

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

SIGAR 19-01 Financial Audit

Department of the Air Force's Construction of  
the Afghan Ministry of Defense Headquarters  
Support and Security Brigade Expansion,  
Phase II: Audit of Costs Incurred by Gilbane  
Federal

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



OCTOBER  
2018

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On September 8, 2011, 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 \$16,456,710 to Innovative Technical Solutions Inc. (ITSI) to construct phase II of the Afghan Ministry of Defense Headquarters Support and Security Brigade. After nine modifications, the task order's funding increased to \$35,288,805, and the period of performance was extended from September 7, 2013, to September 30, 2015.

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 \$11,672,885 charged to the task order from November 30, 2013, through September 30, 2015. 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.

October 2018

## Department of the Air Force's Construction of the Afghan Ministry of Defense Headquarters Support and Security Brigade Expansion, Phase II: Audit of Costs Incurred by Gilbane Federal

SIGAR 19-01-FA

### WHAT THE AUDIT FOUND

Crowe identified five material weaknesses and five significant deficiencies in Gilbane's internal controls, and nine 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 20 of 72 transactions tested, resulting in \$141,972 in questioned costs. Moreover, according to invoices, Gilbane charged the government \$218,805 for work not performed. Crowe determined that work on the project was not performed and that the government did not receive any benefit for the costs. Furthermore, Crowe determined that one invoice related to construction activities occurred outside of the authorized period of performance, resulting in \$147,992 in questioned costs.

Because of these internal control deficiencies and instances of noncompliance, Crowe identified \$534,792 in total questioned costs, consisting of \$367,985 in ineligible costs—costs prohibited by the task order, applicable laws, or regulations—and \$166,807 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Category	Ineligible Costs	Unsupported Costs
Invoice for work not performed	\$218,805	0
Inadequate supporting documentation for costs incurred	0	\$141,972
Construction services provided outside of the authorized period	\$147,992	0
Unallowable purchases of general purpose office equipment	\$1,188	0
Missing evidence of receipt of government property	0	\$1,240
Missing evidence of vendor existence	0	\$23,560
Inadequately supported foreign currency translations and undocumented policy or procedure	0	\$35
<b>Totals</b>	<b>\$367,985</b>	<b>\$166,807</b>
<b>Total Questioned Costs</b>		<b>\$534,792</b>

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 did not provide supporting documentation for costs incurred. As noted above, Crowe found that Gilbane did not provide adequate documentation for 20 of 72 transactions tested. Therefore, Crowe determined that the finding had not been resolved.

Crowe would have issued a qualified 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, \$534,792 in questioned costs identified in the report.
2. Advise Gilbane to address the report's ten internal control findings.
3. Advise Gilbane to address the report's nine noncompliance findings.



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

October 1, 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 construct phase II of the Afghan Ministry of Defense Headquarters Support and Security Brigade.<sup>1</sup> Crowe's audit reviewed \$11,672,885 that Gilbane charged to the task order from November 30, 2013, through September 30, 2015. 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 the audit, SIGAR recommends that the responsible contracting officer at the Air Force Civil Engineer Center:

- 1. Determine the allowability of and recover, as appropriate, \$534,792 in questioned costs identified in the report.**
- 2. Advise Gilbane to address the report's ten internal control findings.**
- 3. Advise Gilbane to address the report's nine 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-119)

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<sup>1</sup> The contract number is FA8903-06-D-8513, and the task order number is 0049.

**Gilbane Federal**

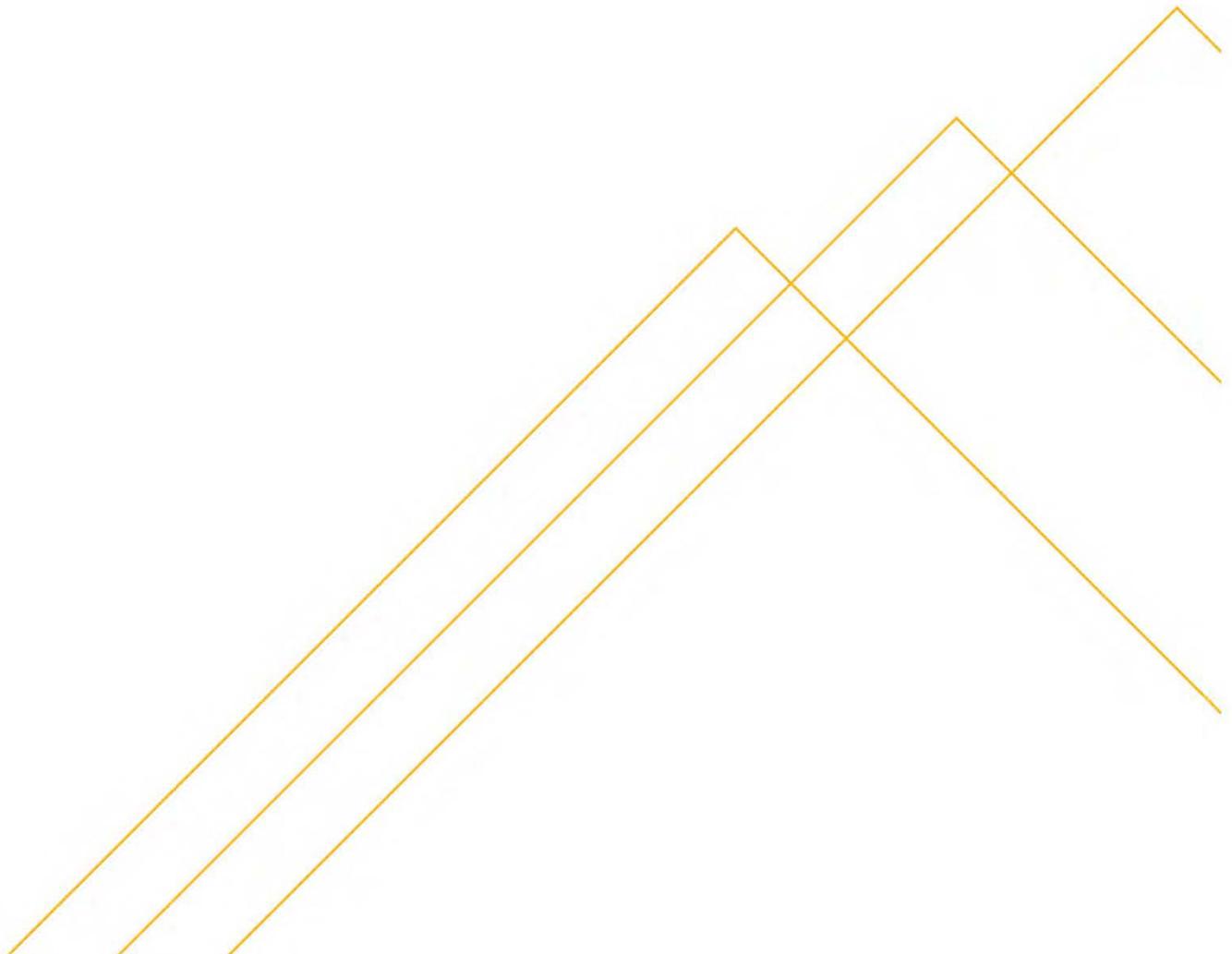
**Construction of Ministry of Defense (MoD) Headquarters Support and Security Brigade (HSSB)  
Expansion Phase II  
Kabul, Afghanistan**

**Special Purpose Financial Statement**

**Contract Number FA8903-06-D-8513, Task Order 0049**

**For the Period November 30, 2013, through September 30, 2015**

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



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## TRANSMITTAL LETTER

August 20, 2018

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

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

We 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 ("Gilbane") task order with the United States Department of the Air Force funding the second phase of the construction of the Afghanistan Ministry of Defense Headquarters Support and Security Brigade's expansion.

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 and the Office of the Special Inspector General for Afghanistan Reconstruction provided both in writing and orally throughout the audit planning and fieldwork phases. Management's final written responses have been incorporated into this report.

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

Sincerely,

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

Bert Nuehring, CPA, Partner  
Crowe LLP

## SUMMARY

### Background

On September 8, 2011, the 772<sup>nd</sup> Enterprise Sourcing Squadron, in support of the Air Force Center for Engineering and the Environment (AFCEE) awarded contract number FA8903-06-D-8513, task order 0049 to Innovative Technical Solutions Inc. (ITSI) – now Gilbane Federal (“Gilbane”) – to conduct the second phase of the construction of the Ministry of Defense (MOD) Headquarters Support and Security Brigade (HSSB) expansion in Kabul, Afghanistan. In 2012, the Air Force Center for Engineering and the Environment was reorganized as the Air Force Civil Engineer Center (AFCEC). The facilities were expected to accommodate about 2,200 Afghan National Army (ANA) personnel. Gilbane was required to provide the design, materials, labor, and equipment to construct buildings, connect utilities, and other infrastructure.

In 2010, Gilbane acquired the Innovative Technical Solutions, Inc. (“ITSI”). This report is addressed to Gilbane Federal. The original task order was issued on September 8, 2011 for \$16,456,710, including a fixed fee of \$931,511 with a period of performance of September 8, 2011 through September 7, 2013. There were nine (9) total modifications, with Modifications 5 and 9 increasing the cost by \$18,599,577 and \$232,518, respectively, for a total cost plus fixed fee award amount of \$35,288,805. In addition, Modification 7 extended the period of performance to September 30, 2015. The total costs incurred within the audit period from November 30, 2013, through September 30, 2015, and subject to Crowe’s procedures were \$11,672,885.

### 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 0049 and associated modifications as indicated in a Special Purpose Financial Statement (SPFS) for the period November 30, 2013, through September 30, 2015.

### 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 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 delivery 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 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 task order’s requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the delivery 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 September 30, 2015. The audit was limited to those matters and procedures pertinent to the task order that have a direct and material effect on the Special Purpose Financial Statement (SPFS). The audit also included an evaluation of the presentation, content, and underlying records of the SPFS. Further, the audit included reviewing the financial records that support the SPFS to determine if there were material misstatements and if the SPFS was presented in the format required by SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

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

## Methodology

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

For purposes of meeting Audit Objective 1 pertaining to the SPFS, transactions were selected from the financial records underlying the SPFS and were tested to determine if the transactions were recorded in accordance with accounting principles generally accepted in the United States of America; 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 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 reporting and compliance with applicable laws and regulations. Crowe corroborated internal controls identified by the auditee and conducted testing of select key controls to understand if they were implemented as designed.

Audit Objective 3 requires that tests be performed to obtain an understanding of the auditee's compliance with requirements applicable to the delivery order. Crowe identified – through review and evaluation of the delivery order and the primary contract executed by and between Gilbane and the Air Force Center for Engineering, the Federal Acquisition Regulation (FAR), and the Defense Federal Acquisition Regulation Supplement – the criteria against which to test the SPFS and supporting financial records and documentation. Using various sampling techniques, including but limited to audit sampling guidance for compliance audits provided by the American Institute of Certified Public Accountants, Crowe selected expenditures, invoices submitted to the Government for payment, procurements, property and equipment dispositions, and subcontracts issued under the contract and corresponding costs incurred. Supporting documentation was provided by the auditee and subsequently evaluated to assess Gilbane's compliance. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in accordance with the indirect cost rate memoranda issued by the Defense Contract Audit Agency. We also performed procedures to determine if adjustments to billings that were based on preliminary or provisional rates were made, as required and applicable.

Regarding Audit Objective 4, Crowe inquired of Gilbane, the Air Force Civil Engineer Center staff participating in the audit entrance conference, and SIGAR to understand whether or not there were prior audits, reviews, or assessments that were pertinent to the audit scope. Crowe also conducted an independent search of publicly available information to identify audit and review reports. As a result of the aforementioned efforts, we identified three (3) prior reports for review and evaluation. See report information below:

- DCAA Audit Report No. 4281-2014110180001, "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 ten (10) 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 task order; and/or (4) questioned costs resulted from identified instances of noncompliance. Other matters that did not meet the criteria were communicated to Gilbane via a letter to management dated August 6, 2018, or via oral communication during a management briefing held on April 10, 2018.

Crowe disclaimed an opinion on the Special Purpose Financial Statement ("SPFS") because Gilbane elected not to sign the required management representation letter. 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 noted that, had management executed a representation letter, a qualified opinion on the SPFS would have been issued due to Gilbane's revenue recognition approach departing from the requirements specified in the accounting principles generally accepted in the United States of America ("GAAP"), errors and/or omissions identified during review of the notes to the SPFS, the financial records provided by management not agreeing with those amounts reported on the SPFS, and the presence of a material amount of questioned costs.

