

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 21-08 Financial Audit

Department of Defense's Cooperative Biological Engagement Program to Enhance Biosafety and Biosecurity in Afghanistan: Audit of Costs Incurred by CH2M Hill Inc.

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



NOVEMBER
2020

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On July 22, 2013, the Defense Threat and Reduction Agency within the Department of Defense awarded an \$11,850,127 task order under a cost-plus-award-fee contract to CH2M Hill Inc. (CH2M) to support the Cooperative Biological Engagement program's efforts to enhance the Afghan and Iraqi governments' biosafety and biosecurity capabilities. After 11 modifications, the task order's total funding decreased to \$10,403,756 and the period of performance was extended from January 19, 2015, to March 31, 2017.

SIGAR's financial audit, performed by CohnReznick LLP (CohnReznick), reviewed \$6,649,119 in costs charged to the task order from July 19, 2013, through March 31, 2017. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in CH2M'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 CH2M has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of CH2M's Special Purpose Financial Statement (SPFS). See CohnReznick's report for the precise audit objectives.

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

November 2020

Department of Defense's Cooperative Biological Engagement Program to Enhance Biosafety and Biosecurity in Afghanistan: Audit of Costs Incurred by CH2M Hill Inc.

SIGAR 21-08-FA

WHAT SIGAR FOUND

CohnReznick identified two material weaknesses and two significant deficiencies in CH2M's internal controls and four instances of noncompliance with the terms of the task order. Because of these, the auditors found \$4,418,512 in total questioned costs, which were 66 percent of all the costs audited. They consisted of ineligible costs—costs prohibited by the task order, applicable laws, or regulations—and unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

For example, CohnReznick determined that CH2M awarded noncompetitive, sole-source subcontracts to several vendors without proper justification, as required by the Federal Acquisition Regulation (FAR). The auditors noted that the invoices CH2M provided to support subcontract costs did not include details to allow the project manager to determine whether the costs were reasonable, allocable, and allowable under the FAR and task order.

In another example, CH2M did not give CohnReznick a detailed report of all incurred costs charged to the task order. Instead, it provided a file for each general ledger account, per year, regardless of whether the costs were related to the task order. Therefore, the auditors could not reconcile the company's general ledger with its incurred costs. The table below lists the categories and dollar value of the ineligible and unsupported costs.

Category	Ineligible	Unsupported	Total Questioned Costs
Costs Incurred	\$4,062,985	\$12,106	\$4,075,091
Fee	\$343,421	\$0	\$343,421
Total Costs	\$4,406,406	\$12,106	\$4,418,512

CohnReznick identified four prior audit reports that were relevant to CH2M's activities under the task order. Only one of the four reports contained a finding. The auditors conducted follow-up procedures and concluded that CH2M took corrective action to address the finding.

CohnReznick issued a modified (qualified) opinion on CH2M's SPFS noting that the effects of the findings on the SPFS are material. Except for the effects of the findings in this report, CohnReznick stated CH2M SPFS presents fairly, in all material respects, revenues received, and costs incurred for the period indicated.

WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the responsible contracting officer at the Defense Threat and Reduction Agency:

1. Determine the allowability of and recover, as appropriate, \$4,418,512 in questioned costs identified in the report.
2. Advise CH2M to address the report's four internal control findings.
3. Advise CH2M to address the report's four noncompliance findings.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

November 9, 2020

The Honorable Dr. Mark T. Esper
Secretary of Defense

The Honorable Ellen M. Lord
Under Secretary of Defense for Acquisition and Sustainment

Mr. Vayl S. Oxford
Director, Defense Threat Reduction Agency

We contracted with CohnReznick LLP (CohnReznick) to audit costs incurred by CH2M Hill Inc. under a task order from the Defense Threat Reduction Agency within the Department of Defense. The task order's purpose was to support the Cooperative Biological Engagement program's efforts to enhance the Afghan and Iraqi governments' biosafety and biosecurity capabilities.¹ CohnReznick reviewed \$6,649,119 in costs charged to the task order from July 19, 2013, through March 31, 2017. Our contract with CohnReznick 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 Defense Threat and Reduction Agency:

- 1. Determine the allowability of and recover, as appropriate, \$4,418,512 in questioned costs identified in the report.**
- 2. Advise CH2M to address the report's four internal control findings.**
- 3. Advise CH2M to address the report's four noncompliance findings.**

The results of CohnReznick's audit are discussed in detail in the attached report. We reviewed CohnReznick'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 CH2M's Special Purpose Financial Statement. We also express no opinion on the effectiveness of CH2M's internal control or compliance with the task order, laws, and regulations. CohnReznick is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances in which CohnReznick did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

Please provide documentation related to corrective actions taken and target dates for completion for the recommendations. Please provide this information to sigar.pentagon.audits.mbx.recommendation-follow-up@mail.mil within 60 days from the issue date of this report.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-169)

¹ The task order number is 0006, under contract number HDTRA 1-08-D-0008.

Financial Audit of Costs Incurred by
CH2M Hill, Inc., a Jacobs Company under the
Cooperative Biological Engagement Program (Afghanistan)
Contract No. HDTRA 1-08-D-0008, Task Order 0006
For the period from July 19, 2013 through March 31, 2017

Performed by:



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TRANSMITTAL LETTER

August 10, 2020

Board of Directors
CH2M Hill, Inc., a Jacobs Company
9191 South Jamaica Street
Englewood, CO 80112

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

We appreciate the opportunity to provide to you our final report reflecting the procedures that we have completed during the course of our financial audit of the Special Purpose Financial Statement (SPFS) by CH2M Hill, Inc., a Jacobs Company (CH2M), under the Cooperative Biological Engagement Program, Department of Defense Contract No. HDTRA 1-08-D-0008, Task Order 0006, for the period from July 19, 2013, through March 31, 2017.

Within the pages that follow, we provide a summary of the work performed. Following the summary, we have incorporated the following reports:

- Independent Auditors' Report on the SPFS;
- Independent Auditors' Report on Internal Control; and
- Independent Auditors' Report on Compliance.

When preparing our report, we considered comments, feedback and interpretations of CH2M, the Office of the Special Inspector General for Afghanistan Reconstruction and the Department of Defense throughout the planning, fieldwork and reporting phases of the audit. CH2M management has prepared responses to the findings identified during the audit and those responses have been included as part of this report. The responses have not been audited and we express no opinion on them.

Thank you for providing us with the opportunity to work with you and to conduct the financial audit of the SPFS by CH2M under the Cooperative Biological Engagement Program in Afghanistan.

Sincerely,



Timothy G. Bender, CPA, Partner
CohnReznick LLP
Bethesda, Maryland

CH2M Hill, Inc., a Jacobs Company
Financial Audit of the Special Purpose Financial Statement
For the Period from July 19, 2013 through March 31, 2017

SUMMARY

Background

CH2M Hill provides global consulting services to a variety of industries, including government, transportation, energy, and environmental management. On December 18, 2017, Jacobs completed its acquisition of CH2M Hill, Inc. During the period of performance, the company was CH2M Hill, Inc. Subsequent to the December 18, 2017, acquisition, CH2M Hill, Inc. became CH2M Hill, Inc., a Jacobs Company (hereinafter CH2M).

On July 22, 2013, the Defense Threat and Reduction Agency (DTRA) within the Department of Defense awarded a cost plus award fee Contract No. HDTRA 1-08-D-0008, Task Order 0006 in the amount of \$11,850,127, with an original period of performance from July 19, 2013, through January 19, 2015, for work to be performed in Iraq and Afghanistan. The contract was modified eleven times, decreasing the final contract amount to \$10,403,756 and extending the period of performance through March 31, 2017. This audit is limited to the portion of expenses incurred in Afghanistan under this contract, and as such, no opinion is made over the portion of costs incurred in Iraq under this contract.

Modifications that resulted in funding changes, adjustments to the period of performance, and/or changes in scope are summarized below:

Modification Number	Effective Date	Significance
1	4/7/2014	Updated statement of work. Period of performance extended from January 19, 2015 to June 30, 2015.
2	5/15/2014	Contract value reduced by \$2,483 from \$11,850,127 to \$11,847,644.
3	9/1/2014	Contract value increased by \$390,403 from \$11,847,644 to \$12,238,047. Updated statement of work.
4	7/8/2014	Revised statement of work.
6	7/25/2015	Period of performance extended from June 30, 2015 to January 30, 2016.
10	1/24/2017	Contract value reduced by \$1,834,291 from \$12,238,047 to \$10,403,756.
11	2/16/2017	Period of performance extended from January 30, 2016 to March 31, 2017.

CH2M was contracted to support the Cooperative Biological Engagement Program (CBEP) in the Republic of Iraq and Islamic Republic of Afghanistan. The CBEP helps the Afghanistan and Iraqi governments enhance their capabilities around biosafety and biosecurity. CH2M's task was to execute the CBEP program activities, including conducting a baseline assessment and gap analysis reports, biosafety and biosecurity infrastructure and equipment upgrades, and increasing bio-surveillance capacity.

CH2M Hill, Inc., a Jacobs Company
Financial Audit of the Special Purpose Financial Statement
For the Period from July 19, 2013 through March 31, 2017

Work Performed

CohnReznick LLP (CohnReznick) was engaged by the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of costs incurred by CH2M under the Department of Defense's (DOD) Cooperative Biological Engagement Program, Contract No. HDTRA 1-08-D-0008, Task Order 0006, for the period from July 19, 2013 through March 31, 2017. This audit is limited to the portion of expenses incurred in Afghanistan under this contract.

