicated that material and equipment with a total cost of \$16,655,837 was to be transferred. However, the supporting schedules showing the itemized listing of items subject to transfer included a total of \$8,877,011.

Crowe Horwath Draft Report on SIGAR Audit No. 118 over Gilbane Federal's Contract Number FA8903-06-D-8513, Task Order 0030

Therefore, \$7,778,826 worth of material and equipment was unexplained. We noted that some items in the supporting schedule did not include total or unit cost information such that the full value of items subject to transfer is presently unknown.

- Information in the DD 1149 did not match the information contained in supporting documentation provided for 55 of 60 government property sample selections. Accordingly, it is unknown if the items were disposed of or transferred in accordance with the FAR.

The Crowe Horwath statements are unsupported.

SHIPPING CONTAINER TALLY										1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50									
REQUISITION AND INVOICE/SHIPPING DOCUMENT										Form Approved OMB No. D704-0246 Expires Feb 28, 2008									
<p>1. FROM (Include ZIP Code)</p> <p>ITSI Gilbane 2730 Shadelands Dr., Suite 100 Walnut Creek, CA 94598</p>										<p>2. TO (Include ZIP Code)</p> <p>AFCEC 772D ENTERPRISE SOURCING SQUADRON, 2261 HUGHES AVE STE 163 JBSA LACKLAND TX 78236-0853</p>		<p>3. SHIP TO - MARK FOR</p> <p>NOTE: The property listed is Government Owned Property that is accountable to AFCEC HERC Contract # FA8903-06-D-8513-0030 MoD Phase I, Kabul, Afghanistan and is hereby transferred over to AFCEC HERC Contract # FA8903-06-D-8513-049 MoD Phase II, Kabul, Afghanistan.</p>		<p>4. APPROPRIATIONS DATA</p> <p>Material and equipment transfer from TO30 to TO49. See attached Inventory sheets</p>		<p>5. AMOUNT</p> <p>\$166,558,37.00</p>			
<p>6. REQUISITION NUMBER</p> <p>TSI GILBANE - AFCEC MoD TO</p>										<p>7. DATE MATERIAL REQUIRED (YYYYMMDD)</p> <p>Authority per COR Transfer GP</p>		<p>8. PRIORITY</p>		<p>9. VOUCHER NUMBER & DATE (YYYYMMDD)</p> <p>20140402</p>					
<p>10. DATE SHIPPED (YYYYMMDD)</p>										<p>11. MODE OF SHIPMENT</p>		<p>12. BILL OF LADING NUMBER</p>		<p>13. AIR MOVEMENT DESIGNATOR OR PORT REFERENCE NO.</p>					
<p>14. TRANSPORTATION VIA MATS OR MSTS CHARGEABLE TO</p>										<p>15. SPECIAL HANDLING</p>									
<p>16. CONTAINERS RECEIVED EXCEPT AS NOTED</p> <p>DATE (YYYYMMDD): 20140402</p>										<p>17. CONTAINERS RECEIVED EXCEPT AS NOTED</p> <p>DATE (YYYYMMDD): 20140402</p>									
<p>18. QUANTITIES RECEIVED EXCEPT AS NOTED</p> <p>DATE (YYYYMMDD): 20140402</p>										<p>19. QUANTITIES RECEIVED EXCEPT AS NOTED</p> <p>DATE (YYYYMMDD): 20140402</p>									
<p>20. RECEIVER'S VOUCHER NO.</p>										<p>21. RECEIVER'S VOUCHER NO.</p>									
<p>22. TOTAL</p>										<p>23. TOTAL</p>									

DD FORM 1149, JUN 2003

51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 100

PREVIOUS EDITION IS OBSOLETE.

Resel

Figure 2 – DD Form 1149 – HERC TO 0030, Page 1

ITSI Gilbane received a DD Form 1149, *Requisition and Invoice/Shipping Document*, dated April 2, 2014, for HERC TO 0030 from [REDACTED] April 17, 2014. [REDACTED] was the Contracting Officer's Representative (COR).

It is our understanding that the inventory sheets attached to the April 17, 2014, email message from the COR were the final HERC TO 0030 physical inventory – the DD Form 1149 itself simply states “See attached inventory sheets.”