Gilbane provided a revised SPFS as part of its management response. The SPFS was not subject to audit.

Crowe also reported on both Gilbane's compliance with the applicable laws, rules, regulations, and the terms and conditions of the contract delivery order and the internal controls over compliance and financial reporting. We identified five (5) material weaknesses, five (5) significant deficiencies in internal controls, and nine (9) instances of noncompliance. 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 \$534,792 in costs reported on the SPFS were questioned because they were ineligible and unsupported. Ineligible costs are explicitly questioned because they are unreasonable; prohibited by the audited 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. 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 task order. Based on Crowe's communications with Gilbane and AFCEC staff members participating in the audit entrance conference, there were three (3) such prior audit or assessment reports pertaining to other task orders issued under contract no. FA903-06-D-8513. Based on a review of the audits, we noted eleven (11) findings which 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 their entirety.

**Table A: Schedule of Findings and Questioned Costs**

Finding No.	Matter	Classification	Questioned Costs	Cumulative Unique Questioned Costs
2018-01	Amounts Recorded on SPFS Do Not Match Accounting Records	Material Weakness	None	-
2018-02	Unreasonable Justification for Noncompetitive Procurements and Certified Cost or Pricing Data	Material Weakness and Noncompliance	None	-
2018-03	Invoice for Work Not Performed by FOCUS Trade	Material Weakness and Noncompliance	\$ 218,805	\$ 218,805
2018-04	Missing Supporting Documentation for Costs Incurred	Material Weakness and Noncompliance	\$ 141,972	\$ 360,777
2018-05	Construction Costs Incurred Outside of Authorized Period of Performance	Significant Deficiency and Noncompliance	\$ 147,992	\$ 508,769
2018-06	General Purpose Office Equipment Purchased with USAF Funds	Significant Deficiency and Noncompliance	\$ 1,188	\$ 509,957
2018-07	Incomplete Government Property Records	Material Weakness and Noncompliance	None	\$ 509,957

Finding No.	Matter	Classification	Questioned Costs	Cumulative Unique Questioned Costs
2018-08	Evidence of Government Property Receipt Not Provided	Significant Deficiency and Noncompliance	\$ 1,240	\$ 511,197
2018-09	Documentation of Vendor Licensing to Operate in Afghanistan	Significant Deficiency and Noncompliance	\$ 23,560	\$ 534,757
2018-10	Inadequately Supported Foreign Currency Translations and Undocumented Policy or Procedure	Significant Deficiency and Noncompliance	\$ 35	\$ 534,792
<b>Total Questioned Costs</b>			<b>\$</b>	<b>534,792</b>

### **Summary of Management Comments**

Management concurred with finding 2018-10, but disagreed within findings 2018-01 through 2018-09. We have summarized the responses below.

- 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 unreasonable justifications for noncompetitive procurements and failure to obtain certificates of current cost or pricing data as well we cost or pricing data from one subcontractor. Management disagreed with Crowe's conclusion regarding the unreasonable nature of the justifications and considered its price analysis to represent adequate support. Management also stated that there was no requirement for cost or pricing data associated with the subcontract. However, support for a waiver or exception from the requirements of FAR 52.215-12 and FAR 52.215-13, as incorporated into Gilbane's base contract, was not provided.
- 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 and because management believes it has located adequate supporting documentation for one of the transactions in question.
- Management disagreed with finding 2018-05, which pertains to costs incurred outside of the authorized construction and field performance period denoted in Gilbane's task order with the AFCEC. Management's disagreement was based on the dates that the subcontract 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.
- Management disagreed with Finding 2018-06 regarding the purchase of General Purpose Office Equipment (GPOE) using task order monies. Gilbane asserted that the costs of certain property items was not billed to the task order and the remaining property items should not be classified as GPOE.
- Gilbane disagreed with finding 2018-07 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.
- Gilbane disagreed with finding 2018-08 as it is management's position that the costs have not been billed to the Government and, therefore, should not be questioned.

- Gilbane disagreed with finding 2018-09 because Gilbane had evidence of purchase requisitions, purchase orders, and payment support. Gilbane did not disagree that evidence of the vendors' having been properly licensed to conduct business in Afghanistan was unavailable and not provided for audit.

### **References to Appendices**

The auditor's reports are supplemented by three appendices, **Appendix A**, which contains management's responses to the audit findings; **Appendix B**, which contains the Auditor's Rebuttal; and **Appendix C**, which contains a revised Special Purpose Financial Statement provided by management subsequent to receipt of management's responses and that was not subject to Crowe's audit procedures.

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

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

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

**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 Ministry of Defense (MoD) Headquarters Security and Support and Security Brigade (HSSB) Expansion Phase II in Kabul, Afghanistan, funded by contract number FA8903-06-D-8513 task order 0049, for the period November 30, 2013, through September 30, 2015.

**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.

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(Continued)

In the event a disclaimer of opinion had not been identified, we would have issued a qualified opinion on the Statement due to the existence of material errors in the Statement. We identified a material amount of questioned costs due to potential violations of allowable cost requirements appearing within Title 48, Part 31 of the Code of Federal Regulations, to which Gilbane must comply as per its contract. Pursuant to SIGAR's requirements for the Statement, only allowable, reimbursable costs may be presented on the Statement. In addition, as discussed in Note 1, Gilbane included costs incurred for the period September 8, 2011, through September 30, 2015, which does not align with the period required by SIGAR. The amount by which this departure would affect the costs incurred and associated revenues earned was an estimated \$126,534. We also noted a difference of \$388,927 between the detailed financial records supporting the Statement and the costs incurred as reported on the Statement. In consideration of the combined effect of these matters, the Statement is considered to be materially misstated.

### **Disclaimer of Opinion**

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the 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 the Office of the Special Inspector General for Afghanistan Reconstruction and presents those expenditures as permitted under the terms of contract number FA8903-06-D-8513 task order 0049 which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the task order referred to above.

### **Restriction on Use**

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

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

In accordance with *Government Auditing Standards*, we have also issued reports dated August 6, 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

August 6, 2018  
Washington, D.C.

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(Continued)

Gilbane Federal  
Notes to the Special Purpose Financial Statement  
For the Period November 30, 2013 through September 30, 2015

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	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Questioned Costs</u> <u>Unsupported</u>	<u>Notes</u>
<b>Revenues</b>					
Contract No. FA8903-06-D-851	\$ 12,684,490	\$ 11,672,885			4
Task Order 0049					
 Total Revenue	 \$ 12,684,490	 \$ 11,672,885			
 <b>Costs Incurred</b>					
CLIN 000801	\$ 249,563	\$ (78,900)	\$ 147,992	\$ -	5 C
CLIN 000802	\$ 11,945,187	\$ 11,685,620	\$ 218,805	\$ 23,560	A, F
CLIN 000803	\$ 389,740	\$ 66,165	\$ -	\$ -	
Total Costs Incurred	\$ 12,584,490	\$ 11,672,885	\$ 1,188	\$ 143,247	B, D, E, G
 Fee	 \$ 100,000	 \$ -			
 <b>Outstanding Balance</b>		 \$ -	 \$ 367,985	 \$ 166,807	 6

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

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**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 0049 for the Construction of Afghanistan Ministry of Defense Headquarters Facility Support and Security Brigade Expansion Phase II, Kabul, Afghanistan for the period September 8, 2011 through September 30, 2015. Because the Statement presents only a selected portion of the operations of the Gilbane Federal, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Gilbane Federal. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal Contract Number FA8903-06-D-8513 Task Order 0049. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Note 2. Basis of Accounting**

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

**Note 3. Foreign Currency Conversion Method**

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

**Note 4. Revenues**

Revenue reported on the Statement is reported in accordance with generally accepted accounting principles ("GAAP") in the United States of America and, therefore, are reported on the accrual basis of accounting. On the Cost Plus Fixed Fee (CPFF) task order, the reimbursable costs and fees billed were included in revenue. The reimbursable costs include indirect costs (fringe, overhead and general and administrative expense) determined using government approved provisional billing rates.

Gilbane Federal  
Notes to the Special Purpose Financial Statement  
For the Period November 30, 2013 through September 30, 2015

**Note 5. 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 0049 Modification 09 (Mod 09) to the contract dated April 29, 2015.

Description	CLIN 000801		CLIN 000802		CLIN 000803		TOTAL		
	Cost	Fee	Cost	Fee	Cost	Fee	Cost	Fee	TOTAL
Award	15,525,199	931,511					15,525,199	931,511	16,456,710
Mod 01							-	-	-
Mod 02							-	-	-
Mod 03							-	-	-
Mod 04							-	-	-
Mod 05			18,599,577				18,599,577	-	18,599,577
Mod 06							-	-	-
Mod 07							-	-	-
Mod 08							-	-	-
Mod 09					232,518		232,518	-	232,518
	<u>15,525,199.00</u>	<u>931,511.00</u>	<u>18,599,577.00</u>	<u>-</u>	<u>232,518.00</u>	<u>-</u>	<u>34,357,294.00</u>	<u>931,511.00</u>	<u>35,288,805.00</u>

**Note 6. 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 7. Currency**

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

**Note 8. Program Status**

The work under Task Order FA8903-06-D8513-0049 has been completed. However, the task order has not been closed pending finalization of indirect cost rates by the Government.

(Continued)

NOTES TO THE QUESTIONED COSTS PRESENTED ON THE SPECIAL PURPOSE FINANCIAL  
STATEMENT<sup>1</sup>

**Note A. Payment of Invoice for Work Not Performed**

Finding 2018-03 questioned \$218,805 in costs charged to the task order from one vendor (FOCUS Trade Mark Group of Companies) and pertained to lost work time. Specifically, the vendor invoiced Gilbane for "MoD Shutdown Days" thus indicating that work on the project was not performed and the Government did not receive benefit for the invoiced costs.

**Note B. Inadequate or Missing Supporting Documentation for Costs Incurred**

Finding 2018-04 questioned \$141,972 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 C. Construction Service Periods Outside the Performance Period**

Finding 2018-05 questioned \$147,992 in costs incurred for one subcontractor due to construction costs being incurred outside the allowable period of construction activities.

**Note D. General Purpose Office Equipment Purchased with USAF Funds**

Finding 2018-06 questioned \$1,188 in costs incurred due to seventeen (17) instances of unallowable general purpose office equipment being purchased.

**Note E. Missing Evidence of Receipt for Government Property**

Finding 2018-08 questioned \$1,240 in costs incurred for 47 items that were unsupported by evidence of receipt.

**Note F. Missing Evidence of Vendor Existence**

Finding 2018-09 questioned \$23,560 in costs incurred for two (2) subcontractors 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.

**Note G. Inadequately Supported Foreign Currency Translations and Undocumented Policy or Procedure**

Finding 2018-10 questioned \$35 in costs incurred due to overbilling the Government resulting from improper foreign currency conversions.

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<sup>1</sup> Notes to the Questioned Costs are prepared by the auditor for purposes of this report. Management takes no responsibility for the notes to the questioned costs.

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## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

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

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

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Statement") of Gilbane Federal ("Gilbane"), and related notes to the Statement, with respect to the Construction of Ministry of Defense ("MoD") Headquarters Support and Security Brigade ("HSSB") Expansion Phase II, Kabul, Afghanistan, project funded by contract number FA8903-06-D-8513 task order 0049, for the period November 30, 2013, through September 30, 2015. We have issued our report thereon dated August 6, 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 September 30, 2015, 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 certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2018-01, 2018-02, 2018-03, 2018-04, and 2018-07 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 deficiencies described in the accompanying Schedule of Findings as items 2018-05, 2018-06, 2018-08, 2018-09 and 2018-10 to be significant deficiencies.

We noted certain matters that we reported to Gilbane's management in a separate letter dated August 6, 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 Federal, the Air Force Center for Engineering, 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

August 6, 2018  
Washington, D.C.

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

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

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

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Statement") of Gilbane Federal ("Gilbane"), and related notes to the Statement, with respect to the Construction of Ministry of Defense ("MoD") Headquarters Support and Security Brigade ("HSSB") Expansion Phase II, Kabul, Afghanistan, project funded by contract number FA8903-06-D-8513 task order 0049, for the period November 30, 2013, through September 30, 2015. We have issued our report thereon dated August 6, 2018, within which we 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 task order is the responsibility of the management of Gilbane Federal.