Audit Objectives as Defined by SIGAR

The following audit objectives were defined by SIGAR 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 (SPFS)

Express an opinion on whether CH2M's SPFS for costs incurred under the Afghanistan portion of the contract presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government, and balances for the period audited in conformity with the terms of the contract and generally accepted accounting principles or other comprehensive basis of accounting.

Audit Objective 2 – Internal Control

Evaluate and obtain sufficient understanding of CH2M's internal control related to the contract; assess control risk; and identify and report on significant deficiencies, including material internal control weaknesses.

Audit Objective 3 – Compliance

Perform tests to determine whether CH2M complied, in all material respects, with the contract requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the contract 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 CH2M has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the SPFS or other financial data significant to the audit objectives.

CH2M Hill, Inc., a Jacobs Company
Financial Audit of the Special Purpose Financial Statement
For the Period from July 19, 2013 through March 31, 2017

Audit Scope

The scope of the audit covers \$6,649,119 of costs incurred by CH2M in Afghanistan under the cost-plus-award-fee Contract No. HDTRA 1-08-D-0008, task order 0006, for the period from July 19, 2013, through March 31, 2017. We examined the SPFS and the underlying financial records to verify that the amounts reported in the SPFS were adequately supported, reasonable, allocable, allowable, and in compliance with contract terms and conditions and applicable laws and regulations. No scope limitations or deviations from GAGAS were noted during performance of this audit. In addition, the following areas were determined to be direct and material, and thus, were included within the audit program for detailed evaluation:

- Cash Management;
- Disbursements (payroll and non-payroll transactions);
- Financial Reporting; and
- Procurement and Inventory Management.

Testing of indirect costs was limited to determining whether CH2M applied the approved provisional rates when calculating the indirect costs billed and whether CH2M reconciled differences between the provisional and final rates and adjusted their invoices accordingly.

The audit scope includes our consideration of CH2M's internal control over financial reporting and compliance with certain provisions of laws and regulations, contracts, and other matters as they relate to the SPFS.

We performed a review of CH2M's corrective action on prior audit findings and recommendations. The results of these evaluations were incorporated into our risk assessment procedures and were considered when determining the nature, extent, and timing of audit procedures.

Methodology

To meet the audit objectives, CohnReznick completed a series of risk assessments, walkthroughs, analytics, and substantive test procedures to audit the SPFS and test internal control and compliance with applicable laws and regulations.

Audit Objective 1 – SPFS:

Transactions were selected from the financial records underlying the SPFS and tested to determine if the transactions were recorded properly in accordance with the terms of the contract and applicable parts of the Federal Acquisition Regulation (FAR) and Defense Federal Acquisition Regulation Supplement (DFARS). Costs were sampled in accordance with *Generally Accepted Government Auditing Standards* (GAGAS) issued by the Comptroller General of the United States, using a combination of monetary unit and judgmental sampling approaches based on the outcome of risk assessments conducted during the planning phase of the audit.

CH2M Hill, Inc., a Jacobs Company
Financial Audit of the Special Purpose Financial Statement
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Audit Objective 2 – Internal Control:

CohnReznick requested copies of CH2M's relevant policies and procedures and reviewed those to gain an understanding of the internal control environment as designed. CohnReznick also made inquiries of CH2M management and conducted interviews with various finance and accounting personnel at CH2M to gain additional information about the design and operation of internal control over financial reporting. CohnReznick performed tests of controls on a sample basis to determine whether controls were operating as designed.

Audit Objective 3 – Compliance:

CohnReznick obtained a copy of CH2M's contract (Contract no. HDTRA 1-08-D-0008, task order 0006) and all modifications thereto. We reviewed those contract documents to gain an understanding of the compliance requirements. CohnReznick also evaluated the requirements of FAR and DFARS, the criteria against which the SPFS was tested for compliance requirements. CohnReznick performed tests of compliance in conjunction with our substantive and control tests, described in Audit Objectives 1 and 2 above, to determine whether significant compliance requirements of the contract, laws, and regulations, including potential fraud or abuse that may have occurred, were being met.

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations:

CohnReznick inquired of CH2M management regarding all audits, reviews or other examinations, whether internal or external, that related directly to the project or were relevant to policies, procedures, and/or systems used under the project. CohnReznick considered the completeness of the list of audit reports provided by CH2M management based on industry expertise and experience with similar contractors. We also inquired of DTRA and SIGAR as to whether there were any prior audits and reports, attestation engagements, financial reviews, and other studies that directly relate to the objectives of this audit. As a result of these procedures, three reports were identified, of which the status of corrective action is detailed in the Summary of Audit Results section below.

Summary of Audit Results

Upon completion of the audit procedures, CohnReznick identified four findings with questioned costs totaling \$4,418,512 presented in Table 1 below, because they met one or more of the following criteria: (1) deficiencies in internal control; and/or (2) noncompliance with rules, laws, regulations, and/or the terms and conditions of the contract.

CH2M Hill, Inc., a Jacobs Company
Financial Audit of the Special Purpose Financial Statement
For the Period from July 19, 2013 through March 31, 2017

Table 1 – Summary of Findings and Questioned Costs

Finding No.	Cost Category	Matter	Ineligible Costs	Unsupported Costs	Fee**	Questioned Costs
2019-01	General	Account reconciliations	\$ -	\$ -	\$ -	\$ -
2019-02	Subcontracts	Improper documentation of sole source procurements	4,062,985	-	343,421	4,406,406
2019-03	Subcontracts	Insufficient review of subcontractor costs*	-	-	-	-
2019-04	Travel	Inadequate documentation of country cable clearances	-	12,106	-	12,106
Total*			\$ 4,062,985	\$ 12,106	\$ 343,421	\$ 4,418,512

**Costs questioned as unsupported under Finding 2019-03 fully coincide with costs questioned as ineligible under Finding 2019-02. For presentation we have only shown the costs questioned as ineligible in the table above.*

***Base fee and award fee have been calculated based on contract terms and are for the Contracting Officer's informational purposes in determining whether to question the prime contractor's fee related to the ineligible costs.*

Audit Objective 1 – SPFS:

CohnReznick issued a modified (qualified) opinion on the SPFS. As discussed in the sections that follow, we identified two material weaknesses and two significant deficiencies in internal controls and compliance, as discussed in the Summary of Findings and Questioned Costs. We questioned a total \$4,418,512 of costs, which are comprised of ineligible and unsupported costs. The costs which are questioned as unsupported by Finding 2019-03 are additionally considered to be ineligible under Finding 2019-02. However, for presentation, we have reported those only as ineligible in the table above and SPFS. We believe we have obtained sufficient and appropriate evidence to support our opinion on the SPFS.

Audit Objective 2 – Internal Control:

CohnReznick evaluated CH2M's internal control over financial reporting and identified four findings. Those findings (2019-01, 2019-02, 2019-03, and 2019-04) include two material weaknesses and two significant deficiencies. The two material weaknesses related to improper use and documentation of sole source procurement (Finding 2019-02) and insufficient review of subcontracts costs (Finding 2019-03). The two significant deficiencies related to CH2M's inability to provide complete and accurate accounting detail in a timely manner (Finding 2019-01) and inadequate documentation supporting required country cable clearances (Finding 2019-04).

CH2M Hill, Inc., a Jacobs Company
Financial Audit of the Special Purpose Financial Statement
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Audit Objective 3 – Compliance:

CohnReznick evaluated CH2M's compliance with applicable contractual obligations, laws and regulations and identified four instances of noncompliance. The instances of noncompliance related to the internal control findings described in Audit Objective 2 – Internal Control above. Additionally, CohnReznick evaluated whether potential fraud or abuse may have occurred based on our findings and identified no instances that may have occurred.

Audit Objective 4 – Corrective Action on Prior Audit Findings and Recommendations:

As a result of audit procedures performed, four prior audit reports were identified. Those four reports and the status of corrective actions thereon are detailed in Appendix A to the report. No findings or recommendations were noted within the audit reports reviewed during this audit.

CH2M Hill, Inc., a Jacobs Company
Financial Audit of the Special Purpose Financial Statement
For the Period from July 19, 2013 through March 31, 2017

Summary of Management Comments and Auditors' Response

CH2M provided a response to the audit report and the findings and recommendations therein. See Appendix B – CH2M Hill, Inc. Management Comments for the full and unedited response. The additional information and statements provided by CH2M have not changed our position or any of the reported findings within this report.

In section 2. *Discussion* of the response, CH2M provided a rebuttal to all four of the findings included within this report.

Within the general discussion under 2. *Discussion*, CH2M states that the findings within this report do not support that significant deficiencies or material weaknesses exist within CH2M's accounting system. The scope of this audit was limited to that noted in the *Audit Scope* section of our report above. This was not a systems audit or review and, as such, we have not expressed an opinion on the adequacy of CH2M's systems.

This section also introduces CH2M's position regarding our findings, as discussed in more detail in the following sections.

2.1 CH2M's Accounting System is Compliant with Applicable Contract Requirements and Regulations

Finding 2019-01 – Failure to Reconcile Accounts is the finding that addresses CH2M's deficiencies with regard to the ability to identify and accumulate direct costs for the specified contract under audit that reconciled to the billings.

CH2M states that, for reconciliation of the general ledger (GL) account balances and reconciliation to incurred cost submissions, it provided account detail in its entirety and that all GL detail provided reconciled to recorded balances. Under this section, CH2M inaccurately stated that it was due to CohnReznick challenges in processing voluminous data and CohnReznick misunderstandings that resulted in variances between the data provided and the contract billings.