[illegible]

Figure 3 – DD Form 1149 – HERC TO 0030, Page 2

However, the amount showing on the DD Form 1149 (\$16,655,837) provided to ITSI Gilbane did not match the amounts on the inventory sheets provided in the April 17, 2014, DD Form 1149

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email transmittal from the COR and ITS I did not acknowledge receipt on the DD Form 1149 which did not match the attached inventory sheets.

As to the management of HERC TO 0030 Government Property, it is our understanding that ITS I Gilbane complied with the provisions of the Statement of Work (SOW) contained in Contract FA8903-06-D-8513, Task Order 0030 provided to Crowe Horwath wherein SOW Section 3.0 *Government-Furnished Information, Equipment, and Property (GFI, GFE, GFP)* states:

3.0 Government-Furnished Information, Equipment, and Property (GFI, GFE, GFP)

The Government will provide information when available. The Government does not have materials and equipment available to provide Contractor in support of the effort. However, contractor acquired property is Government Furnished Equipment and therefore accountable property. The Contractor shall maintain all accountability requirements IAW Federal Acquisition Regulations, instructions from the CO and COR. The Contractor shall maintain all equipment IAW manufacturers' recommendations and operations guidance such that the property is returned to the Government in serviceable condition.

The Contractor shall provide accountability of all AFCEE provided government-owned, furnished equipment, material, or property (GFE/GFM/GFP) in possession of AFCEE. Contractors performing work in support of the Afghanistan Reconstruction Program, to include 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 in Afghanistan document which is provided by AFCEE. The Contractor has access to a web base system. The Contractor shall have access to a web base system (sic). In addition, the Contractor shall account for GFE/GFM/GFP utilizing the GFE module located on the AFCEE Systems Management Database.

Please note that Gilbane Federal was not able to access the AFCEE Systems Management Database and its GFE (Government Furnished Equipment) module used to account for GFE/GFM/GFP. Gilbane Federal learned that the web base system is no longer in operation.

And as previously communicated, ITS I Gilbane had an approved government property management system based on evaluations performed by the Defense Contract Management

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Agency (DCMA) office who had cognizance (see Attachment E – *Approved Government Property Management System*).

Gilbane Federal has made efforts to access the GFE module located on the AFCEE Systems Management Database and we can find no evidence or factual data that that government property items were not transferred or otherwise disposed of in accordance with the U.S. Government's instructions.

2018-13 Lack of a Foreign Currency Translation Policy, Procedures, and Process

Crowe Horwath questioned \$39 stating:

Finding 2018-13 questioned \$39 in costs incurred due to overbilling the Government resulting from improper foreign currency conversions.

The ITSI established practice for recording foreign currency-denominated transactions was use of the spot foreign exchange rate to record amounts in US Dollars (reporting currency). Given the immaterial questioned cost and in the interests of time and associated administration costs, Gilbane Federal concurs, for the purposes of cost settlement only, with the questioned costs of \$39.

2018-14 Construction Service Periods Outside the Performance Period

Crowe Horwath questioned \$177,777 stating:

Finding 2018-14 questioned \$177,777 in costs incurred for two subcontractors [REDACTED] due to construction costs being incurred outside the allowable period of construction activities.

The period of performance for HERC TO 0030 was extended by Modification 14 as follows:

- Field Performance DateDecember 31, 2013
- Task Order Completion Date March 1, 2014
- Warranty Oversight DateDecember 30, 2014

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██████████ was awarded subcontract 6135-07031.3517 August 8, 2011 for structural glazing. Subcontract modification 2 was a zero dollar modification that provided for a period of performance end date of January 31, 2014. The Change Order Justification Form states in relevant part:

The purpose of the Change Order is administrative to adjust funding for internal ITSI Gilbane cost codes as requested by MEAP, and to extend the period of performance to 01/31/2014 with respect to paying required invoices without any administrative delay.

There are no out-of-period costs.

██████████ was awarded subcontract 8921-07031.3517 February 27, 2013 for ventilation and ductwork. Subcontract modification 4 provided for a period of performance end date of November 15, 2013.

There are no out-of-period costs.

APPENDIX B: AUDITOR'S REBUTTAL

Crowe LLP ("Crowe" or "we" or "us") has reviewed the letter dated June 1, 2018, containing Gilbane Federal's ("Gilbane" 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. A rebuttal has been included in those instances where management disagreed with the facts presented within the condition or otherwise did not concur with Crowe's recommendation. In those instances where management has either agreed with the finding or did not disagree with the facts in the finding, as presented, no rebuttal has been provided.