### **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 nine 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, 2018-09 and 2018-10 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 subjected to the auditing procedures applied in the audit of the special purpose financial statement and, accordingly, we express no opinion on it.

**Purpose of this Report**

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

**Restriction on Use**

This report is intended for the information of Gilbane, the Air Force Center for Engineering, 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

August 6, 2018  
Washington, D.C.

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(Continued)

## SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### **Finding 2018-01: Amounts Recorded on the SPFS Do Not Match Accounting Records**

#### Material Weakness

**Condition:** Gilbane Federal provided a schedule of detailed transactions supporting the amounts reported on the Special Purpose Financial Statement (“SPFS”). We identified differences between the detailed transactions schedule and the amounts reported on the SPFS for three line items.

In addition, Gilbane recognized revenue under the task order based on when costs incurred were billed to the Government. This approach is inconsistent with generally accepted accounting principles wherein revenue should be recognized as services are rendered and payment is reasonably expected to be received from the Government.

Because of this inconsistency, per Gilbane's financial records, the revenues and corresponding costs incurred should have been reported as \$11,799,419. When compared to the amount reported on the SPFS of \$11,672,885, there is a resulting understatement of \$126,534. This approach also ultimately resulted in a negative balance for costs incurred on the SPFS for CLIN 801.

We further noted the following with respect to the notes to the SPFS:

- In Note 3, Gilbane states that conversions from local currency to U.S. dollars were not required. However, Crowe identified instances in which currency conversions were performed ; and
- Note 9 regarding the reconciliation of the SPFS to amounts billed to the Government is incomplete.

Lastly, 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 states that Expenditures and Revenues are, “reported on the Statement are reported in accordance with generally accepted accounting principles (“GAAP”) in the United States of America and, therefore, are reported on the accrual basis of accounting.”.

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 amounts recorded on the SPFS may be misstated.

**Cause:** Gilbane did not implement an adequate financial reporting process to ensure that revenue was appropriately recognized and the SPFS was accurately presented.

**Recommendation:** We recommend that Gilbane follow the accrual basis of accounting as management has represented within the notes to the SPFS that the accrual basis was utilized for preparation of the Statement. We further recommend that Gilbane develop a revenue recognition policy, if one does not already exist. Finally, Gilbane should provide training on the new procedures to the appropriate personnel.

**Finding 2018-02: Unreasonable Justification for Noncompetitive Procurements and Certified Cost or Pricing Data**

Material Weakness and Noncompliance

**Condition:** We selected thirty (30) of eighty-three (83) procurements for review. During our testing of 30 procurements, we identified three (3) noncompetitive procurements with justifications that were considered unreasonable under the circumstances provided: PO 7268, PO 7931, and PO 7985. The total value of the three procurements is \$11,342,682. During our review of the sole source justifications, we noted that Gilbane considered the use of noncompetitive procedures to be appropriate due to the same vendors having been used on the predecessor task order and/or the procurement representing follow-up work from the previous task order.

Regarding the original award for PO 7931, the procurement value was \$2,000,000. We noted that a certificate of current cost or pricing data and certified cost or pricing data were not provided or included in the procurement file. In addition, the rates used in the price analysis performed in November 2013 on the labor rates for the original procurement did not agree to the contract rates.

Next, we noted that two modifications were made to PO 7931 and were not competitively bid. The modifications were valued at \$3,166,894 and \$4,000,000, respectively. Certificates of current cost or pricing data and certified cost or pricing data were not provided. These modifications also did not reflect the qualities that would align with exceptions to the requirement for certified cost or pricing data. Specifically, the modifications were not subject to adequate price competition; the prices contained therein were not set by law or regulation; the services to be provided are not considered to be commercial items; and evidence of a waiver to the certified cost or pricing data requirement having been obtained was not included in the procurement documentation.

During our procedures, we assessed the reasonableness of the prices and rates agreed upon between the vendors and Gilbane. We noted that the prices and rates were reasonable such that no costs are in question.

The exceptions are summarized in the following table:

Purchase Order Number	Vendor	Purchase Order Amount	Goods/Services Procured
7268		\$672,206	Security Service
7931	FOCUS Trade Mark Group of Companies	\$9,765,218	Construction/Labor Procurement
7985	Harirod Construction Company LLC	\$905,258	Concrete
<b>Total:</b>		<b>\$11,342,682</b>	

Last, we noted that Gilbane's procurement procedures did not specify or otherwise provide clear direction regarding the 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.

**Criteria:** FAR 52.244-5(a), Competition in Subcontracting, "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 Federal'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."

Pursuant to FAR 52.215-12 and FAR 52.215-13, Gilbane is required to obtain certified cost or pricing data for noncompetitive procurements greater than \$700,000.

**Questioned costs:** None. We noted that the prices and rates were reasonable such that no costs are in question.

**Effect:** Gilbane may incur costs that are unreasonable or otherwise exceed those that a prudent person would pay and subsequently pass those unreasonable costs on to the Government. As such, the Government may have been overcharged.

**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 and the form of documentation necessary to support the respective procurement. In addition, we recommend Gilbane revise policies to require supervisory review of the documentation and provide training to implement the new policies and procedures.

## **Finding 2018-03: Invoice for Work Not Performed by FOCUS Trade**

### Material Weakness and Noncompliance

**Condition:** We tested 72 of 5,601 total transactions valued at \$12,383,572 to determine if the costs incurred were adequately supported and allowable. During our testing of the 72 expenditure transactions, we identified eleven (11) invoices that contained charges for days in which work was not performed. The days were denoted as "MoD ShutDown Days." The total costs associated with work not performed was \$218,805.

#### **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.

The "Vender Invoices" 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."

**Questioned costs:** \$218,805

**Effect:** The Government paid for work not performed, which may be considered wasteful and improper.

**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 Federal:

1. Reimburse the government for the amount of \$218,805 or otherwise produce documentation showing that the Government received benefit for the invoiced time;
2. Expand its accounts payable policy to incorporate supervisory 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: Missing Supporting Documentation for Costs Incurred**

Material Weakness and Noncompliance

**Condition:** We tested 72 of 5,601 total transactions to determine if the costs incurred were adequately supported and allowable. Gilbane did not provide adequate supporting documentation for 20 of the 72 sample selections totaling \$141,972. Gilbane provided a memorandum for the expenses; however, source documentation such as time records, payroll remittance advices, and calculation schedules indexed back to reimbursement requests submitted to the Government to demonstrate that the costs incurred and recorded to the project ledger were allowable was not provided. See table below for details.

Sample Item #	Vendor	JC Category Cost Type	Transaction Type	JC Amt
8		Direct Labor Overhead	Indirect True Up	\$137,017.99
39		Direct Labor Overhead		\$1,305.72
41		Direct Labor Overhead		\$1,144.80
43		Direct Labor Fringe		\$836.73
44		Direct Labor Overhead		\$575.18
47		Direct Labor Overhead	BW201421 Labor Overhead	\$178.63
48		Direct Labor Fringe		\$171.34
49		Direct Labor Overhead	BW201510 Labor Overhead	\$154.67
53		Direct Labor Overhead	BW201517 Labor Overhead	\$116.00
54		Direct Labor Fringe	BW201422 Labor Fringes	\$105.33
56		Direct Labor	BW201417	\$76.92
58		Direct Labor Fringe	BW20156 Labor Fringes	\$54.72
59		Direct Labor Fringe	BW201515 Labor Fringes	\$54.72
61		Direct Labor Fringe	BW201414 LBR FRG	\$44.62
62		Direct Labor Overhead		\$42.33
63		Direct Labor Fringe	BW201416 Labor Fringes	\$36.01
65		Direct Labor Overhead	BW20156 Labor Overhead	\$31.86
66		Direct Labor Fringe	BW201514 Labor Fringes	\$14.94
68		Direct Labor Fringe	BW20159 Labor Fringes	\$5.64
69		Direct Labor Fringe		\$3.77
<b>Total</b>				<b>\$141,971.92</b>

**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:** \$141,972

**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 that supporting documentation for all transactions is retained. In addition, staff were inadequately trained about the importance of maintaining payment documentation.

**Recommendation:** We recommend that Gilbane either locate supporting documentation for the transactions in question or otherwise reimburse the Government \$141,972. 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 Gilbane's procedures to prevent documentation losses.

## **Finding 2018-05: Construction Costs Incurred Outside of Authorized Period of Performance**

Significant Deficiency and Noncompliance

**Condition:** During our testing of 72 expenditure samples from a population of 5,601 transactions, we identified one (1) invoice for [REDACTED] (invoice number 8505-051) totaling \$147,992 that included construction and field-related, non-warranty costs after May 31, 2014.

**Criteria:** Pursuant to modification 7 to the task order, field performance and construction fieldwork may occur through May 31, 2014. Any expenses relating to construction and fieldwork occurring on June 1, 2014 and later are ineligible for reimbursement.

**Questioned costs:** \$147,992

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

**Cause:** Gilbane Federal had inadequate internal controls to ensure that the work being performed and the costs incurred aligned with the eligible period of performance. Gilbane requires Accounts Payable to conduct reviews of documentation prior to payments being made to vendors; however, the procedure, as designed, does not expressly require a review for allowability in accordance with the task order.

**Recommendation:** We recommend that Gilbane revise the invoice review process to incorporate an assessment for alignment with the contractual requirements to ensure both the work being performed and the costs incurred fall within the applicable period and reimburse the Government \$147,992. In addition, we recommend that Gilbane revise policies to require supervisory review of the documentation and provide training to implement the new policies and procedures.

**Finding 2018-06: General Purpose Office Equipment (GPOE) Improperly Charged to the Task Order**

Significant Deficiency and Noncompliance

**Condition:** Crowe selected 47 of 235 total property items included in the government property population provided by management for testing. During our testing, we noted that 17 of 47 items with a total acquisition cost of \$1,188 met the definition of general purpose office equipment, which is deemed unallowable under the contract terms.

**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:** \$1,188

**Effect:** The Government was invoiced for costs that were ineligible for reimbursement as a direct cost.

**Cause:** Gilbane did not have adequate Government billing and internal control procedures in place to prevent the direct billing of costs incurred for the purpose of general purpose office equipment.

**Recommendation:** We recommend that Gilbane:

1. Reimburse the Government for \$1,188 or otherwise produce documentation indicating that the PKV-H010 provision was waived;
2. Revise its Government billing procedures and internal controls for projects funded under contract FA8903-06-D-8513 to incorporate a review for GPOE so as to detect and correct future billing issues; and
3. Have an audit performed on its government property management processes and all past charges for general purpose office equipment.

## **Finding 2018-07: Incomplete Government Property Records**

### Material Weakness and Noncompliance

**Condition:** Crowe selected 47 of 235 total property items included in the government property population provided by management for testing. During our testing, we noted that, for all 47 sample selections, the property records did not contain all required data elements. Specifically, disposition information, posting reference or date of transaction, and quantity received/issued/balance on hand were missing from the records provided.

**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 did not have an adequate monitoring procedure in place to detect instances where property records were incomplete and to require timely correction of the omissions.

**Recommendation:** We recommend that Gilbane revise its government property control procedures to require a periodic review by senior management of property records with a goal of detecting and correcting omissions in the records and provide training to necessary personnel on the new procedures.

## **Finding 2018-08: Evidence of Government Property Receipt Not Provided**

Significant Deficiency and Noncompliance

**Condition:** Crowe selected 47 of 235 total property items included in the government property population provided by management for testing. During our testing, we noted the following:

1. Evidence of Gilbane's having received the government property was not provided for any of the 47 selections totaling \$18,484 per Gilbane's property records; and
2. Supporting documentation was not provided for 3 of the 47 sample items with total acquisition cost of \$1,240.

**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:** \$1,240

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

**Cause:** Gilbane did not have an adequate monitoring process in place to ensure that documentation supporting evidence of receipt was retained.

**Recommendation:** We recommend that Gilbane either provide alternative support to demonstrate the government property items were received and utilized for TO 0049 or otherwise reimburse the Government \$1,240. 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 and provide training to necessary personnel on the new procedures.