The audit request made was for GL detail for the contract under audit that reconciled to the contract billings. CH2M provided the GL detail for all projects, as well as the incurred cost submissions for the years within the audit. CH2M's inability to produce GL detail solely for the contract resulted in the described reconciliation process that required our processing of over 220 separate Microsoft Excel files, manually filtering each of those files for the relevant contract detail. CohnReznick successfully processed the files provided by CH2M but was unable, with the help of CH2M, to reconcile the totals from the GL to the final amount billed.

CH2M Hill, Inc., a Jacobs Company
Financial Audit of the Special Purpose Financial Statement
For the Period from July 19, 2013 through March 31, 2017

CH2M asserts that the remaining variance is due to the difference in incurred and billed costs, which results from unbilled costs. As part of the reconciliation process, we requested CH2M provide detail to reconcile the costs per the general ledger provided to the billings. CH2M failed to provide detail of unbilled costs, or otherwise, to allow the general ledger to be reconciled to the contract billings.

On page three of the response, CH2M stated, “The Audit Report also makes clear that the auditors were in fact able to reconcile all of the accounting information provided by CH2M to the Contract and that no amounts should be disallowed based on these purported issues.” As noted above, we disagree with this statement and maintain that the accounting information provided by CH2M could not be reconciled to the contract [billings].

CH2M also states in its response that the reporting issues do not constitute significant deficiencies or material weaknesses in CH2M’s accounting system. The accounting system was not within the scope of this audit and therefore we express no opinion on the adequacy of CH2M’s accounting system.

2.2 CH2M Appropriately Used and Documented Sole Source Subcontracts

CH2M states within this section of its comments that it believes FAR 52.244-5 to be applicable and that section of FAR “requires that a prime contractor select ‘subcontractors (including suppliers) on a competitive basis to the maximum practical extent consistent with the objectives and requirements of the contract.’”

CH2M discusses that it participated in a competitive proposal process that resulted in award of this contract. CH2M included many, but not all, of the subcontractors in question within the proposal submitted to the Government during that award process. In CH2M’s words, “CH2M selected these subcontractors because their solutions represented best value to the government, and CH2M believed the proposed prices were fair and reasonable.”

As stated within *Finding 2019-02 Inadequate Justification and Documentation Over Sole Source Procurements*, we agree with CH2M that FAR 52.244-5 applies to this situation. As noted in Finding 2019-02, we are questioning costs related to the sole source procurements as CH2M was unable to provide supporting documentation to evidence that it went to the maximum practical extent as required by FAR.

In the absence of such supporting documentation, we could not confirm CH2M’s statement that “CH2M selected these subcontractors because their solutions represented the best value to the government”. Similarly, CH2M was unable to provide any evidence that the proposed prices that it “believed” were fair and reasonable, actually were.

CH2M also provided discussion related to the “Audit Report’s Recommendation that CH2M Repay Fee”.

CH2M Hill, Inc., a Jacobs Company
Financial Audit of the Special Purpose Financial Statement
For the Period from July 19, 2013 through March 31, 2017

As stated throughout the report, and within the questioned costs section of Finding 2019-02, base fee and award fee have been calculated based on contract terms and are for the Contracting Officer's informational purposes in determining whether to question CH2M's fee related to the ineligible costs.

2.3 CH2M Obtained Appropriate Documentation to Determine That Its Subcontract Costs Are Allowable

CH2M disagrees with Finding 2019-03 and believes that the supporting documentation obtained from its subcontractors and provided to the audit team to support the costs contained sufficient detail to be able to determine that the costs were reasonable, allocable, and allowable in accordance with relevant FAR requirements.

CH2M did not provide any new information or support with this management response.

We provided one of several examples within the Condition for Finding 2019-03 noting how the supporting documentation lacked sufficient detail to allow an internal or external reviewer to determine the allocability or allowability of the related costs. While we agree with CH2M's statement that, at times, certain information was provided within the subcontractor invoices beyond the summary level schedule, we maintain our position that the level of detail did not allow for a reviewer to confirm that the work was properly allocated to the contract or that rates were charged in accordance with the subcontract terms.

2.4 CH2M Obtained Appropriate Country Cable Clearances

CH2M notes within its response that it obtained the relevant clearances, as documented in a travel log. In CH2M's opinion, this constitutes sufficient evidence that the clearance was obtained. CH2M also cites record retention requirements as justification to why it did not have actual clearance documentation.

The travel log referenced by CH2M was a Microsoft Excel workbook that CH2M prepared. As such, we could not deem the travel log to be sufficient audit support as evidence that the required clearances were obtained. CH2M was unable to provide any additional supporting documentation to show that the clearances were obtained (e.g. the Aircraft and Personnel Automated Clearance System (APACS) clearance documentation).

2.5 Any Potential Government Claim to Recover Allegedly Unallowable Subcontract Costs Is Precluded, in Part, by the Statute of Limitations.

CH2M claims that the statute of limitations for some of the questioned costs has expired and, therefore, the Government is precluded, in part, from any attempt to recover those costs.

CH2M Hill, Inc., a Jacobs Company
Financial Audit of the Special Purpose Financial Statement
For the Period from July 19, 2013 through March 31, 2017

As described in the Audit Objectives section of our report above, one of our audit objectives was to determine whether CH2M complied, in all material respects, with the contract requirements and applicable laws and regulations and identify and report on instances of material noncompliance with terms of the contract and applicable laws and regulations, including potential fraud or abuse that may have occurred. Due to the conditions described by each of our findings, we either identified instances of noncompliance or were unable to determine compliance due to lack of sufficient supporting documentation. As such, we have reported those deficiencies within our report.

INDEPENDENT AUDITORS' REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Directors
CH2M Hill, Inc., a Jacobs Company
9191 South Jamaica Street
Englewood, CO 80112

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

Report on the Special Purpose Financial Statement

We have audited the Special Purpose Financial Statement (SPFS) of CH2M Hill, Inc., a Jacobs Company (CH2M) and the related notes to the SPFS, with respect to the Department of Defense's (DOD) Cooperative Biological Engagement Program, Contract No. HDTRA 1-08-D-0008, Task Order 0006, for the period from July 19, 2013, through March 31, 2017.

Management's Responsibility for the SPFS

Management is responsible for the preparation and fair presentation of the SPFS 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 the SPFS that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on this SPFS based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the SPFS is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the SPFS. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the SPFS, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to CH2M's preparation and fair presentation of the SPFS in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CH2M's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the SPFS.

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

Qualified Opinion

As more fully described in Notes A and B to the SPFS, CH2M made numerous ineligible sole source procurements and did not properly monitor its subcontracts after award. The effects of these issues on the SPFS are material.

In our opinion, except for the effects of the matters discussed in the preceding paragraph, the SPFS referred to above presents fairly, in all material respects, the revenues received, costs incurred, items directly procured by the U.S. Government and balances for the indicated period in accordance with the terms of the agreements and in conformity with the basis of presentation described below.

Basis of Presentation

We draw attention to Note 2 to the SPFS, which describes the basis of presentation. As described in Note 2 to the SPFS, the SPFS is prepared by CH2M on the basis of the requirements provided by SIGAR, which is a basis of presentation other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Generally Accepted Government Auditing Standards

In accordance with *Generally Accepted Government Auditing Standards*, we have also issued our reports dated August 10, 2020, on our consideration of CH2M's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations, contracts, and other matters as it relates to the SPFS. 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 or on compliance. Those reports are an integral part of an audit performed in accordance with *Generally Accepted Government Auditing Standards* in considering CH2M's internal control over financial reporting and compliance.

Restriction on Use

This report is intended solely for the information and use of CH2M, DOD, and SIGAR, and is not intended to be and should not be used by anyone other than these specified parties. 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.



CohnReznick LLP
Bethesda, Maryland
August 10, 2020

CH2M Hill, Inc., a Jacobs Company
Notes to the Special Purpose Financial Statement
July 19, 2013 through March 31, 2017

	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
Revenue				
HDTRA 1-08-D-0008, TO 0006	\$ 6,649,119	\$ 4,406,406	\$ 12,106	5
Total Revenue	\$ 6,649,119	\$ 4,406,406	\$ 12,106	
Costs Incurred and billed				
Labor	\$ 723,543	\$ -	\$ -	
Other Direct Costs (ODC)	138,997	-	12,106	C
Subcontractor	4,317,874	4,062,985	-	A, B
Service Center Charges	1,638	-	-	
Indirect Burdens	610,950	-	-	D
Total Costs Incurred and Billed	\$ 5,793,002	\$ 4,062,985	\$ 12,106	
Fee	\$ 856,117	\$ 343,421	\$ -	A, B, C
Total Costs Incurred and Billed with Fee	\$ 6,649,119	\$ 4,406,406	\$ 12,106	
Outstanding Balance	\$ -			7

*Budgeted amounts have not been included within the SPFS. See Note 10 - Budgets for more information.

The accompanying Notes to the SPFS are an integral part of the SPFS.