Following our review of additional documentation, we cleared Finding 2018-06, "Vendor Licensing and Existence Unable to be Validated," included within the draft report. We revised the remaining finding numbers within this final report following Finding 2018-06's removal. We further modified the report to reflect management's provision of revised note disclosures. No other modifications were considered necessary.

Finding 2018-01: Revenue Misstated on the SPFS and Accompanying Notes to the Statement

Management disagreed with Crowe's conclusion that Gilbane's revenue recognition approach represented a GAAP departure based on Gilbane's interpretation of ASC 912-605-25. We reviewed management's response and noted that the response did not alter the facts underlying each finding. Crowe's finding addresses the recognition of revenues associated with costs incurred for services rendered as opposed to the recognition of the fixed fee on cost plus fixed fee contracts, which is the subject of ASC 912-605-25. Recognition of the fixed fee is not in question within the finding, as presented. Accordingly, we have not modified this aspect of the finding.

In addition, management provided revised notes to the SPFS, which addressed various omissions from those notes provided for audit. We have modified our finding to address these revisions.

Finding 2018-02: Inadequately Supported Sole Source Justifications

Gilbane disagreed with Crowe's finding based on management's representation that the procurement of [REDACTED] was a single source procurement as opposed to a sole source procurement as Crowe referenced in the draft report. Management also provided narrative explanations indicating why other bidders' responses were inadequate or non-responsive. Lastly, Gilbane provided pricing from a procurement of a fire hydrant system for the Kabul International Airport to support the reasonableness of costs incurred by [REDACTED]

We have reviewed management's comments and concluded that modification to our finding was unnecessary for the following reasons:

1. The procurement documentation provided by Gilbane for testing denotes that the procurement was a sole source. See excerpt from the procurement file included immediately below.
 7. Provide detailed Reason(s) Sole Source Award is Appropriate Here – For example: "The proposed awardee XYZ Co. has the only patented technology acceptable to ITSI's customer. ITSI's customer named XYZ Co. in its RFP to ITSI."
The company is approved to work on the MOD grounds and is a proven supplier/vendor. The have worked with ITSI on the KIA projects, TO's 2 and 10.
2. As Gilbane notes, there are other vendors who could potentially provide the service such that a *single source* procurement would also have been inappropriate and the use of a single vendor identified by management would represent a *sole source* procurement. Accordingly, we have tested against the contemporaneous documentation in the procurement file and have not modified the finding based on management's assertion that the procurement was a single source.

3. The narrative representations and analysis pertaining to the prior fire hydrant system procurement did not provide sufficient, appropriate audit evidence to support modification of the finding or to otherwise test the procurement for alignment with the [REDACTED] matter that is in question.

Finding 2018-03: Invoice for Work Not Performed

Management disagreed with Crowe's conclusion based on the subcontractor's having provided personnel and been present for work at ITSI's (now Gilbane Federal) request and in accordance with the subcontract terms. Management also disagreed with Crowe's conclusion that the installation of an electrical system represents a "consultant and professional service" under the provisions of FAR 31.205-33. We have evaluated management's response and note that, regardless of Gilbane's agreement with the subcontractor, the Federal Government did not receive benefit for time that was not worked. Accordingly, the costs incurred are ineligible for reimbursement as per FAR 31.201-4. No modifications to the finding are required or appropriate.

Finding 2018-04: Inadequate Supporting Documentation for Costs Incurred

Gilbane disagreed with Crowe's finding based on management's assertion that the questioned costs represent accruals selected for testing from Gilbane's project cost ledger that were not billed to the Government. During our testing, we reviewed the documentation provided by management and noted that:

- (1) Gilbane's supporting documentation for the transactions consisted of a Word document per transaction with a narrative explanation for the nature of the cost but that did not adequately support the allowability of the transaction; and
- (2) There were no off-setting credits identified within the project cost ledger that indicated the transactions in question were reversed.

As referenced in Gilbane's Note 10 to the SPFS, Gilbane indicated that the invoiced costs were the basis of the SPFS. Sample selections were made from the population of costs that supported the amounts presented on the SPFS. Gilbane did not provide documentation to demonstrate that the costs incurred and recorded within Gilbane's accounting records supporting the SPFS were not billed to the Government or reimbursed. In the absence of sufficient, appropriate audit evidence, the finding remains unchanged.