## **Finding 2018-09: Documentation of Vendor Licensing to Operate in Afghanistan Not Provided**

### Significant Deficiency and Noncompliance

**Condition:** During testing, Crowe noted that two of the 30 samples selected did not have documentation to verify the vendor's existence. Gilbane did not provide evidence that the entity possessed a valid business license, and the vendor's physical existence in Afghanistan could not otherwise be validated through physical observation. We identified \$23,560 in costs charged to the Government for the vendors, which is in question. See the summary table below:

Vendor	PO #	Goods / Services	Questioned Costs	Service Date
██████████	7923	Bus service	\$15,000	05/01/2012 – 10/31/2012
██████████	9649	Wires	\$8,560	12/04/2013 – 12/31/2013
<b>Total Questioned Costs</b>				<b>\$23,560</b>

**Criteria:** Article 02, "Having License", of the *Corporations and Limited Liability Companies Law of Afghanistan*, states, "No person can transact business or advertise as a corporation and limited liability company in Afghanistan without having a business license registered in the Central Registry."<sup>2</sup>

Section H(b) of the task order states, "The Contractor shall comply with, and shall ensure that its employees and its subcontractors and their employees, at all tiers, are aware of and obey all U.S. and Host Nation laws, Federal or DoD regulations, and Central Command orders and directives applicable to personnel in Iraq and Afghanistan, including but not limited to USCENTCOM, Multi-National Force and Multi-National Corps operations and fragmentary orders, instructions, policies and directives."

**Questioned costs:** \$23,560

**Effect:** Gilbane may have been invoiced for costs associated with a vendor that does not exist or that was not properly licensed to do business in Afghanistan or that may not have existed. The costs were subsequently passed on to the U.S. Government.

**Cause:** Gilbane did not retain records related to the vendors' licenses during performance of the contract.

**Recommendation:** We recommend that Gilbane either locate and provide evidence of the vendors' possession of a valid business license during the period under contract or otherwise reimburse the Government \$23,560. We further recommend that Gilbane develop and implement a procedure that requires supervisory review to ensure that a copy of each vendor's business licenses is obtained and retained prior to making payments to each vendor. In addition, we recommend that Gilbane provide training to necessary personnel on the new procedures.

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<sup>2</sup> "Corporations and Limited Liability Companies Law of Afghanistan," accessed on 9 May 2018. <http://tlegals.com/CorporationsandLimitedLiabilityCompaniesLaw.pdf>

## **Finding 2018-10: Inadequately Supported Foreign Currency Translations and Undocumented Policy or Procedure**

Significant Deficiency and Noncompliance

**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 21 transactions denominated in a foreign currency, we identified nine instances in which the recalculated transaction amount did not agree to the cost charged by Gilbane. The total overcharge was \$35.

**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(c) 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 830-20-30-1, *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 FASB 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:** \$35

**Effect:** Without a standard process in place that is formally communicated to employees, there is an increased risk of foreign currency conversion occurring incorrectly and resulting in potential overbilling or underbilling of the Federal government.

**Cause:** Policies and procedures have not been implemented over foreign currency translations.

**Recommendation:** We recommend that Gilbane create, distribute, and implement foreign currency policy and procedures. In addition, we recommend the previous practice be reviewed to determine if other currency translation errors were made. In addition, we recommend Gilbane revise policies to require supervisory review of the documentation and provide training to implement the new policies and procedures.

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

Through discussion with Gilbane, SIGAR, and representatives of the U.S. Air Force, 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:** *The Defense Contract Audit Agency (“DCAA”) 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:** 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, 2018-05, and 2018-6 pertaining to unallowable and unreasonable subcontract and material costs.

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

### **Finding No. 2015-01: Costs Exceeded CLIN Budgets**

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

**Status:** We reviewed the SPFS to determine if costs submitted for the contract exceeded budgetary limits according to CLIN. We conducted procedures to assess whether Gilbane exceeded CLIN funding limits for TO 0049. 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. See finding 2018-01.

### **Finding No. 2015-02: Lack of Support over Costs Incurred**

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

**Status:** We conducted control and compliance testing on the whether costs incurred were allowable. The results of our testing indicate corrective action has not been implemented. See findings 2018-01, 2018-03, and 2018-04.

### **Finding No. 2015-03: Improper Allocation of Costs and Lack of Controls over Approvals**

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

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**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.

**Finding No. 2015-04 & 2015-05: Lack of Documentation and Controls over Equipment and Unallowable Office Equipment**

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

**Status:** We conducted control and compliance testing on whether costs submitted related to materials or labor were reasonable in accordance with FAR 31.201-2. The results of our testing indicate corrective action has not been implemented. See finding 2018-06.

**Finding No. 2015-06: Costs Incurred Outside Contract Task Order Period of Performance**

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

**Status:** We conducted control and compliance testing on whether costs submitted were for cost incurred during the period of performance. The results of our testing indicate corrective action has not been implemented. See finding 2018-05.

**Report:** SIGAR 16-42 Financial Audit, July 2016

**Finding No. 2015-01: Lack of Support over Costs Incurred**

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

**Status:** We conducted control and compliance testing on the whether costs incurred were allowable. The results of our testing indicate corrective action has not been implemented. See findings 2018-03 and 2018-04.

**Finding No. 2015-02: Improper Allocation of Costs**

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

### **Finding No. 2015-03: Costs Exceeded CLIN Budgets**

**Issue:** Finding 2015-03 identified \$188,574 in ineligible costs that resulted from Gilbane exceeding the allowable budget by CLIN. Though the face of the SPFS does not reflect these over payments, based on actual billings made by Gilbane to the Federal Government, CLIN 10008AD incurred costs in excess of the budget in the amount of \$176,173. Further, \$12,401 of rejected costs, due to billing for costs incurred in excess of budgets, were rebilled and support could not be provided to determine the reasonableness, allowability or period of performance of the rebilled costs. The \$12,401 of rejected costs were composed of \$340 within CLIN 10008AD and \$12,061 within CLIN 10008AB.

**Status:** We reviewed the SPFS to determine if costs submitted for the contract exceeded budgetary limits according to CLIN. We conducted procedures to assess whether Gilbane exceeded CLIN funding limits for TO 0049. 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. See finding 2018-01.

### **Finding No. 2015-04 & 2015-05: Lack of Documentation and Controls over Equipment and Unallowable Office Equipment**

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

**Status:** We conducted control and compliance testing on whether costs submitted related to materials or labor were reasonable in accordance with FAR 31.201-2. The results of our testing indicating corrective action has not been implemented. See finding 2018-06.

APPENDIX A: VIEWS OF RESPONSIBLE OFFICIALS



July 13, 2018

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

Subject: Crowe LLP, Draft Audit Report on SIGAR Audit No. 119 over Gilbane Federal's Contract Number FA8903-06-D-8513, Task Order 0049

Mr. Nuehring,

We are providing the management response requested by your office on May 26, 2018, for the Crowe LLP (Crowe), *Draft Report on SIGAR Audit No. 119 over Gilbane Federal's Contract Number FA8903-06-D-8513, task order 0049* (Attachment A, *Crowe Horwath Draft Report on SIGAR Audit No. 119 over Gilbane Federal's Contract Number FA8903-06-D-8513, Task Order 0049*).

We understand that the Crowe 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 0049, *Construction of Ministry of Defense (MoD) Headquarters Security and Support and Security Brigade (HSSB) Expansion Phase II, Kabul, Afghanistan*, for the partial project performance period November 30, 2013 through September 30, 2015 (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 Draft Report on SIGAR Audit No. 119 over Gilbane Federal's Contract Number FA8903-06-D-8513, Task Order 0049

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**Background - Contract Number FA8903-06-D-8513, Task Order 0049**

The Air Force Center for Engineering and the Environment (AFCEE)<sup>1</sup> used a two-tiered approach to select contractors for its construction projects. First, under its Heavy Engineering, Repair and Construction (HERC) business model, AFCEE 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, decides 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).

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<sup>1</sup> 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

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Crowe Draft Report on SIGAR Audit No. 119 over Gilbane Federal's Contract Number FA8903-06-D-8513, Task Order 0049

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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.

After release of the Request For Proposal (RFP) for Construction of Ministry of Defense (MoD) Headquarters Support and Security Brigade (HSSB) Expansion Phase II, ITSI requested bids from subcontractors on June 17, 2011<sup>2</sup> for:

Site-adaptation of new structures, renovation of existing facilities, and construction modifications in support of the Ministry of Defense (MOD) Headquarters Support and Security Brigade (HSSB) in Kabul, Afghanistan, to accommodate approximately 2,200 Afghan National Army (ANA) personnel.

ITSI required to its major subcontractors to establish and maintain a Life Support Area (LSA) for subcontractor personnel and the bid form<sup>3</sup> provided to major subcontractors provided for mobilization, demobilization and LSA (Man camp) pricing. To minimize work stoppages and delays, work in a contingency contracting environment often requires the establishment of secure facilities, referred to as Life Support Areas (LSAs), for subcontractor personnel and equipment. The provisioning of a subcontractor LSA can include some or all the following.

- Man Camp Construction and Management
- Catering
- Housekeeping
- Laundry
- Information Technology (IT) and Communications Support
- Medical Clinics and Emergency Medical Services
- Power Operations and Maintenance (Electrical and HVAC)
- Fuel, Oil, and Lubrication Supply
- Office Automation and Stationary
- Water Management
- Waste Removal
- Vector Pest Control

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<sup>2</sup> Steve Johnson message, *Request for Proposal for the Construction of the Ministry of Defense (MOD) Headquarters Support and Security Brigade (HSSB) Expansion Phase II, Kabul, Afghanistan*, dated June 17, 2011

<sup>3</sup> ITSI Bid Pricing Sheet (BOQ), MoD Headquarters Support & Security Brigade Phase II

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Crowe Draft Report on SIGAR Audit No. 119 over Gilbane Federal's Contract Number FA8903-06-D-8513, Task Order 0049

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Often, a subcontractor LSA is co-located with or included within the construction work site.

Innovative Technical Solutions, Inc. (ITSI) submitted its proposal to the Air Force Center for Engineering and the Environment (AFCEE) for Construction of Ministry of Defense (MoD) Headquarters Support and Security Brigade (HSSB) Expansion Phase II (MoD Phase II) on July 6, 2011.

ITSI, subsequently renamed ITSI Gilbane and now operating under the name Gilbane Federal, was awarded Cost Plus Fixed Fee (CPFF) Contract FA8903-06-D-8513, Task Order (TO) 0049 (HERC TO 0049) for the Construction of Ministry of Defense (MOD) Headquarters Support and Security Brigade Expansion Phase II, Kabul, Afghanistan in the amount of \$16,456,710 effective September 8, 2011.<sup>4</sup>

A partial Notice to Proceed (NTP) for mobilization and particularly demolition was requested on October 2, 2011. The same day, the Contracting Officer (CO) provided authorization to proceed under a partial Notice to Proceed for site mobilization and demolishing of empty/ready structures.<sup>5</sup>

Conditions at the site created challenges from the time of mobilization that included:

- Discoveries of unexploded ordnance (UXO) onsite, some of which have taken considerable time to be cleared by the Afghan National Army (ANA), resulting in work stoppages for buildings in the UXO clearance area.
- Terrorist threats and attacks on the MoD compound.
- Numerous security incidents that the project site down, seriously impacting project productivity.
- Extended non-work days surrounding holidays that were imposed by the MoD.
- Challenges with lengthy Entry Control Point (ECP) security searches of material and equipment.
- Over excavations which resulted in significant amounts of material being excavated, stockpiled, and moved off site and which had to be backfilled with suitable material brought

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<sup>4</sup> Department of the Air Force, 772 ESS/PKD, SUBJECT: Notice of Award, Task Order FA8903-06-D-8513-0049, for Construction of Ministry of Defense (MOD) Headquarters Support and Security Brigade Expansion Phase II, Kabul, Afghanistan, dated September 8, 2011.

<sup>5</sup> Trinidad Rendon message, *re: ITSI Partial NTP Request for site Mobilization and Demolishing of Empty/Ready Facilities (UNCLASSIFIED)*, dated October 2, 2011

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Crowe Draft Report on SIGAR Audit No. 119 over Gilbane Federal's Contract Number FA8903-06-D-8513, Task Order 0049

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in from off-site, placed in a controlled manner, and density testing to document compliance with geotechnical requirements.

- Numerous delays, documented in daily time lost logs and weekly reports, due to hidden conditions (unsuitable soils, structures).
- Challenges with access to sufficient quantities of water for construction.
- An unusually severe winter which had a major impact on critical path activities including foundation excavation and concrete work.