CH2M Hill, Inc., a Jacobs Company
Notes to the Special Purpose Financial Statement
July 19, 2013 through March 31, 2017

NOTE 1 - BACKGROUND

Founded in 1946, CH2M is a large employee-controlled professional engineering services firm providing engineering, construction, consulting, design, design-build, procurement, operations and maintenance, Engineering, Procurement and Construction (EPC), program management and technical services around the world. CH2M has approximately 20,000 employees worldwide inclusive of craft and hourly employees, as well as employees in its consolidated joint ventures. CH2M reported annual revenues of approximately \$5.2 billion for the preceding fiscal year ended December 30, 2016. CH2M provides services to a diverse customer base including the U.S. federal and foreign governments and governmental authorities; provincial, state and local municipal governments and agencies; universities; and private sector industries. CH2M believes it provides its clients with innovative project delivery using cost effective approaches and advanced technologies.

NOTE 2 – BASIS OF PRESENTATION

The accompanying Special Purpose Financial Statement (SPFS) includes costs plus award fee incurred and billed under Contract No. HDTRA 1-08-D-0008, TO 0006, for the period July 19, 2013, through March 31, 2017. The information in this SPFS 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 project, Afghanistan specific activity and shared Afghanistan and Iraq project management and security.

NOTE 3 – BASIS OF ACCOUNTING

The SPFS has been prepared in accordance with accounting principles generally accepted in the United States of America and, therefore, is reported on the accrual basis of accounting. Revenues and expenditures are recognized following the cost principles contained in Federal Acquisition Regulation (FAR) Part 31 – Contract Cost Principles and Procedures and the Defense Federal Acquisition Regulation Supplement (DFARS).

NOTE 4 – FOREIGN CURRENCY CONVERSION METHOD

For purposes of preparing the SPFS, conversions from local currency to United States dollars were not required.

NOTE 5 - REVENUES

Revenues on the SPFS represent the amount of funds to which CH2M is entitled to receive from the United States Department of Defense for allowable and eligible costs incurred during the period of performance and the related fixed and award fees.

NOTE 6 – COSTS INCURRED BY CATEGORY

The categories presented, and associated amounts reflect the actual costs incurred during the audited period of July 19, 2013, through March 31, 2017.

These Notes to the SPFS are an integral part of the SPFS.

CH2M Hill, Inc., a Jacobs Company
Notes to the Special Purpose Financial Statement
July 19, 2013 through March 31, 2017

NOTE 7 – OUTSTANDING FUND BALANCE

The Outstanding Fund Balance presented on the SPFS represents the difference between revenues received and the costs incurred plus award fee. As of March 31, 2017, there was no outstanding fund balance under the contract.

NOTE 8 - CURRENCY

All amounts presented are shown in United States dollars.

NOTE 9 – PROJECT STATUS

The contract period of performance covers July 19, 2013, through March 31, 2017.

NOTE 10 – BUDGETS

The contract included scope of work within the Republic of Iraq and the Islamic Republic of Afghanistan. The contract did not require separate record keeping and monitoring based on the related location of goods and services. Budgets were maintained at the contract level, not based upon the relevant location. Budgets specific to revenues and expenses related specifically to the Afghanistan scope of work are not available as they were not required under the contract terms and therefore have not been presented.

NOTE 11 - SUBSEQUENT EVENTS

CH2M has evaluated subsequent events through August 10, 2020. There were no subsequent events identified that would impact the SPFS as of this date.

These Notes to the SPFS are an integral part of the SPFS.

CH2M Hill, Inc., a Jacobs Company
Financial Audit of the Special Purpose Financial Statement
For the Period from July 19, 2013 through March 31, 2017

Auditors' Notes to Questioned Costs Presented on the Special Purpose Financial Statement

SIGAR requires that questioned costs be classified as either “ineligible” or “unsupported.” SIGAR defines unsupported costs as those that “are not supported with adequate documentation or did not have required prior approvals or authorizations.” Ineligible costs are those “that are explicitly questioned because they are unreasonable; prohibited by the audited contract or applicable laws and regulations; or are not award related.”

The following note was prepared by CohnReznick for informational purposes only and, as such, is not a part of the audited SPFS above. Management takes no responsibility for the Auditors' Notes to Questioned Costs Presented on the SPFS.

A. Ineligible Costs – Sole Source Procurement

CH2M procured several subcontracts using sole source justification, which did not comply with the requirements of Federal Acquisition Regulation (FAR). As such, those goods and services were not competitively bid and may not represent the best value to the Government. Due to CH2M's lack of analysis and supporting documentation surrounding these sole source procurements, we were unable to determine what alternatives may have existed at the time of procurement or that these costs are reasonable. Total costs incurred of \$4,406,406 were questioned related to this finding (Finding 2019-02). Portions of the costs questioned as ineligible coincide with costs questioned as unsupported described within Note B below. See the Schedule of Findings and Questioned Costs for more information.

B. Unsupported Costs – Subcontracts

CH2M utilized time and materials (T&M) and fixed unit rate (FUR) contract types when procuring goods and services from vendors. CH2M's policies and related internal controls designed to review and approve those vendor costs were insufficient to allow for determination of whether the costs were reasonable, allocable, and allowable in accordance with the contract terms and relevant regulations. These internal control deficiencies have been documented within Finding 2019-03. The questioned costs associated with these deficiencies coincide fully with costs questioned as ineligible as described within Note A above. As the costs questioned as unsupported fully coincide with costs questioned as ineligible, we have reported those only as ineligible in the SPFS. See the Schedule of Findings and Questioned Costs for more information.

The accompanying Notes to the SPFS are an integral part of the SPFS.

CH2M Hill, Inc., a Jacobs Company
Financial Audit of the Special Purpose Financial Statement
For the Period from July 19, 2013 through March 31, 2017

Auditors' Notes to Questioned Costs Presented on the Special Purpose Financial Statement

C. Unsupported Costs - Travel

CH2M personnel conducted travel to Dubai for a pre-construction meeting. The contract required country cable clearances be obtained prior to departing the United States. CH2M was unable to provide third-party supporting documentation to prove that the required country cable clearances were obtained. The internal control deficiency and noncompliance have been documented within Finding 2019-04. Total costs incurred by CH2M personnel for this trip of \$12,106 have been questioned as unsupported. Fee was not applied to travel costs per the terms of the contract. As such, no fee has been included in the questioned costs. See the Schedule of Findings and Questioned Costs for more information.

D. Indirect Costs

CH2M's indirect rates are audited and approved by the Defense Contract Audit Agency (DCAA). In calendar year 2013, the general and administrative (G&A) allocation base used was *Total Cost Input* (direct labor, fringe on direct labor, direct materials, subcontracts costs, and other direct costs). For all subsequent years within the scope period (FY 2014 - FY 2017), all indirect rates utilized labor costs as the allocation base. None of the costs questioned resulting from the matters described in Notes A, B, and C above contained costs from calendar year 2013; as such, we have not included any indirect costs within the questioned costs, as they were not applicable to the costs questioned.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL

Board of Directors
CH2M Hill, Inc., a Jacobs Company
9191 South Jamaica Street
Englewood, CO 80112

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

We have audited, the Special Purpose Financial Statement (SPFS) and related notes to the SPFS, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States, by CH2M Hill Inc., a Jacobs Company (CH2M), under the Department of Defense's (DOD) Cooperative Biological Engagement Program in Afghanistan, Contract No. HDTRA 1-08-D-0008, Task Order 0006, for the period from July 19, 2013, through March 31, 2017. We have issued our report thereon dated August 10, 2020 with a qualified opinion.

Internal Control over Financial Reporting

In planning and performing our audit of the SPFS, we considered CH2M's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the SPFS, but not for the purpose of expressing an opinion on the effectiveness of CH2M's internal control. Accordingly, we do not express an opinion on the effectiveness of CH2M's internal control.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *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. 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 CH2M's SPFS will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, material weaknesses may exist that have not been identified. We identified four deficiencies in internal control, two of which we consider to be material weaknesses (Findings 2019-02 and 2019-03) and two that we consider to be significant deficiencies (Findings 2019-01, and 2019-04).

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 CH2M's internal control. This report is an integral part of an audit performed in accordance with *Generally Accepted Government Auditing Standards* in considering CH2M's internal control. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

This report is intended for the information of CH2M, DOD, 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.

CohnReznick LLP

CohnReznick LLP
Bethesda, Maryland
August 10, 2020

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

Board of Directors
CH2M Hill, Inc., a Jacobs Company
9191 South Jamaica Street
Englewood, CO 80112

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

We have audited, the Special Purpose Financial Statement (SPFS) and related notes to the SPFS, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States, by CH2M Hill, Inc., a Jacobs Company (CH2M), under the Department of Defense's (DOD) Cooperative Biological Engagement Program in Afghanistan, Contract No. HDTRA 1-08-D-0008, Task Order 0006, for the period from July 19, 2013, through March 31, 2017. We have issued our report thereon dated August 10, 2020 with a qualified opinion.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CH2M's SPFS is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, including potential fraud or abuse that may have occurred. However, providing an opinion on compliance with those provisions, including potential fraud or abuse that may have occurred, was not an objective of our audit, and accordingly, we do not express such an opinion. We have reported four instances of noncompliance, which have been deemed to be material to the SPFS (Findings 2019-01, 2019-02, 2019-03, and 2019-04).

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 CH2M's compliance. This report is an integral part of an audit performed in accordance with *Generally Accepted Government Auditing Standards* in considering CH2M's compliance. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

This report is intended for the information of CH2M, DOD, 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.

CohnReznick LLP

CohnReznick LLP
Bethesda, Maryland
August 10, 2020

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2019-01 – Failure to Reconcile Accounts

Significant deficiency and noncompliance

Condition:

CH2M was unable to produce and provide a single report with detail of all costs incurred and charged to the contract for the relevant scope period. Instead, CH2M provided a file for each general ledger account, per year, regardless of whether the costs related to the contract or not. Specifically, over 220 Microsoft Excel files were provided with various formatting inconsistencies that could not be readily combined for analysis and reconciliation. Several versions of these files were required throughout the reconciliation process due to errors in the files.