Finding 2018-05: Missing Support for Petty Cash Transaction

We have reviewed the additional support provided as part of management's comments on our finding. However, the support provided did not agree to the amount in question, was for a transaction outside of the period of performance, and could not be directly tied to the invoice in question. Therefore, the finding is unmodified.

Finding 2018-06: Vendor Licensing and Existence Unable to be Validated

We have reviewed management's comments on our finding that the business license supporting the existence of the vendor was previously provided. Gilbane disagreed with the finding based on the Gilbane's understanding that the requested documentation was provided via Crowe's web portal on March 1, 2018, subsequent to an agreed upon cutoff date for documentation of February 2, 2018. We have reviewed the web portal and noted that Gilbane uploaded the document to the web portal pertaining to a different audit (i.e., the financial audit of task order 49 issued under contract FA8903-06-D-8513). Upon review of the documentation, we noted that the requirement has been satisfied. This finding has been cleared.

Finding 2018-07 (2018-06 in the final report): Ineligible General Purpose Office Equipment Purchases

We have reviewed management's comments on the *Condition* of our finding. Gilbane stated that for three (3) of the four (4) items identified by Crowe as Ineligible General Purpose Office Equipment purchases, they "did not bill the Government for the General Purpose Office Equipment with a value of \$238." Absent the reconciliation to the invoiced amounts requested and additional supporting documentation for their position, we note that management's comments do not alter or otherwise change our finding.

Finding 2018-08 (2018-07 in the final report): Incomplete Property Records

We have reviewed management's comments on the *Condition* of our finding. Gilbane referred to their response to Finding 2018-11: Inadequate Supporting Documentation for the DD1149. We found the schedules supporting the amounts listed on the DD1149 to be unauditable as they were missing key information and the amounts could not be tied to the total listed. Based upon our review of the general ledger provided by Gilbane's management and the other documents referenced in the finding, our statements are supported. We note that management's comments do not alter or otherwise change our finding.

Finding 2018-09 (2018-08 in the final report): Receiving Support for Government Property Not Provided

Crowe reviewed the documentation provided by Gilbane during fieldwork. We noted that the physical inventory schedules provided by management did not include sufficient information to permit a tie-out between the inventory records and documentation provided by management. Further, as Gilbane noted in its management response, the information provided to Crowe by Gilbane did not include receiving documentation. The missing information thereby rendered the records unauditable. Management did not provide new or alternative documentation for review with its management response. Therefore, the finding remains unmodified.

Finding 2018-10 (2018-09 in the final report): Financial Reporting: Transactions Improperly Recorded to the SPFS

We have reviewed management's response to Finding 2018-10 and noted that: (1) management removed the costs that were improperly recorded to the SPFS; and (2) management did not provide additional documentation to indicate or support that the facts contained in the finding were incorrect. Accordingly, the finding has not been changed.

Finding 2018-12 (2018-11 in the final report): Inadequate Supporting Documentation for the DD1149

We have reviewed management's response to Finding 2018-12. Gilbane indicated that Crowe's comments were unsupported; however, the response does not provide new information or documentation to alter the facts that underlay the finding. Further, Gilbane's response indicates that management acknowledges both the differences presented between the property records and that shown on the DD1149 as well as the lack of signature by ITSI Gilbane personnel showing that items for transfer were ultimately received. The finding has, therefore, not been changed.

Finding 2018-14 (2018-13 in the final report): Possible Construction Services Provided Outside of the Authorized Period

Management disagreed with Finding 2018-14 based on the provisions of the subcontracts in question having periods of performance ending on January 31, 2014, and November 15, 2013, respectively. However, we noted that the subcontractor invoices provided to Crowe for testing reported service periods that extended beyond the Field Period of Performance end date of December 31, 2013, noted in the contract. Management's response supports that the nature of the work being performed was inconsistent with warranty oversight, which is the only activity with an authorized period of performance beyond December 31, 2013, per the task order executed by and between Gilbane and the Government. The finding remains unchanged.

APPENDIX C: SITE PHOTOS



Detail: View of the Ministry of Defense construction site.
Source: United States Air Force



Detail: View of the entrance to the constructed Ministry of Defense Headquarters Building.
Source: United States Air Force

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