These changes to the original scope of work as well as delay issues led to a significant increase in the period of performance.

The site, MoD compound, is a high value terrorist target in Kabul, Afghanistan. As a high value target, there were frequent security circumstances that resulted in lock-downs under threat conditions. These frequent lock-downs resulted in work stoppages and delays as ITSI Gilbane and its subcontractors were not able to access the site. In addition, no or limited site access on days that were immediately before or after scheduled holidays also affected productivity.

There were also government funding issues that impacted the project. For example, ITSI Gilbane received a stop-work order on Building 198 and Building 203 on October 8, 2012 and October 14, 2012, respectively. The entire TO 0049 MoD site was shut down on October 17, 2012 due to budget exhaustion.

### **Crowe Horwath Draft Audit Report**

The Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) announced a financial audit of HERC Task Order 0049 for partial project performance period September 30, 2013 through September 30, 2015<sup>6</sup>. SIGAR retained Crowe Horwath LLP (Crowe<sup>7</sup>) to conduct a financial audit of costs incurred by Gilbane Federal on the subject HERC task order. A Crowe audit overview and control meeting was conducted October 20, 2017.

At the request of Crowe, Gilbane Federal prepared a Special Purpose Financial Statement (SPFS) for HERC TO 0049 in accord with those instructions provided by Crowe and we understand that Crowe then audited the SPFS.

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<sup>6</sup> SIGAR letter dated April 27, 2017

<sup>7</sup> Crowe Horwath LLP changed its name to Crowe LLP in June 2018

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Crowe Draft Report on SIGAR Audit No. 119 over Gilbane Federal's Contract Number FA8903-06-D-8513, Task Order 0049

Item	Description	Questioned Cost
2018-01	Amounts Recorded on SPFS Do Not Match Accounting Records	-
2018-02	Unreasonable Justification for Noncompetitive Procurements and Cost or Pricing Data	-
2018-03	Invoice for Work Not Performed by FOCUS Trade	218,805
2018-04	Missing Supporting Documentation for Costs Incurred	141,972
2018-05	Construction Costs Incurred Outside of Authorized Period of Performance	147,992
2018-06	General Purpose Office Equipment Purchased with USAF Funds	17,568
2018-07	Incomplete Government Property Records	-
2018-08	Evidence of Government Property Receipt Not Provided	795
2018-09	Documentation of Vendor Licensing to Operate in Afghanistan	23,560
2018-10	Inadequately Supported Foreign Currency Translations and Undocumented Policy or Procedure	35
TOTAL		550,727

Table 1 – Crowe Draft Audit Report Findings

Crowe communicated the results of their SPFS audit in their draft audit report provided May 26, 2018, and requested a formal written Gilbane Federal response by July 13, 2018<sup>8</sup>. We organized our response using the Crowe draft audit report nomenclature as follows.

2018-01	Amounts Recorded on SPFS Do Not Match Accounting Records
2018-02	Unreasonable Justification for Noncompetitive Procurements and Cost or Pricing Data
2018-03	Invoice for Work Not Performed by FOCUS Trade
2018-04	Missing Supporting Documentation for Costs Incurred
2018-05	Construction Costs Incurred Outside of Authorized Period of Performance
2018-06	General Purpose Office Equipment Purchased with USAF Funds
2018-07	Incomplete Government Property Records
2018-08	Evidence of Government Property Receipt Not Provided
2018-09	Documentation of Vendor Licensing to Operate in Afghanistan
2018-10	Inadequately Supported Foreign Currency Translations and Undocumented Policy or Procedure

Our response follows.

<sup>8</sup> Crowe Horwath email message dated May 16, 2018

Crowe Draft Report on SIGAR Audit No. 119 over Gilbane Federal's Contract Number FA8903-06-D-8513, Task Order 0049

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### **2018-01 Amounts Recorded on SPFS Do Not Match Accounting Records**

Crowe did not question costs under this audit finding.

Gilbane Federal prepared a Special Purpose Financial Statement (SPFS) at the request of Crowe after work had been completed on HERC TO 0049. The requested SPFS was not used to manage or administer the performance of the already physically completed work on HERC TO 0049. HERC TO 0049 is not closed pending the settlement of final indirect cost rates.

The expenditures reported on the Statement represent those costs identified with billings that represent the amounts to which ITSI became contractually entitled to for the 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 and are recorded in the Gilbane Federal formal books and records.

Gilbane Federal records transactions in its formal books and records in its functional currency, US Dollars (USD). Vendors submitting invoices in a foreign currency (i.e., other than USD) were paid and the associated cost was recorded in the formal books and records in the functional currency, USD. As such the use of Gilbane Federal formal books and records for the preparation of the SPFS did not require foreign currency conversions.

Gilbane Federal recently communicated with Crowe relative to their financial audit of Gilbane Federal HERC TO 0030 and specifically the preparation of the Special Purpose Financial Statement (SPFS). Crowe provided guidance for the preparation of that SPFS which is relevant to the preparation of the HERC TO 0049 SPFS.

Gilbane Federal will prepare a HERC TO 0049 SPFS final draft in accord with the recently received Crowe guidance and provide that document (SPFS final draft) after the completion of our response to the Crowe draft audit report findings.

Crowe Draft Report on SIGAR Audit No. 119 over Gilbane Federal’s Contract Number FA8903-06-D-8513, Task Order 0049

**2018-02 Unreasonable Justification for Noncompetitive Procurements and Cost or Pricing Data**

Crowe did not question costs relative to this finding stating, “We noted that the prices and rates were reasonable such that no costs are in question.”

Crowe identified the noncompetitive procurements as follows:

Purchase Order Number	Vendor	Purchase Order Amount
7268	[REDACTED]	672,206
7931	FOCUS Trade Mark Group	9,765,218
7985	Harirod Construction Company	905,258

Table 2 – 2018-02 - Vendors

We organized our response as follows.

- 7268 [REDACTED]
- 7931 FOCUS Trade Mark Group
- 7985 Harirod Construction Company

**7268 [REDACTED]**

ITSI acquired security service for HERC TO 0049 from [REDACTED] on Subcontract 7268-07031.3523. The Subcontract awarded to [REDACTED] was a follow-on acquisition to a prior competitively awarded subcontract to [REDACTED] (Subcontract 4224-07031.3517) for security service for HERC TO 0030. [REDACTED] was the lowest price security provider under that competitive procurement.

[REDACTED] was awarded Subcontract 7268-07031.3523 on the same MoD compound as HERC TO 0030 and subject to approval by the same MoD Afghan National Army (ANA) representative for MoD security services.<sup>9</sup>

<sup>9</sup> ITSI Gilbane, Sole/Single Source Justification, [REDACTED]  
ITSI Gilbane, PO/SUBK Award Justification Summary (PAS), [REDACTED]

Crowe Draft Report on SIGAR Audit No. 119 over Gilbane Federal's Contract Number FA8903-06-D-8513, Task Order 0049

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There was no requirement for cost or pricing data associated with the acquisition of compatible security services under Subcontract 7268-07031.3523. The acquisition of the compatible security services involved six separate subcontract actions.

Procurement Action	Date	Amount
Award	March 2012	\$652,784.00
Modification 1	April 2012	\$19,422.00
Modification 2	May 2012	\$4,500.00
Modification 3	December 2012	\$274,190.04
Modification 4	May 2013	\$607,425.00
Modification 5	February 2014	\$0.00

No pricing action exceeded the cost or pricing threshold and therefore no cost or pricing data certification was required.

### **7931 FOCUS Trade Mark Group**

ITSI acquired general labor and equipment for HERC TO 0049 from Focus Trademark Group (Focus) on Fixed Unit Price Subcontract 7931-07031.3517.

Subcontract 7931-07031.3523 was executed as single source award as the result of an originally competitive solicitation resulting in a subcontract award to [REDACTED] as a low bid subcontractor.

Focus was second-tier subcontractor under contract to [REDACTED] for HERC TO 0049 construction. [REDACTED] submitted documentation to the Afghan National Army (ANA) for the necessary security clearances to access the MoD site and was subsequently denied a license for MoD site work.

To minimize project schedule delays, ITSI Gilbane changed its role to self-performing the work (versus subcontracting with a local General Contractor) and subcontracted with Focus in accord with the [REDACTED] termination agreement. Subcontract 7931-07031.3517 was awarded as a Fixed Unit Price subcontract and the pricing was deemed competitive based on a price analysis based on comparison with other subcontractor prices.<sup>10</sup>

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<sup>10</sup> ITSI Gilbane, PO/SUBK Award Justification Summary (PAS), Focus Trade Mark Construction

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There was no requirement for cost or pricing data associated with Subcontract 7931-07031.3523. The ITSI price analysis demonstrated that the Focus price was reasonable in comparison with current or recent prices for the same or similar items, adjusted to reflect changes in market conditions, economic conditions, quantities, or terms and conditions under contracts that resulted from adequate price competition.

### **7985 Harirod Construction Company**

ITSI acquired structural concrete for HERC TO 0049 from Harirod Construction Company (Harirod) on Purchase Order 7985-07031.3523. The purchase order awarded to Harirod was a follow-on acquisition to a prior competitively awarded purchase order to Harirod (Purchase Order 5280-07031.3517) for the provisioning of quantities of structural concrete<sup>11</sup> for the construction of the Ministry of Defense (MoD) Headquarters Building 100 under HERC TO 0030. Harirod was the lowest price, technically acceptable subcontractor under that competitive procurement.

Harirod was awarded Purchase Order (PO) 7985-07031.3523 for the delivery of HERC TO 0049 structural concrete to the same MoD compound as HERC TO 0030. There were no other firms that could meet the project requirements for the provisioning of the structural concrete. Justification for the sole source acquisition of HERC TO 0049 structural concrete was based on an *Urgent and compelling interest* as documented in ITSI Gilbane, Sole/Single Source Justification wherein:

- Harirod was already vetted for entry onto the MoD site
- The Harirod HERC TO 0049 structural concrete requirement was the same as the approved design for HERC TO 0030 structural concrete
- The Harirod concrete batch plant for the production of the structural concrete was already approved under HERC TO 0030
- Harirod had multiple batch plans and mixer trucks for delivery
- Harirod was able to supply, place and finish concrete and thereby allow expedited work in the MoD site

There was no requirement for cost or pricing data associated with PO 7985-07031.3523. The acquisition of the structural concrete involved four separate pricing actions.

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<sup>11</sup> 4000psi Structural Concrete with Rheobuild Admixture, Testing and Pump

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<u>Procurement Action</u>	<u>Date</u>	<u>Amount</u>
Award	May 2012	380,275.15
Change Order 1	December 2012	380,000.51
Change Order 2	January 2014	75,000.00
Change Order 3	June 2014	70,000.00

No pricing action exceeded the cost or pricing threshold and therefore no cost or pricing data certification was required.

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### **2018-03 Invoice for Work Not Performed by FOCUS Trade**

Crowe questioned \$218,805 stating:

...we identified eleven (11) invoices that contained charges for days in which work was not performed. The days were noted as "MoD ShutDown Days." The total costs associated with work not performed was \$218,805.

Crowe identified criteria stating, in relevant part:

The "Vender (sic) Invoices" 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."

Crowe stated the cause as follows.

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.

The Crowe statements are not factual.

We organized our response as follows.

- MoD ShutDown Days
- Professional and Consultant Services

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### MoD ShutDown Days

ITSI awarded Focus Trade Mark Group Construction (Focus) Subcontract No. 7931-07031.3523 for general labor and machinery. Under the terms of the subcontract, Focus was responsible for, in relevant part:

- 1.2 Contractor is responsible for their personnel transportation to the site, housing, food, clothing,<sup>12</sup> documents for entry into the MoD complex.
- 1.17 The Subcontractor shall provide all necessary construction support equipment for the installation and finishing of concrete foundation...
- 1.18 The Subcontractor shall be solely responsible for maintaining all of their construction equipment such that this equipment is available for use on a daily basis...
- 1.21 Mobilization of Work Crews: The Subcontractor shall mobilize work crews for as many foundations as are presented by ITSI. The number of workers required for the foundations shall be of sufficient number to ensure that the reinforced concrete work can be poured in a continuous fashion...<sup>13</sup>

Consistent with the subcontract requirements for the provisioning of labor and equipment and Afghanistan labor law, Focus invoiced ITSI within the following constraints for the provisioning of labor:

- 1. ITSI will pay for food, transportation for all non-supervisory labor listed herein.
- 2. Food costs will be based on three meals a day.<sup>14</sup>

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<sup>12</sup> Afghanistan Labor Law, Article 112, Provision of safety equipment

- 1. In those types of work which are carried out under conditions harmful to health, where there is a special low or high temperature, or where there is risk of contamination to Employees, special clothes and footwear, masks, eye glasses, gloves and other protective devices as well as preventative and curative food materials shall be put at the disposal of Employees, free of charge, in accordance with established standards and rules.
- 2. The Administration shall be responsible for supplying, maintenance, cleaning, sterilization, drying and repair of special working clothes and other protective devices as well as for monitoring that these clothes and devices have been always used.