Further, a second file type for each calendar year in our scope period was required to appropriately identify and reconcile the cost category within each general ledger account. This resulted in the additional intermediate steps taken in reconciling costs to the final invoice.

Ultimately, the direct costs per the general ledger files, as provided by CH2M, could not be reconciled to the final invoice. CH2M management did not provide reconciling detail to agree the direct costs to the total invoiced costs. As such, the amount per the cost detail exceeds that per the cumulative invoiced costs.

Criteria:

DFARS 252.242-7006 *Accounting System Administration* states:

- (c)“System criteria. The Contractor’s accounting system shall provide for -...
 - 3. Identification and accumulation of direct costs by contract;...
 - 5. Accumulation of costs under general ledger control; [and]...
 - 16. Billings that can be reconciled to the cost accounts for both current and cumulative amounts claimed and comply with contract terms[.]”

Questioned Costs:

No questioned costs.

Cause:

CH2M did not adequately implement its accounting system (including policies, procedures, and controls) to produce a single report of costs charged to a project for a specific time period. CH2M management failed to maintain a single source of transaction detail and was unable to reconcile its general ledger detail to its billings (incurred costs). Additionally, in 2014, CH2M underwent a system upgrade which resulted in two files per general ledger account and increased the amount of time required to perform reconciliations.

Effect:

1. CH2M is at risk of improperly billing the government for costs incurred.
2. The system change drove additional complexity in the process to reconcile their account billings to the general ledger.
3. The reconciliation process took over one month to complete and caused audit inefficiencies.

Recommendation:

1. We recommend that CH2M implement accounting system updates that result in the ability to accumulate and report timely all costs incurred for a single contract.

Finding 2019-02 – Inadequate Justification and Documentation Over Sole Source Procurements

Material weakness and noncompliance

Condition:

CH2M executed sole source subcontracts with several vendors without proper justification for the non-competitive procurement process. There were ultimately three different sole source justifications, which did not meet the criteria for proper sole source procurements, in accordance with FAR 52.244-5, which requires that the contractor select subcontractors on a competitive basis to the maximum extent possible. This affected 127 of the 135 transactions selected for testing and seven of the 11 related subcontractors.

The first sole source justification documented that the awardees were selected through sole source procurements for the following two reasons: “Teaming agreement” and “Only supplier known by special experience, facilities or personnel.” A teaming agreement (“Team Arrangement” as defined by FAR Part 9.601) alone, without performing the requisite contracting procedures stated in FAR 52.244-5, is not an acceptable justification for sole source procurement because it does not provide for competitive selection of subcontractors to the maximum extent possible. FAR 9.604 states *“that teaming arrangements do not limit the Government’s right to pursue its policies on competitive contracting or subcontracting at any time.* CH2M was also unable to provide supporting documentation to show that the vendor was the only available supplier with the relevant experience, facilities, and/or personnel.

The second sole source justification related to CH2M’s subcontract with [REDACTED] [REDACTED]. The sole source justification form detailed the following two reasons for their determination to sole source:

1. “Only supplier to meet requirement, others were evaluated but rejected; and

2. “Other justification:” which read, “Travel was required to Kabul Afghanistan. In accordance with company policy, the travelers’ contacted CH2M Hill’s Regional Security Manager, who is responsible for arranging all required security services and for accounting for all personnel while traveling in the region. The Regional Security Manager directed the use of [REDACTED] as the only firm approved to provide personal security detail services in Kabul.

CH2M’s *Procurement Requisition Non-competitive Justification* form states that the CH2M Regional Security Manager made the decision about which security firm was approved. The form indicates that there were other options but CH2M failed to provide any additional detail as to what “others were evaluated but rejected” or why.

The third justification for sole source award was related to a procurement with the [REDACTED] under certain time constraints that arose. We did not receive documentation from CH2M to evidence that the Government’s need for the services was of such an unusual and compelling urgency that it would have been seriously injured unless permitted to limit the number of sources from which it solicited bids and proposals (Federal Acquisition Regulation (FAR) Part 52.244-5). We also received no documentation to show that [REDACTED] was the only vendor with the required specialties.

Criteria:

FAR 9.601, Contractor *Team Arrangements*, states:

9.601, Definition. “Contractor team arrangement, as used in this subpart, means an arrangement in which-...-

- (1) Two or more companies form a partnership or joint venture to act as a potential prime contractor; or
- (2) A potential prime contractor agrees with one or more other companies to have them act as its subcontractors under a specified Government contract or acquisition program.”

FAR 9.604 *Limitations*, states:

“Nothing in this subpart authorizes contractor team arrangements in violation of antitrust statutes or limits the Government’s rights to-...

- (d) Pursue its policies on competitive contracting, subcontracting, and component breakout after initial production or at any other time; and
- (e) Hold the prime contractor fully responsible for contract performance, regardless of any team arrangement between the prime contractor and its subcontractors.”

FAR 52.244-5 *Competition in Subcontracting*, requires that the Contractor procures suppliers/subcontractors on a competitive basis. It reads:

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

FAR 4.703 *Policy*, contains the required retention period for which contractors shall make records available. It reads:

(“(a) Except as stated in 4.703(b), contractors shall make available records, which includes books, documents, accounting procedures and practices, and other data, regardless of type and regardless of whether such items are in written form, in the form of computer data, or in any other form, and other supporting evidence to satisfy contract negotiation, administration, and audit requirements of the contracting agencies and the Comptroller General for-

(1) 3 years after final payment; or

(2) For certain records the period specified in 4.705 through 4.705-3, whichever of these periods expires first...”

DFARS 252.244-7001 Contractor Purchasing System Administration states:

(“...(c) System criteria The Contractor’s purchasing system shall —...

(7) Use competitive sourcing to the maximum extent practicable, and ensure debarred or suspended contractors are properly excluded from contract award;

(8) Evaluate price, quality, delivery, technical capabilities, and financial capabilities of competing vendors to ensure fair and reasonable prices;...”

CH2M’s *Federal Procurement Procedures*, Policy P05 Procurement, under section G *Details*, contains CH2M’s policies related to documentation of *Competitive and Non-Competitive Sourcing*. It reads:

“Through the competitive procurement process, market forces determine the best value for readily available goods and services. Consistent with FAR 52.244-5, Competition in Subcontracting, CH2M selects suppliers and subcontractors on a competitive basis to the maximum practical extent consistent with the objectives and requirements of the client’s contract. At times, CH2M is required to source on a non-competitive basis to meet the technical requirements and performance objectives of its clients. In those instances, the Requester prepares the non-competitive justification as required by DFARS 252.244-7001(c)(9), Contractor Purchasing System Administration.”

If a PR directs the selection of a specific supplier or subcontractor on a procurement equal to or greater than \$10,000 (\$5,000 for U.S. Department of Defense (DoD) projects), the Requester prepares CH-P05FD-0501-F01 Non-Competitive (Single or Sole Source) Justification to document the rationale and reason justifying the selection. Market research and/or objective evidence supporting the justification must be included, when required, to satisfy the reason for the non-competitive procurement prior to award. For the definitions of “single source” and “sole source,” refer to CH-P05FD-0101-E1 Glossary of Federal Procurement Terms. The Requester must include his or her name, title, signature (electronic signature is permissible), and date in the non-competitive justification. The Buyer must evaluate the justification for adequacy, and if required, reject it, for further development, analysis and/or consideration of competition. If the justification is acceptable, the Buyer must include his or her name, title, signature (electronic signature is permissible), and date in the non-competitive justification. The completed copy of CH-

P05FD-0501-F01 Non-Competitive (Single or Sole Source) Justification and all documentation to support the non-competitive procurement must be retained in the procurement file.

Questioned Costs:

\$4,406,406 of costs from subcontracts were deemed ineligible.

We included the applicable 3% base fee and 7% award fee that was applied to these subcontract costs. Base and award fee is not applicable per contract terms to certain costs including travel and certain other direct costs.

Starting with calendar year 2014, CH2M's indirect costs were allocated based on labor costs. In calendar year 2013, CH2M used a total cost input allocation base for G&A, which includes subcontracts costs. However, none of the costs questioned as a result of the above condition were calendar year 2013 costs. We have not questioned any indirect costs related to these questioned costs. Questioned costs include:

Summary of Questioned Costs					
Subcontractor	Direct Cost	Base Fee (3%)*	Award Fee (7%)*	Ineligible Costs	
	\$ 585,932	\$ 14,969	\$ 34,927	\$ 635,828	
	23,000	-	-	23,000	
	214,442	4,811	11,226	230,479	
	1,480,934	43,465	101,418	1,625,817	
	50,820	483	1,127	52,430	
	1,665,202	38,050	88,783	1,792,035	
	42,655	1,249	2,913	46,817	
Total	\$ 4,062,985	\$ 103,027	\$ 240,394	\$ 4,406,406	

**Travel and certain other direct costs are not eligible for fee. Costs billed under CLIN 0002 and 0006 do not receive fee. Base fee and award fee have been calculated based on contract terms and are for the Contracting Officer's informational purposes in determining whether to question the prime contractor's fee related to the ineligible costs.*

Cause:

Lack of sufficient personnel training on FAR requirements for the use of sole source procurement.