<sup>13</sup> ITSI Subcontract, Focus Trade Mark Group Construction, 7931-07031.3523

<sup>14</sup> Afghanistan Labor Law, Article 61, Food Allowance

An Employee shall be entitled to food allowance in the market rate, which shall be paid monthly unless stipulated otherwise in the contract.

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3. Cost for three meals a day will be \$7.13. Cost for Transportation will be \$2.50 a day. Cost for housing will be \$2.50 a day. Total Food, housing and transportation will be \$12.13 per day, per person.
4. If the MOD is closed for reasons beyond the control of Focus, laborers will still be paid for that day inclusive of food.<sup>15, 16</sup>
5. It is understood that FOCUS has written Labor contracts with laborers. These contracts are based on a 26 working day month to calculate daily and hourly pay.<sup>17</sup>
6. There is no penalty for early termination of a contract laborer.
7. Laborers are paid only for actual hours worked.
8. Work in excess of 8 hours will be paid at straight time.
9. Laborers will not be required to work Fridays.
10. Laborers will be paid straight time on an hourly basis if required to work Fridays.

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<sup>15</sup> Afghanistan Labor Law, Article 37, Temporary stoppage of work

- (1) Whenever wasted time arises from work stoppages due to unexpected events for a maximum of one month, and the Administration pays all the Wages and other entitlements of the employee, the wasted time or hours can be compensated after the Administration starts operation and production.
- (2) In the situation mentioned in Paragraph (1) of this Article, work hours shall not exceed 10 hours per day and 40 hours per week. The employee shall be entitled to additional payment for any over time worked.

<sup>16</sup> Afghanistan Labor Law, Article 71, Payment of Wage during the work stoppage periods

- (1) Except for seasonal and daily-paid Employees, if cessation of production or work occurs as a result of unexpected circumstances, technical or production related problems, or adverse climate conditions, the Wage of the Employees shall be paid as follows:
  - 1 – In case of stoppage for two months, full Wage.
  - 2 – In case of stoppage for 2-4 months, 50 percent of full Wage.
  - 3 – After the lapse of four month, the Administration may transfer the Employee to [another section in] the same or another Administration. Should transfer be impossible, the Administration shall introduce the Employee to the Ministry of Labor and Social Affairs or to a provincial representative office of the Ministry.
- (2) If the transfer of an Employee due to stoppage of work takes place in accordance with Paragraph 1.3 of this Article, the Wage of the Employee shall not be less than 75% of his/her monthly wage prior to stoppage of work. In the case of insolvency confirmed by the court [bankruptcy], the provision of paragraph (1) of this Article shall not apply. If the Administration shall restart operating, the amounts mentioned in Paragraph (1) of this Article shall be paid to [its] Employees.

<sup>17</sup> See Afghanistan Labor Law, Article 15, Conditions for an Employment Contract and Article 16, Preparation of Employment contract

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11. Laborers will be paid for Published Afghan Holidays as listed on the attached exhibit. This list could change as Afghan Holidays change.<sup>18</sup>

Focus billed and ITSI paid the subcontractor for "MOD ShutDown Days" consistent with the terms of the labor and equipment provisioning subcontract and those applicable Afghanistan labor laws.

It is Gilbane Federal's position that is inappropriate to question costs that were incurred and paid consistent with subcontract terms and conditions and in compliance with Afghanistan labor laws.

### **Professional and Consultant Services**

Crowe stated:

The "Vender (sic) Invoices" 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."

Professional and Consultant Services are defined as:

"Professional and consultant services", as used in this subpart, means those services rendered by persons who are members of a particular profession or possess a special skill and who are not officers or employees of the contractor. Examples include those services acquired by contractors or subcontractors in order to enhance their legal, economic, financial, or technical positions. Professional and consultant services are generally acquired to obtain information, advice, opinions, alternatives, conclusions,

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<sup>18</sup> Afghanistan Labor Law, Article 39, Breaks and Paid Leave

Employees shall be entitled to the following breaks and paid leaves:

1. Breaks during work for performance of prayers and meals;
2. Public holidays (national and religious);
3. Annual leave (recreational, sick, and urgent leave.)

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recommendations, training, or direct assistance, such as studies, analyses, evaluations, liaison with Government officials, or other forms of representation.<sup>19</sup>

Subcontract 7931-07031.3523, Focus Trade Mark Group (Focus) was for general labor and equipment and not professional and consultant services as contemplated under Federal Acquisition Regulation (FAR) 31.205-33, *Professional and Consultant Service Costs*.

It is Gilbane Federal's position that is inappropriate to question costs referencing cost principles that are not applicable to the facts and circumstances.

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<sup>19</sup> FAR 31.205-33(a) Definition

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**2018-04 Missing Supporting Documentation for Costs Incurred**

Crowe questioned \$141,971 stating, in relevant part:

...Gilbane did not provide adequate supporting documentation for 20 of the 72 sample selections totaling \$141,972. Gilbane provided a memorandum for the expenses; however, source documentation such as time records, payroll remittance advices, and calculation schedules indexed back to reimbursement requests submitted to the Government to demonstrate that the costs incurred and recorded to the project ledger were allowable was not provided.

We understand the Crowe questioned cost amount is based upon the following sampled transactions.

Sample Item #	Vendor	JC/GL Batch	JC Category Cost Type	JC Amt
8		7311510	Direct Labor Overhead	137,017.99
39	[REDACTED]	-7778936	Direct Labor Overhead	1,305.72
41	[REDACTED]	-7778917	Direct Labor Overhead	1,144.80
43	[REDACTED]	-7778906	Direct Labor Fringe	836.73
44	[REDACTED]	-7778948	Direct Labor Overhead	575.18
47	[REDACTED]	7319548	Direct Labor Overhead	178.63
48	[REDACTED]	-7778954	Direct Labor Fringe	171.34
49	[REDACTED]	7425753	Direct Labor Overhead	154.67
53	[REDACTED]	7476791	Direct Labor Overhead	116.00
54	[REDACTED]	7326379	Direct Labor Fringe	105.33
56	[REDACTED]	7288938	Direct Labor	76.92
58	[REDACTED]	7396920	Direct Labor Fringe	54.72
59	[REDACTED]	7461553	Direct Labor Fringe	54.72
61	[REDACTED]	7288967	Direct Labor Fringe	44.62
62	[REDACTED]	-7778936	Direct Labor Overhead	42.33
63	[REDACTED]	7281890	Direct Labor Fringe	36.01
65	[REDACTED]	7396920	Direct Labor Overhead	31.86
66	[REDACTED]	7454941	Direct Labor Fringe	14.94
68	[REDACTED]	7418241	Direct Labor Fringe	5.64
69	[REDACTED]	-7778954	Direct Labor Fringe	3.77
<b>Total</b>				<u><u>141,971.92</u></u>

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Based on that information provided by Crowe Horwath, we understand \$141,895 of the questioned costs (Direct Labor Fringe, Direct Labor Overhead) are for amounts not billed to the Government.

Direct Labor Fringe.....	\$ 1,327.82
Direct Labor Overhead.....	<u>140,567.18</u>
Total .....	<u>\$141,895.00</u>

Gilbane Federal, for management reporting purposes, records estimated indirect costs (Direct Labor Fringe, Direct Labor Overhead) for use in its internal management reports. The estimated indirect cost amounts are not billed to the Government.

The Defense Contract Audit Agency (DCAA) audits public vouchers, including those for HERC TO 0049, submitted to the Government for payment. The indirect rates billed the Government are those Provisional Billing Rates (PBR) audited and approved by the Defense Contract Audit Agency (DCAA) – not the estimated indirect cost rates used by Gilbane Federal for its internal management reports. Gilbane Federal earlier provided copies of its DCAA PBR determination letters and the HERC TO 0049 public vouchers (bills) to Crowe in support of its financial audit of HERC TO 0049 that demonstrate the questioned costs were not billed to the Government.

It is Gilbane Federal’s position that is inappropriate to question costs (i.e., recommend the refund of costs that were not charged to the Government) that were not billed to the Government.

Relative to Crowe Sample Item #56, Direct Labor, \$76.92, Gilbane Federal located the supporting documentation (timesheet and pay register) after the completion of Crowe audit fieldwork. The supporting documentation demonstrates that the costs incurred and recorded to the project ledger were allowable. We apologize for any inconvenience resulting from the belated retrieval of the supporting documentation.

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### 2018-05 Construction Costs Incurred Outside of Authorized Period of Performance

Crowe questioned \$147,992 stating:

...we identified one (1) invoice for [REDACTED] Ltd (invoice number 8505-051) totaling \$147,992 that included construction and field-related, non-warranty costs after May 31, 2014.

Crowe further stated:

Gilbane Federal had inadequate internal controls to ensure the work being performed and the costs incurred aligned with the eligible period of performance. Gilbane requires Accounts Payable to conduct reviews of documentation prior to payments being made to vendors; however, the procedure, as designed, does not expressly require a review for allowability in accordance with the task order.

The Crowe statements are not factual.

Gilbane Federal awarded Purchase Order (PO) 8505-07031.3523 to [REDACTED] for HERC TO 0049 equipment service.

Procurement Action	Date	Period of Performance
Award	October 2012	September 3, 2012 - December 31, 2012
Change Order 1	August 2013	January 1, 2013 - December 31, 2013
Change Order 2	December 2013	January 1, 2014 - May 31, 2014
Change Order 3	January 2014	September 3, 2012 - May 31, 2014
Change Order 4	March 2014	September 22, 2014 - May 31, 2014
Change Order 5	May 2014	September 22, 2012 - June 30, 2014
Change Order 6	June 2014	September 22, 2012 - June 30, 2014

The period of performance for PO 8505-07031.3523 was September 3, 2012 – June 30, 2014. The services billed on [REDACTED] Invoice 8505-051 were aligned with the eligible period of performance for PO 8505-07031.3523.

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## **2018-06 General Purpose Office Equipment Purchased with USAF Funds**

Crowe questioned \$17,568 stating:

...we noted that 43 of 47 items with a total acquisition cost of \$17,568 met the definition of general purpose office equipment which is deemed unallowable under the contract terms.

Crowe further stated:

The Government was invoiced for costs that were ineligible for reimbursement as a direct cost.

The Crowe statements are not factual.

Innovative Technical Solutions, Inc. (ITSI) was awarded a contract from the U.S. Air Force Center for Environmental Excellence (AFCEE) as part of the Heavy Engineering Repair and Construction (HERC) Program. The HERC Indefinite Delivery/Indefinite Quantity (IDIQ) stated:

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.

Gilbane Federal requested those sample transactions comprising the Crowe questioned costs and Crowe timely provided the sample transactions list below on April 18, 2018, in support of their questioned costs of \$17,568.

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Sample Item	Amount	Description	Comments
1	65.00	Office Desk	GPOE not billed
2	82.47	Revolving Desk Chair- Small Leather	GPOE not billed
3	65.00	Office desk	GPOE not billed
5	30.93	Night Stand	GPOE not billed
4	65.00	Mini-Refridgerator (Supra)	Government living quarters
6	30.93	Night stand	GPOE not billed
7	6,725.00	20 ft Living Container with single bathroom	Government living quarters
8	65.00	Night stand	GPOE not billed
9	82.47	Revolving Desk Chair- Small Leather	GPOE not billed
10	50.00	File Cabinet for MOD Offices	GPOE not billed; \$0.37
11	445.00	Freezer	GPOE not billed
12	85.98	Office Desk	GPOE not billed
14	146.39	Mini-Refridgerator (Supra)	GPOE not billed
15	119.59	Wardrobe	GPOE not billed
16	85.00	Microwave LG	GPOE not billed
17	65.00	Office Desk	GPOE not billed
18	65.98	Office Desk	GPOE not billed
20	30.93	Night Stand	GPOE not billed
21	222.68	Bunkbed	GPOE not billed
22	30.93	Night Stand	GPOE not billed
23	61.11	Dining Chairs	GPOE not billed
24	22.68	Small Table	GPOE not billed
26	75.00	Mesh Revolving Desk Chair	GPOE not billed; \$0.39
27	65.00	Mini-Refridgerator (Supra)	Government living quarters
28	82.47	Revolving Desk Chair- Small Leather	GPOE not billed
29	75.00	Mesh Revolving Desk Chair	GPOE not billed
30	7,000.00	20 ft Living Container with single bathroom	Government living quarters
31	119.59	Wardrobe	GPOE not billed
32	75.00	Mesh Revolving Desk Chair	GPOE not billed
33	7,000.00	20 ft Living Container with single bathroom	Government living quarters
34	75.00	Single Bed	GPOE not billed
35	119.59	Wardrobe	GPOE not billed
36	75.00	Mesh Revolving Desk Chair	GPOE not billed
37	146.39	Mini-Refridgerator (Supra)	Government living quarters
39	309.00	Freezer	GPOE not billed
40	30.93	Night stand	GPOE not billed
41	65.98	Office Desk	GPOE not billed
42	65.00	Office Desk	GPOE not billed
43	319.59	22 inch LCD Televisions	GPOE not billed
44	90.00	Mesh Revolving Desk Chair	GPOE not billed
45	61.11	Dining Chairs	GPOE not billed
46	119.59	Wardrobe	GPOE not billed
47	6,725.00	20 ft Living Container with single bathroom	Government living quarters
TOTAL	31,337.31		

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We noted that the Microsoft Excel worksheet provided by Crowe totaled \$31,337.31. It appears the *Amount* for the following Sample Items were formatted as text and therefore not included in the Crowe questioned cost amount of \$17,568.

Sample Item 7	6,725.00	20 ft Living Container with single bathroom
Sample Item 43	319.59	22 inch LCD Televisions
Sample Item 47	6,725.00	20 ft Living Container with single bathroom

We have included these sample items in our response.

We organized our response as follows.

- General Purpose Office Equipment (GPOE) Not Billed
- Government Living Quarters

#### **General Purpose Office Equipment (GPOE) Not Billed**

ITSI/ITSI Gilbane acquired General Purpose Office Equipment (GPOE) for use on the HERC TO 0049 project. Consistent with its disclosed cost accounting practices (CASB Disclosure Statement), ITSI/ITSI Gilbane recorded the costs as direct costs on HERC TO 0049. Gilbane, consistent with the requirements of the HERC contract, did not bill these costs to the Government.

It is Gilbane Federal's position that is inappropriate to question costs (i.e., recommend the refund of costs that were not charged to the Government) that were not billed to the Government.

Our review identified two Sample Items for which a partial amount *may* have been billed as the result of rounding of amounts in adjusting entries in the ITSI/ITSI Gilbane books of account as follows:

Sample Item 10	.37	File Cabinet for MOD Offices
Sample Item 26	.39	Mesh Revolving Desk Chair

Except for \$0.76, the accounting and billing records demonstrate that ITSI/ITSI Gilbane did not bill the Government ("USAF Funds") for the GPOE.

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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 questioned costs of \$0.76.

### Government Living Quarters

ITSI/ITSI Gilbane acquired containers and furnishings for living quarters consistent with the life support requirements delineated in HERC TO 0049.

GPOE, for the purposes of HERC TO 0049, was defined as follows:

- (c) 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.

Gilbane Federal does not concur that "mini-refridgerator" (sic) nor "20 ft Living Container with single bathroom" constitutes GPOE as defined in the HERC IDIQ provision *PKV-H010 NOTICE OF NON-ALLOWABILITY OF DIRECT CHARGES FOR GENERAL PURPOSE OFFICE EQUIPMENT AND GENERAL PURPOSE AUTOMATED DATA PROCESSING EQUIPMENT (MAY 2005)* and accordingly considers the associated Sample Item costs as allowable costs on HERC TO 0049.

Sample Item	Reference	Amount	Description
4	N/A	65.00	Mini-Refridgerator (Supra)
7	PO-4923.07031.3517	6,725.00	20 ft Living Container with single bathroom
27	N/A	65.00	Mini-Refridgerator (Supra)
30	PO-4083.07031.3517	7000.00	20 ft Living Container with single bathroom
33	PO-4083.07031.3517	7000.00	20 ft Living Container with single bathroom
37	N/A	146.39	Mini-Refridgerator (Supra)
47	PO-4923.07031.3517	6,725.00	20 ft Living Container with single bathroom
Total		<u>14,276.39</u>	

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## **2018-07 Incomplete Government Property Records**

Crowe did not question costs stating, in relevant part:

...disposition information, posting reference or date of transaction, and quantity received/issued/balance on hand were missing from the records provided.

Crowe further stated:

Gilbane did not have an adequate monitoring procedure in place to detect instances where property records were incomplete and to require timely correction of the omissions.

The Crowe statement is not factual.

As to the management of HERC TO 0049 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 0049 provided to Crowe 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

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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 Agency (DCMA) office who had cognizance (see Attachment C – *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.

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### **2018-08 Evidence of Government Property Receipt Not Provided**

Crowe questioned \$795 stating, in relevant part:

Supporting documentation was not provided for 3 of the 47 sample items with total acquisition cost of \$795.

Crowe further stated:

Gilbane did not have an adequate monitoring process in place to ensure that documentation supporting evidence of receipt was retained.

The Crowe statements are not factual.

We understand the Crowe questioned costs of \$795 are based upon the following sample items.

Sample Item	Amount	Description
13	445.00	Freezer
25	350.00	36-inch Samsung LCD Television
38	445.00	Freezer
Total	<u>1,240.00</u>	

We understand one of the sample items was formatted as text in the MS Excel worksheet used by Crowe and therefore \$445 was not included in the Crowe questioned cost amount of \$795. Our response encompasses all three sample items totaling \$1,240.

The accounting and billing records demonstrate that ITSI/ITSI Gilbane did not bill the Government for the three sample items questioned by Crowe. It is Gilbane Federal's position that it is inappropriate to question costs (i.e., recommend the refund of costs not paid for by the Government) that were not billed.

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**2018-09 Documentation of Vendor Licensing to Operate in Afghanistan**

Crowe questioned \$23,560 stating, in relevant part:

Gilbane did not provide evidence that the entity possessed a valid business license, and the vendor’s physical existence in Afghanistan could not otherwise be validated through physical observation.

Crowe further stated:

Gilbane may have been invoiced for costs associated with a vendor that does not exist or that was not properly licensed to do business in Afghanistan or that may not have existed. The costs were subsequently passed on to the U.S. Government.

We understand Crowe questioned costs as follows.

Vendor	Goods / Services	Questioned Costs	Service Date	Address / Tel.
7923 [REDACTED]	Bus service	\$15,000	05/01/2012 – 10/31/2012	[REDACTED]
9649 [REDACTED]	Wires	\$8,560	12/04/2013 – 12/31/2013	[REDACTED]

Table 3 – 2018-09 – Vendor Licensing

Federal Acquisition Regulation (FAR) 31.201-2, *Determining allowability*, states, in relevant part:

(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.

Crowe Draft Report on SIGAR Audit No. 119 over Gilbane Federal's Contract Number FA8903-06-D-8513, Task Order 0049

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Relative to the procurement of Bus Service, Gilbane Federal has supporting documentation adequate to:

- demonstrate that costs claimed have been incurred,
- are allocable to the contract, and
- comply with applicable cost principles

Specifically, Gilbane Federal has the relevant Purchase Requisition, Purchase Order and proof of payment.

ITSI prepared Procurement Requisition (PR) 5424 for a *Bus Lease* for *TO49*.

ITSI awarded a fixed unit price Purchase Order (PO) 7923-07031.3523 to ██████████ for the lease of a bus used to transport workers from the Entry Control Point (ECP) gate to the project site.

Both the bid pricing form and the purchase order were signed by the owner or ██████████ representative.

The purchase order was a follow-up order for bus service provided previously for HERC TO 0030, Ministry of Defense Headquarters (re: PO 5446-07031.3517). ITSI Gilbane documented the receipt of the bus services and evidence of payment (ITSI CASH PAYMENT MEMORANDUM) was acknowledged by the ██████████ representative.

The supporting documentation is, consistent with the provisions of FAR 31.201, *Determining allowability*, sufficient to demonstrate cost allowability.

Crowe Draft Report on SIGAR Audit No. 119 over Gilbane Federal's Contract Number FA8903-06-D-8513, Task Order 0049

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Relative to the procurement of Wires, Gilbane Federal has supporting documentation adequate to:

- demonstrate that costs claimed have been incurred,
- are allocable to the contract, and
- comply with applicable cost principles

Specifically, Gilbane Federal the relevant Purchase Requisition, Purchase Order and proof of payment.

ITSI Gilbane prepared Procurement Requisition (PR) 9771 for the acquisition and delivery of Material – MC Cable Connectors for Ministry of Defense (MOD) Phase II.

ITSI Gilbane awarded fixed-price Purchase Order (PO) 9649-07031.3523 to ██████████ for wire nuts, cable connectors, EMT connectors, wire lugs and J-boxes.

Gilbane Federal subsequently categorized the cost as a non-reimbursable Other Direct Cost (ODC).

The cost was not billed to the Government. It is Gilbane Federal's position that it is inappropriate to question costs (i.e., recommend the refund of costs not paid for by the Government) that were not billed.

Crowe Draft Report on SIGAR Audit No. 119 over Gilbane Federal's Contract Number FA8903-06-D-8513, Task Order 0049

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**2018-10 Inadequately Supported Foreign Currency Translations and Undocumented Policy or Procedure**

Crowe questioned \$35 stating, in relevant part:

During our testing of 21 transactions denominated in a foreign currency, we identified nine instances in which the recalculated transaction amount did not agree to the cost charged by Gilbane. The total overcharge was \$35.

Crowe further stated:

Without a standard process in place that is formally communicated to employees, there is an increased risk of foreign currency conversion occurring incorrectly and resulting in potential overbilling or underbilling of the Federal government.

The ITSI established practice for recording foreign currency-denominated transactions used 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 \$35.

## APPENDIX B: AUDITOR'S REBUTTAL

Crowe LLP ("Crowe" or "we" or "us") has reviewed the letter dated July 13, 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 review of Gilbane's responses as well as Crowe's additional review procedures, we have modified Findings 2018-06 and 2018-08. No other modifications were considered necessary.

### **Finding 2018-01: Amounts Recorded on SPFS Do Not Match Accounting Records**

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 the 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 stated that they record transactions in its formal books and records in its functional currency, US Dollars (USD) and, as such, translations were not required to prepare the Special Purpose Financial Statement. Vendor invoices denominated in foreign currencies (i.e., currencies other than USD) were, however, submitted to Gilbane and were subsequently translated. As noted in Finding 2018-01, Crowe identified instances during testing in which currency conversions were performed. We have reviewed management's comments and concluded that modification to our finding was not necessary.

### **Finding 2018-02: Unreasonable Justification for Noncompetitive Procurements and Certified Cost or Pricing Data**

Gilbane disagreed with the finding for two primary reasons:

1. Management considered its rationale for using noncompetitive procurement practices to be appropriate. Gilbane awarded new subcontracts to [REDACTED], FOCUS Trade Mark Group (FOCUS), and Harirod Construction Company (HCC) due to their having worked on a previous project and – with respect to [REDACTED] and HCC - having previously been selected through competitive procedures.
2. Gilbane asserts that no single individual procurement action for the [REDACTED] or HCC exceeded the certified cost or pricing threshold and, therefore, certificates of current cost or pricing data were not required. Regarding HCC, Gilbane indicated that pricing was considered competitive based on a price analysis.

Regarding the use of noncompetitive procurement practices, Gilbane did not provide new information or documentation that alters the facts underlying the condition, recommendations, or requirement that competition be executed to the maximum practical extent.

With respect to certificates or current cost or pricing data and accompanying cost or pricing data, finding 2018-02 asserts that the data and certificates were required, but not provided, for FOCUS; the finding did not state that [REDACTED] and HCC were required to provide certificates or cost or pricing data. Whereas the finding did not assert that [REDACTED] or HCC were required to provide the certificates or cost or pricing data, no modification to the finding is required for these two vendors.