CH2M's *Federal Procurement Policies* are inadequately designed such that they do not result in documentation of sole source procurements which meets FAR and DFARS requirements.

Effect:

The Government may have paid for goods and services under each of these subcontracts which did not provide the best value to the Government.

Recommendation:

1. CH2M should reimburse DTRA \$4,406,406 or provide documentation for each sole source procurement noted above which meets the requirements of FAR Part 52.244-5.
2. CH2M should provide additional training to personnel related to the sole source procurement requirements of FAR, DFARS, and CH2M's policies and procedures.
3. CH2M should evaluate and revise the design of its policies and procedures related to sole source procurement to ensure they include all relevant information for personnel to comply with FAR and DFARS requirements.

Finding 2019-03 – Insufficient Review of Subcontractor Costs

Material weakness and noncompliance

Condition:

Subcontractor invoices obtained and provided by CH2M to support the subcontract costs did not include a level of detail that allows the project manager to determine whether the costs are reasonable, allocable, and allowable per FAR and the contract. For example, certain invoices included labor costs without any detail as to the related subcontractor personnel, their position, or the rate applied. This affected five of the 11 subcontractors selected for testing.

With regards to Fixed Unit Rate (FUR) subcontracts, we additionally found that CH2M considers these contracts to be Firm Fixed Price (FFP) in nature, though the structure of these contracts mirrors a Time and Materials (T&M) structure in that unit rates are established and then used by the subcontractor in billing CH2M for goods and services based on actual quantities incurred. CH2M's representation that FUR not-to exceed (NTE) contracting is utilized when the quantity of work is hard to determine further supports that FUR is a sub-category of T&M contracting used by CH2M.

In addition, the final amount invoiced and paid by CH2M for each of these subcontracts was not the amount awarded under the subcontract. Under a FFP contract, the amount paid is the amount awarded, as the full amount gets paid upon receipt and acceptance of the goods and services. We noted no documentation of rejected or unacceptable goods and services under these contracts that would have reduced the FFP amount paid to the subcontractor. If these FUR contracts were truly FFP in nature rather than T&M, it would be our expectation that the amount awarded would be the final amount invoiced, or that there would be appropriate documentation to support the reason for the difference.

Criteria:

FAR 31.201-2 *Determining allowability* states:

“(a) A cost is allowable only when the cost complies with all 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...

(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.”

FAR 42.202-2(e)(2), *Secondary delegations of contract administration*, states:

“The prime contractor is responsible for managing its subcontracts...”

CH2M’s *Federal Procurement Procedures*, Policy P05 Procurement, under section G *Details*, contains CH2M’s policies related to *Invoice Processing* states, “Procurement/ PM/ Requester/ Accounts Payable (AP):”

“Procurement processes supplier or subcontractor invoices either by matching documentation on the receipt of materials and approving an invoice, or by verifying with the Requester the satisfactory completion of an agreement (via the receiving report or other confirmation).”

“Procurement reviews the invoice for any inconsistencies with the written agreement (e.g., billed rates or amounts exceed or do not match the procurement agreement compensation schedule and/or Oracle line item total or price type, work performed that may be out of scope or outside the period of performance of the agreement, insurance certificates in file, reports up to date). The Buyer resolves any inconsistencies, if applicable, and forwards the approved invoice to Accounting for payment using the AP Workflow System.”

Questioned Costs:

Costs questioned as unsupported in relation to Finding 2019-03 are also questioned as ineligible in relation to Finding 2019-02.

Cause:

CH2M's policies and procedures regarding the review of subcontractor invoices for Time and Materials (T&M), Cost Plus Fixed Fee (CPFF), and Fixed Unit Rate (FUR) contracts were not followed.

FUR contracts had NTE limits, which are commonly included on T&M contracts to limit the total cost that can be incurred. CH2M represented to us during the audit that these contracts are firm fixed price (FFP) contracts and that support for T&M detail was not relevant or required.

Effect:

Reviewers (both CH2M and independent third-parties) cannot determine that costs are reasonable, allocable, and allowable in accordance with subcontract terms and the relevant laws and regulations. Costs incurred under these T&M, CPFF, and FUR procurements may not be reasonable or allowable.

Recommendation:

1. CH2M should reimburse the government for costs paid on T&M, CPFF, and FUR contracts as an adequate level of review did not exist in order to ensure the appropriateness of the costs billed to the contract.
2. CH2M should improve its policies and procedures related to review and approval of subcontract costs to specifically require details necessary for a project manager or other third party to confirm compliance with contract terms and ensure costs are reasonable, allocable, and allowable.
3. CH2M should provide training to ensure that contract types are properly identified (T&M, FFP, etc.) and that subsequent monitoring procedures are appropriate to the type of contract award used.

Finding 2019-04 – Inadequate Documentation of Country Cable Clearances

Significant deficiency and noncompliance

Condition:

CH2M did not obtain the contractually required (HDTRA 1-08-D-0008, TO0006) country cable clearances for all contractor personnel performing work in the United States Central Command (USCENTCOM) Area of Responsibility (AOR), prior to departing from the United States.

Our sample included all three of CH2M's personnel that traveled to Dubai for a Preconstruction/Chartering Meeting (Meeting). Dubai is located within the USCENTCOM AOR. We noted that, for these three individuals, the required country cable clearance from the Combatant Commander was not supported by third party evidence.

Criteria:

FAR 31.201-2 *Determining allowability*, states:

“(a) A cost is allowable only when the cost complies with all of the following requirements:

...(4) Terms of the contract...

(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.”

CH2M Contract, HDTRA 1-08-D-0008, TO0006, states:

Before contractor personnel depart from the United States or a third country, and before contractor personnel residing in the host country begin contract performance in the United States Central Command (USCENTCOM) Area of Responsibility (AOR), the Contractor shall ensure the following: All personnel have received [country cable] clearance, if required by the Combatant Commander.

FAR 4.7 *Contractor Records Retention*, states:

“4.703 *Policy*. (a) Except as stated in 4.703(b), contractors shall make available records, which includes books, documents, accounting procedures and practices, and other data, regardless of type and regardless of whether such items are in written form, in the form of computer data, or in any other form, and other supporting evidence to satisfy contract negotiation, administration, and audit requirements of the contracting agencies and the Comptroller General for-

(1) 3 years after final payment; or

(2) For certain records the period specified in 4.705 through 4.705-3, whichever of these periods expires first...”

FAR 4.704 (a) *Calculation of retention periods*.

“The retention periods in 4.705 are calculated from the end of the contractor's fiscal year in which an entry is made charging or allocating a cost to a Government contract or subcontract. If a specific record contains a series of entries, the retention period is calculated from the end of the contractor's fiscal year in which the final entry is made. The contractor should cut off the records in annual blocks and retain them for block disposal under the prescribed retention periods.”

CH2M's *Federal Procurement Procedures*, Policy P05 Procurement, under section G *Details*, contains CH2M's policies related to *Record Retention*. It reads:

FAR Subpart 4.7, Contractor Records Retention, describes federal contractor and subcontractor record retention requirements. Procurement agreements may have additional record retention requirements based on the client contract. Procurement is responsible for checking the client contract for details. If there is a discrepancy between a client's requirements and those of CH2M, the Buyer will maintain records in accordance with the most stringent or longer-term requirements.

Questioned Costs:

\$12,106 of other direct costs were deemed unsupported.

Travel costs were not eligible for fee. We have not included any fee in the questioned costs, as it was not applicable. Starting with calendar year 2014, CH2M's indirect costs were allocated based on labor costs. In calendar year 2013, CH2M used a total cost input allocation base for G&A, which includes other direct costs. However, none of the costs questioned as a result of the above condition were calendar year 2013 costs. We have not questioned any indirect costs related to these questioned costs.

Cause:

CH2M does not have policies or procedures in place for obtaining required country cable clearances. CH2M further cited FAR 4 related to retention period requirements as to why the documentation could not be provided.

Effect:

The Government may have paid for ineligible costs. CH2M's lack of country cable clearance increased risk related to the security of personnel traveling within the AOR, which is one of the least secure and stable places of the world according to USCENTCOM.

Recommendation:

1. CH2M should reimburse the travel costs as clearance documentation is not available to evidence compliance with contract terms and Federal Acquisition Regulation.
2. We recommend that CH2M implement policies and procedures to ensure contract compliance with country cable clearance requirements.

APPENDIX A: CORRECTIVE ACTION ON PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

Prior Audit Report 1

The DCMA Small Business Center, West Audit Report *Small Business Subcontracting Program review*, issued March 21, 2017. This audit reviewed CH2M's Subcontracting Program in accordance with Federal Acquisition Regulations (FAR) 19.706, did not identify any findings and audit issued an unqualified opinion.

Prior Audit Report 2

The Defense Contract Management Agency Cost and Pricing Center Audit Report *CH2M Purchasing System Review*, issued December 4, 2015. This audit reviewed CH2M's Purchasing Program in accordance with DFARS 252.244-7001, did not identify any findings and issued an unqualified opinion.

Prior Audit Report 3

The DCAA Rocky Mountain Branch Audit Report *Audit Report 3151-2011E24010002: Estimating System Deficiency Disclosed During Evaluation of CH2M Hill Antarctic Support*, issued April 29, 2011. This audit reviewed CH2M's Estimating System used in CH2M's response to RFP DACS08P2215 and DCAA identified a weakness in the CH2M policies and procedures in the use of external consultants in conducting price analyses of subcontractor proposals.