Regarding FOCUS, however, the finding remains unmodified because management did not provide documentation to assert that the requirements for cost or pricing data and certificates of current cost or pricing data were not applicable to FOCUS or that an exception to the requirements was met. Therefore, the requirement for subcontractor cost or pricing data, applicable to Gilbane per the terms of its base contract, remain applicable and relevant.

#### **Finding 2018-03: Invoice for Work Not Performed by FOCUS Trade**

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 and conditions and in compliance with Afghanistan labor laws.. Management also disagreed with Crowe's conclusion that the general labor and equipment provided by FOCUS 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: Missing 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 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, this aspect of the finding remains unchanged.

In addition, Gilbane stated that they were able to locate the supporting documentation (timesheet and pay register) relative to Crowe Sample Item #56, Direct Labor, \$76.92, after the completion of Crowe audit fieldwork. However, the documentation was not provided to Crowe in conjunction with management's responses. Therefore, we have not modified the finding and questioned costs.

#### **Finding 2018-05: Construction Costs Incurred Outside of Authorized Period of Performance**

Management disagreed with Finding 2018-05 based on the provisions of the subcontract in question having a period of performance ending on June 30, 2014. However, we noted that, pursuant to modification 7 to the task order executed by and between Gilbane the AFCEC, field performance and construction fieldwork may occur through May 31, 2014. Although Gilbane provided for an extended period of performance in its subcontract with [REDACTED], Gilbane's task order with AFCEC did not permit construction and field performance beyond May 31, 2014. Therefore, any expenses relating to construction and fieldwork occurring on June 1, 2014, and later are considered ineligible for reimbursement. The finding remains unchanged.

**Finding 2018-06: General Purpose Office Equipment Purchased with USAF Funds**

We have reviewed management’s comments. Gilbane stated that for the 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 \$31,337.31.”

The government property items identified for testing were selected from the information provided by Gilbane in response to Crowe’s request for a listing of contractor-acquired and government furnished property. Gilbane did not provide documentation to demonstrate that the property items were either government furnished or were otherwise acquired through a funding source other than TO0049. Further, as Gilbane identified within its response, GPOE was recorded in the project accounting records. The accounting records tied to the SPFS, which Gilbane’s response to finding 2018-01 denotes has having been based on Gilbane’s amounts billed to the U.S. Government. Absent sufficient, appropriate audit evidence supporting Gilbane’s assertion that the amounts in its records were not billed, modification to the finding for this purpose is inappropriate.

In addition, Gilbane stated that seven (7) of the property items did not meet the definition of GPOE and were purchased as part of Gilbane’s commitment to providing furnishings for the living quarters required to be constructed. We have reviewed the testing results and revised the questioned cost amount down to \$1,188.

Sample Item #	No.	GP/Cep	TAG NO.	ORIGINAL PROJECT	CURRENT PROJECT	PURCHASE ORDER	PURCHASE PRICE	LONG DESCRIPTION
1	201	Yes	14386	07031.3517	07031.3523	N/A	65.00	Office Desk
2	120	Yes	14371	07031.3517	07031.3523	PO-4144.07031.3517	82.47	Revolving Desk Chair-Small Leather
3	128	Yes	12290	07031.3517	07031.3523	N/A	65.00	Office desk
9	115	Yes	14200	07031.3517	07031.3523	PO-4144.07031.3517	82.47	Revolving Desk Chair-Small Leather
10	25	Yes	13832	07031.3517	07031.3523	PC-V0706510	50.00	File Cabinet for MOD Offices
12	66	Yes	14234	07031.3517	07031.3523	PO-4144.07031.3517	85.98	Office Desk
17	204	Yes	14318	07031.3517	07031.3523	N/A	65.00	Office Desk
18	69	Yes	14201	07031.3517	07031.3523	PO-4144.07031.3517	65.98	Office Desk
24	64	Yes	14368	07031.3517	07031.3523	PO-4142.07031.3517	22.68	Small Table
26	13	Yes	13545	07031.3517	07031.3523	PC-V0602711	75.00	Mesh Revolving Desk Chair
28	119	Yes		07031.3517	07031.3523	PO-4144.07031.3517	82.47	Revolving Desk Chair-Small Leather
29	167	Yes	13693	07031.3517	07031.3523	N/A	75.00	Mesh Revolving Desk Chair
32	190	Yes	14426	07031.3517	07031.3523	N/A	75.00	Mesh Revolving Desk Chair
36	154	Yes	20372	07031.3517	07031.3523	N/A	75.00	Mesh Revolving Desk Chair
41	73	Yes	14369	07031.3517	07031.3523	PO-4144.07031.3517	65.98	Office Desk
42	205	Yes	14388	07031.3517	07031.3523	N/A	65.00	Office Desk
44	110	Yes	14229	07031.3517	07031.3523	PO-4144.07031.3517	90.00	Mesh Revolving Desk Chair
<b>Total Questioned Costs</b>								<b>\$ 1,188</b>

#### **Finding 2018-07: Incomplete Property Records**

We have reviewed management's comments on the *Condition* of our finding. We found that the property records provided did not contain all required data elements. Specifically, disposition information, posting reference or date of transaction, and quantity received/issued/balance on hand were missing from the records provided. Gilbane asserted that Crowe's statements were not factual; however, no additional information or documentation was provided that alters, contradicts, or challenges the facts underlying the finding and the statements noted in the *Condition*. No changes to the finding are appropriate, in response to management's comments.

#### **Finding 2018-08: Evidence of Government Property Receipt Not Provided**

Gilbane stated that the accounting and billing records demonstrate that ITSI/ITSI Gilbane did not bill the Government for the three sample items questioned by Crowe. It is Gilbane Federal's position that it is inappropriate to question costs (i.e., recommend the refund of costs not paid for by the Government) that were not billed. We note that the government property items identified for testing were selected from the information provided by Gilbane in response to Crowe's request for a listing of contractor-acquired and government furnished property. Gilbane did not provide documentation to demonstrate that the property items were either government furnished or were otherwise acquired through a different funding source (i.e., a source other than TO0049). Absent sufficient, appropriate audit evidence supporting Gilbane's assertion, modification to the finding is inappropriate.

During our additional reviews, we noted that formatting in the Microsoft Excel records prevented some amounts from being included in the summation formula. As communicated to Gilbane following provision of the draft report, the amount to be questioned is \$1,240. Gilbane acknowledged this difference and the new amount within their response. We have, therefore, increased the questioned cost amount to \$1,240.

#### **Finding 2018-09: Documentation of Vendor Licensing to Operate in Afghanistan**

We have reviewed management's response to the finding and noted that Gilbane did not provide evidence that the two vendors in question were licensed to operate in Afghanistan. In the absence of documentation demonstrating that the vendors were properly licensed and the criteria asserted in the finding are satisfied, the finding remains unchanged.

#### **Finding 2018-10: Inadequately Supported Foreign Currency Translations and Undocumented Policy or Procedure**

Gilbane indicated, within its management response, that its established practice for recording foreign currency-denominated transactions was to use the spot rate to record amounts in U.S. Dollars. Gilbane also agreed with the \$35 in questioned costs denoted in the finding. Whereas Gilbane did not disagree with the condition, which states that Gilbane did not have a formal policy or procedure in place regarding the translation of transactions denominated in foreign currencies, or the recommendation, no change to the finding is necessary.

**APPENDIX C: UNAUDITED SPECIAL PURPOSE FINANCIAL STATEMENT DRAFT**

Subsequent to receipt of management’s responses to the draft audit report, Gilbane generated another version of the Special Purpose Financial Statement (the “Statement”), including accompanying notes. We have included, herein, the revised Statement, which was not subject to audit. A summary of changes between the Statement that was audited and the version provided to Crowe subsequent to management’s responses appears immediately below.

<b>Account</b>	<b>Value Reported on Audited Statement</b>	<b>Value in Revised Draft Statement Provided on July 20, 2018</b>	<b>Difference</b>
Total Revenue	\$11,672,885	\$11,799,419	\$126,534
CLIN 000801	\$(78,900)	\$82,344	\$161,244
CLIN 000802	\$11,685,620	\$11,493,688	\$(191,932)
CLIN 000803	\$66,165	\$223,387	\$157,222
Total Costs Incurred	\$11,672,885	\$11,799,419	\$126,534

Gilbane Federal  
 Special Purpose Financial Statement  
 FA8903-06-D-8513 Task Order 0049  
 Construction of Afghanistan Ministry of Defense Headquarters Facility Support and  
 Security Brigade Expansion Phase II, Kabul, Afghanistan  
 For the Period November 30, 2013 through September 30, 2015 (Amended)<sup>3</sup>

	Budget	Actual	Questioned Costs		Notes
			Ineligible	Unsupported	
<b>Revenues</b>					
Contract No. FA8903-06-D-8513 Task Order 0049	12,516,968	11,799,419			
Total Revenue	12,516,968	11,799,419			
<b>Costs Incurred</b>					
CLIN 000801	76,362	82,344			
CLIN 000802	12,108,088	11,493,688			
CLIN 000803	232,518	223,387			
Total Costs Incurred	12,416,968	11,799,419			
Fixed Fee	100,000	-			
<b>Outstanding Balance</b>	-	-			

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<sup>3</sup> Office of the Special Inspector General for Afghanistan Reconstruction letter dated April 27, 2017

## 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 0049 for the Construction of Afghanistan Ministry of Defense Headquarters Facility Support and Security Brigade Expansion Phase II, Kabul, Afghanistan for the period November 30, 2013 through September 30, 2015. Because the Statement presents only a selected portion of the operations of the Gilbane Federal, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Gilbane Federal. 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 the Company 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*, less amounts identified as out-of-period audit adjustments during discussions with Crowe.

CLIN	Billed for Period	Out of Period Audit Adjustment	SPFS Costs (Actual)
000801	57,134.58	(25,209.10)	82,343.68
000802	11,781,289.77	287,601.71	11,493,688.06
000803	223,387.41	-	223,387.41

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 Federal is entitled to receive from the Air Force Civil Engineer Center (AFCEC)<sup>4</sup> for allowable, eligible costs incurred under HERC Task Order (TO) 0049 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 the Company 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*.

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<sup>4</sup> Air Force Civil Engineer Center (AFCEC) consolidated several legacy organizations—the Air Force Center for Engineering and the Environment (AFCEE), Air Force Civil Engineer Support Agency (AFCESA), and the Air Force Real Property Agency (AFRPA) — under one organization in October 2012.

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**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 0049 Modification 09 (Mod 09) to the contract dated April 29, 2015.

Description	CLIN 000801		CLIN 000802		CLIN 000803		TOTAL		
	Cost	Fee	Cost	Fee	Cost	Fee	Cost	Fee	TOTAL
Award	15,525,199.00	931,511.00					15,525,199.00	931,511.00	16,456,710.00
Mod 01							0		0
Mod 02							-	-	-
Mod 03							-	-	-
Mod 04							-	-	-
Mod 05			18,599,577.00				18,599,577.00	-	18,599,577.00
Mod 06							0		0
Mod 07							-	-	-
Mod 08							-	-	-
Mod 09					232,518.31		232,518.31	-	232,518.31
	<u>15,525,199.00</u>	<u>931,511.00</u>	<u>18,599,577.00</u>	<u>-</u>	<u>232,518.31</u>	<u>-</u>	<u>34,357,294.31</u>	<u>931,511.00</u>	<u>35,288,805.31</u>
			<u>0</u>				<u>1</u>		<u>1</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-D8513-0049 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 Special Purpose Financial Statement (SPFS) expenditures less amounts identified as out-of-period audit adjustments during discussions with Crowe (see Note 2).

**Note 11. Subsequent Events**

Management has performed an analysis of the activities and transactions subsequent to the <TBD>, period covered by the Statement. Management has performed their analysis through <TBD>

Unaudited

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## SIGAR's Mission

The mission of the Special Inspector General for Afghanistan Reconstruction (SIGAR) is to enhance oversight of programs for the reconstruction of Afghanistan by conducting independent and objective audits, inspections, and investigations on the use of taxpayer dollars and related funds. SIGAR works to provide accurate and balanced information, evaluations, analysis, and recommendations to help the U.S. Congress, U.S. agencies, and other decision-makers to make informed oversight, policy, and funding decisions to:

- improve effectiveness of the overall reconstruction strategy and its component programs;
- improve management and accountability over funds administered by U.S. and Afghan agencies and their contractors;
- improve contracting and contract management processes;
- prevent fraud, waste, and abuse; and
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