In response to the finding, CH2M amended its policies and procedures to include clarifying language to its *Procurement Policy and Procedure Manual* regarding the use of sub consultants indicating that the buyer is responsible to independently determine fair and reasonable pricing and to document that analysis within the procurement files. Language to the same effect was added to the *Federal Estimating system Manual*. CH2M also added language to its standard sub contract representations and certifications that requires the sub consultant to certify that no conflicts of interest exist which would preclude the independent performance of services by the sub consultant. All changes were communicated to CH2M staff using a *Contract Alert*.

All corrective actions have been implemented as of the date of our report. Our team performed walkthroughs of CH2M's relevant policies and procedures and made inquiries of CH2M management. Based on the results of procedures performed, all findings and recommendations from this report have been addressed.

Prior Audit Report 4

The Defense Contract Management Agency Cost and Pricing Center Audit Report *CH2M Property Management System Review*, issued March 3, 2016. This audit reviewed CH2M's Property Management System in accordance with FAR 52.245-1, did not identify any findings and issued an unqualified opinion.

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9191 S. Jamaica St
Englewood, CO 80112
Tel 720-286-1111

July 31, 2020

Alex Ng
Cohn Reznick
7501 Wisconsin Ave, 400E
Bethesda, MD 20814

Re: CH2M Response to SIGAR Audit F-169

Dear Mr. Ng:

CH2M Hill, Inc. ("CH2M", now a wholly-owned subsidiary of Jacobs Engineering Group, Inc.), is in receipt of Cohn Reznick's draft audit report prepared for the Special Inspector General for Afghanistan Reconstruction ("SIGAR"). The Audit Report asserts that CH2M's accounting system contains deficiencies based on Cohn Reznick's review of certain costs charged to Contract No. HDTRA 1-08-D-0008 Task Order No. 0006 (the "Contract") with the Defense Threat Reduction Agency ("DTRA") between July 2013 and March 2017. The Audit Report also recommends reimbursement of \$4,418,512 of subcontract and travel costs, plus a portion of the fee, previously paid under the Contract. For the reasons set forth below, CH2M respectfully disagrees with these findings and maintains that its accounting system is fully compliant with relevant contractual and regulatory requirements and that no cost disallowances or reimbursements are appropriate.

1. BACKGROUND

CH2M was the prime contractor under DTRA's Biological Threat Reduction Integration Contract ("BTRIC") contract. The BTRIC contract was an indefinite-delivery indefinite-quantity ("IDIQ") contract for services awarded in support of DTRA's Biological Threat Reduction Program aimed at combatting bioterrorism and preventing proliferation of biological weapons related technology, pathogens and expertise. On July 22, 2013, DTRA issued Task Order No. 0006 for the integration, coordination, and implementation of the Cooperative Biological Engagement Program's ("CBEP") projects and activities in the Republic of Iraq and the Islamic Republic of Afghanistan. Under the Contract, CH2M was required to coordinate all CBEP elements as detailed in the Statement of Work ("SOW") in collaboration with DTRA and other stakeholders. See Contract, Modification ("Mod") No. 1 §§ 3-5. CH2M fully performed the Contract and DTRA paid CH2M in full for all of its services at the time the work was performed.

In support of its work for the SIGAR beginning in August 2019, Cohn Reznick issued the draft Audit Report identifying perceived deficiencies in CH2M's accounting system and recommending that DTRA disallow \$4,406,406 of subcontract costs, plus reduce CH2M's base and award fees, and disallow \$12,106 of travel costs based on the following:

- CH2M's accounting system: (a) could not produce a single report of costs charged to a project for a specific period of time, (b) did not maintain a single source of

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transaction detail, and (c) could not reconcile the account downloads to its billings on the Contract. Audit Report, p. 23.

- CH2M personnel were not sufficiently trained on Federal Acquisition Regulation (“FAR”) requirements for the use of sole source subcontracts. *Id.* at 28
- CH2M did not obtain sufficient details from its subcontractors regarding hours and costs billed to the subcontracts to determine if the subcontract costs were appropriate. *Id.* at 30.
- CH2M did not seek or maintain documentation of the appropriate country cable clearance before personnel traveled to Dubai in support of the Contract. *Id.* at 35.

2. DISCUSSION

The Audit Report’s findings do not support that significant deficiencies or material weaknesses exist within CH2M’s accounting system and do not establish that reimbursement of any amounts previously paid under the Contract is appropriate. CH2M maintained documentation appropriate to support the allowability of its subcontract and travel costs as required by the Contract. CH2M’s obligation to retain such records expired long before the audit commenced (FAR § 4.705-1). Any disallowance of CH2M’s subcontract and travel costs, including any fee the auditors purport is associated with these costs, also would result in an unjustifiable windfall to the Government. DTRA benefitted from the contract services provided by CH2M and DTRA accepted this work at the time the Contract was performed. Finally, even if the Audit Report’s findings had merit, any potential government claim to recover subcontract and travel costs is precluded, at least in part, by the applicable six-year statute of limitations.

2.1 CH2M’s Accounting System Is Compliant with Applicable Contract Requirements and Regulations

The Audit Report asserts that CH2M’s accounting system contains significant deficiencies and is noncompliant with the Department of Defense FAR Supplement (“DFARS”) § 252.242-7006, Accounting System Administration. This conclusion is based on (1) various account reconciliation issues that the auditors encountered when conducting the audit, (2) because CH2M purportedly did not document its sole source subcontract award decisions or obtain sufficient cost information from its subcontractors during performance of the Contract and (3) CH2M allegedly did not obtain approval prior to incurring certain travel costs. According to the Audit Report, these issues could result in billing errors, the Government paying for subcontract costs that do not represent the best value, and costs which are unallowable or ineligible for reimbursement under the terms of the Contract.

For reconciliation of GL account balances, and reconciliation to incurred cost submissions initially requested by SIGAR, CH2M provided account detail in its entirety. All GL detail provided reconciled to recorded balances. Cohn Reznick’s own internal challenges in processing voluminous data is not a contractor system deficiency. Further, Cohn Reznick

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comments that amount(s) per the cost detail exceeds that per the cumulative invoiced cost. As explained to the auditor on multiple occasions, incurred costs contain both billed and unbilled costs as posted to the GL and the transactional detail fully reconciled to the incurred cost submissions. This auditor observation is not a reportable variance, let alone a system deficiency, since CH2M did not invoice for unallowable or non-billable costs.

Moreover, the perceived issues identified in the Audit Report do not constitute significant deficiencies or material weaknesses in CH2M's accounting system because they are not reflective of CH2M's current accounting system. A significant deficiency is "a shortcoming in the system that materially affects the ability of officials of the Department of Defense to rely upon information produced by the system that is needed for management purposes." (See DFARS § 252.242-7005(a)). Importantly, only the current status of a contractor's accounting system is relevant for determining the existence of a significant deficiency. See DFARS § 252.242-7006(a), (c), (e) (listing criteria for accounting systems and requiring contractors to remedy current system deficiencies identified in contracting officer final determinations). Thus, significant deficiencies are intended to identify current systemic and material deficiencies in a contractor's business systems.

The purported issues identified in the Audit Report are not current because they pertain to costs that were incurred between five and seven years ago and since that time, CH2M has updated its accounting system in connection with its merger with Jacobs Engineering in 2017. Indeed, CH2M's accounting system was deemed adequate by the Defense Contract Management Agency ("DCMA") at the time the Contract was awarded and most recently on November 29, 2017. The perceived issues identified in the Audit Report, therefore, are not current.

The issues identified in the Audit Report are also not systemic or material. The Audit Report focused its review on costs incurred under a single contract, not on how CH2M's accounting system operates with respect to its approximately \$700million of federal government contracts and subcontracts annually. DCMA, who is responsible for reviewing the accounting system as a whole, has determined that CH2M's accounting system is adequate on multiple occasions, including the time period under audit. The Audit Report also makes clear that the auditors were in fact able to reconcile all of the accounting information provided by CH2M to the Contract and that no amounts should be disallowed based on these purported issues. At best, the Audit Report identifies areas where the parties disagree about the level of documentation that CH2M was required to maintain to support its costs. Such disagreements are not and cannot serve as a sufficient basis for finding a significant deficiency in the accounting system.

CH2M maintains a fully compliant accounting system that was audited and approved by DCMA. The issues identified in the Audit Report do not constitute significant deficiencies, and do not represent material weaknesses in the accounting system.

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2.2 CH2M Appropriately Used and Documented Sole Source Subcontracts

The Audit Report states that CH2M failed to comply with FAR requirements in awarding seven sole source subcontracts without proper justification for using non-competitive procedures. Based on this alleged noncompliance, the Audit Report questions the allowability of all \$4,062,985 of subcontract costs, plus fee earned in connection with these subcontract costs. The Audit Report further recommends that CH2M reimburse \$4,406,406 to DTRA or provide additional documentation to support the use of sole source procurement as required by FAR § 6.303-2. Audit Report, p. 28.

As explained below, the Audit Report's findings are materially flawed and should be disregarded because they conflate the competition and sole source justification requirements applicable to the Government with those applicable to a government contractor and ignore the fact that a majority of the subcontract costs were specifically included in CH2M's proposal to DTRA which was accepted as fair and reasonable by the Government. Based on these materially flawed findings, the Audit Report erroneously recommends reimbursement of otherwise allowable costs and fixed and award fee amounts, ignoring the fact that the Government accepted and benefitted from the services as performed. Therefore, the disallowance of subcontract costs would result in an improper windfall to the government.

2.2.1 The Audit Report Misapplies the Competition and Sole Source Justification Requirements Applicable to the Government to CH2M

A "sole source" procurement refers to a Government acquisition through noncompetitive procedures. In general, the Competition in Contracting Act ("CICA") requires that federal agencies use competitive procedures in obtaining property or services. 41 U.S.C. § 3301. CICA, however, provides for a number of exceptions to the competitive procedures as outlined in 41 U.S.C. § 3304 and implemented at FAR Part 6. For example, the Government may award a sole source contract when only one responsible source will satisfy agency requirements, in those instances of unusual and compelling urgency, and for national security reasons. See FAR Subpt. 6.3. In order to document its reasons for awarding a sole source contract, an agency contracting officer must prepare a written justification that meets the criteria listed in FAR § 6.303-2 explaining why noncompetitive procedures were used.

Importantly, none of the requirements for the Government awarding sole source contracts are applicable to contractors. Rather, many federal contracts, including the contract at audit, incorporate FAR § 52.244-5, Competition in Subcontracting. FAR § 52.244-5 requires that a prime contractor select "subcontractors (including suppliers) on a competitive basis to the maximum practical extent consistent with the objectives and requirements of the contract." Notably, FAR § 52.244-5 does not require a contractor to comply with CICA or prepare a sole source justification consistent with FAR § 6.303-2.

Since CH2M was under no obligation to award subcontracts exclusively on a competitive basis or to prepare a written justification in accordance with FAR § 6.303-2 (explaining why noncompetitive procedures were used), CH2M's purported failure to do so cannot serve as an adequate basis for questioning the subcontract costs. Moreover, it should also be noted

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that CH2M's purchasing system was audited and deemed acceptable and approved by DCMA during the contract task order period of performance. CH2M provided the confirmation of this finding to Cohn Reznick.

In any event, CH2M reasonably awarded sole source subcontracts under the circumstances. CH2M's competitive proposal submitted to DTRA for the Contract specifically identified

[REDACTED] as subcontractors. CH2M Proposal, Vol. 3, at p. v ("[s]ubcontract costs for the following are based on subcontractor supplied/quoted rates and [CH2M] Engineering's Estimates for level of effort"). CH2M selected these subcontractors because their solutions represented the best value to the government, and CH2M believed the proposed prices were fair and reasonable. The Government agreed, as evidenced by its selection of CH2M for the award, and also concluded that the subcontractor costs were fair and reasonable. As a result, CH2M was not required to further utilize any competitive procedures in awarding these subcontracts or prepare sole source justifications. Notably, these subcontractors represent approximately \$3,989,165 of the \$4,062,985 questioned subcontract costs.

2.2.2 The Audit Report's Recommendation that CH2M Repay Fee Is Unsupported

The Audit Report recommends that CH2M reimburse DTRA for all subcontract costs, despite the fact that DTRA accepted the benefit of all of these subcontract costs during the period of performance. The Audit Report further recommends that CH2M repay the fee that the auditor associated with these subcontract costs based on the 3% base fee and 7% award fee CH2M earned on the Contract. In total, the Audit Report recommends that CH2M repay \$343,421 of fee. This position is unsupported.

The Contract is a cost reimbursable contract that provided CH2M the opportunity to earn a base fee and an award fee. The base fee was set at 3% of the estimated costs of performing the Contract and was fixed at the time of award. Contract, pp. 2-3. Because the base fee was fixed at the time of award based on the total estimated costs, it was not subject to adjustment based on the actual amount of costs CH2M incurred in performing the Contract. With respect to the award fee, the Contract's award fee plan required consideration of a variety of factors in making the award fee determination, including quality of product or services (25%), business relationships (20%), management of key personnel (20%), schedule (25%) and cost control (10%). Contract, Mod 3, pp. 4-6. Subcontract costs did not play a significant factor in the award fee that CH2M earned. Thus, no adjustment to the base fee is permitted under the terms of the Contract or warranted under the award fee plan. Indeed, to make any such adjustment at this point would risk converting the Contract to an illegal cost-plus-percentage-of-cost contract. FAR § 16.102(c); 41 U.S.C. § 3905.

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2.3 CH2M Obtained Appropriate Documentation to Determine That Its Subcontract Costs Are Allowable

The Audit Report asserts that CH2M failed to obtain sufficient details from its subcontractors performing under time and materials ("T&M"), cost plus fixed fee ("CPFF"), and fixed unit rate ("FUR") subcontracts to support that the subcontract costs are allowable. Audit Report, p. 30. According to the Audit Report, both internal and external reviewers of subcontract costs "cannot determine that costs are allocable and allowable in accordance with subcontract terms and the relevant laws and regulations." *Id.* at 30. The Audit Report, therefore, recommends that subcontract costs for [REDACTED] and [REDACTED] totaling \$3,695,148, also be reimbursed on these grounds. *Id.* (costs questioned as unsupported in relation to Finding 2019-03 are also questioned as ineligible in relation to Finding 2019-02"). The Audit Report's findings are incorrect, and the subcontract costs are allowable.

FAR § 31.201-2(a) provides that a cost is allowable when the cost complies with the following criteria:

Reasonableness;

Allocability;

Standards promulgated by the Cost Accounting Standards Board, if applicable; otherwise, generally accepted accounting principles and practices appropriate to the circumstances;

Terms of the Contract; and

Any other limitations set forth in this subpart.

Here, the invoices that CH2M received from its subcontractors contained sufficient information for CH2M to determine that the costs were allocable to the Contract and complied with the allowability requirements. With respect to T&M and FUR subcontracts, the subcontractors submitted information regarding the number of hours or units worked and the applicable fixed-labor rate and any reimbursable material costs (e.g., travel costs). With respect to CPFF subcontracts, the subcontractors submitted detailed invoices breaking down costs by cost element (e.g., labor, other direct costs, travel). This information was sufficient for CH2M to determine that the subcontract costs were allocable to the Contract because the invoices identified the relevant subcontract number that tied to CH2M's prime contract number, and the project manager reviewed each of the invoices, determining that the work was in accordance to the subcontract statement of work (SOW) and in support of the Contract. This information also was sufficient for CH2M to determine that the subcontract costs were allowable because the invoices specifically detailed the labor and non-labor costs included in the invoice for work completed per the subcontract SOW. The project manager reviewed this information and, consistent with his understanding of the Contract's

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requirements and the subcontractor's scope of work, concluded that the costs were allowable. No additional information was necessary to complete this review.

Moreover, the subcontractor information was submitted to DTRA with CH2M's invoices, all of which were accepted and paid. At no point did DTRA question the allocability or allowability of CH2M's subcontract costs and, in fact, CH2M's award fee scores support that DTRA believed that CH2M, and its subcontractors, fully and competently performed all of the work contemplated under the Contract. Cohn Reznick was also notified that interim voucher reviews and paid voucher audits were conducted by CH2M's cognizant audit agency during the period of contract performance without exception.

2.4 CH2M Obtained Appropriate Country Cable Clearances

The Audit Report asserts that CH2M failed to seek or maintain "documentation of the appropriate country cable clearance because it failed to properly identify Dubai as part of the USCENTCOM AOR." Audit Report, p. 30-31. As a result, the Audit Report questions \$12,106 of travel costs and recommends reimbursement to DTRA. As explained below, CH2M maintained adequate documentation for its travel costs, especially in light of the fact that the record retention period expired almost two years prior to issuance of the Audit Report.

The Contract "includes a requirement for all contractor personnel performing work in the United States Central Command (USCENTCOM) Area of Responsibility (AOR) to obtain country cable clearance from the Combatant Commander prior to departing from the United States." Audit Report, p. 33. The Contract incorporates Class Deviation 2011-O0004 DFARS 252.225-7995, Contractor Personnel Performing in the United States Central Command Area of Responsibility, which requires that "[b]efore contractor personnel depart from the United States or a third country, and before contractor personnel residing in the host country begin contract performance in the USCENTCOM AOR, [CH2M] shall ensure . . . [a]ll personnel have received theater, ["country cable"], clearance, if required by the Combatant Commander." Contract, p. 49.

Consistent with this requirement, CH2M obtained approval for the travel to Dubai, as reflected in the travel log that CH2M provided the auditors. The relevant clause does not detail the form in which the approval must be maintained and the contemporaneous documentation CH2M provided evidences that approval was obtained. *See BearingPoint Inc.*, ASBCA No. 55354, 09-2 BCA ¶ 34,289 (contractors are not required to maintain "nice neat little files" of documentation to support cost allowability). Regardless, CH2M's obligation to retain records supporting these travel costs expired at the end of fiscal year ("FY") 2018. FAR § 4.705 (requiring that records be retained for no more than four years from the end of the fiscal year in which the cost is incurred). The relevant travel occurred in FY 2014, which means that CH2M's obligation to maintain any records supporting the travel costs expired at the end of FY 2018. CH2M further communicated to Cohn Reznick that the Government itself observes record retention limitations. Indeed, the Government's own records maintained within the Aircraft and Personnel Automated Clearance system

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(APACS) have been purged due to the age of the records. As a result, it is unreasonable to question these travel costs based on the adequacy of CH2M's documentation when CH2M had no obligation to maintain the allegedly required documentation.

DTRA personnel travelled to and also participated in the meeting that was held in Dubai and was subsequently documented within the monthly progress report. DTRA accepted the benefit of this travel, which was required by the Contract, and reimbursed CH2M for these travel costs at the time they were incurred. These facts further evidence that the government approved of the travel to Dubai.

2.5 Any Potential Government Claim to Recover Allegedly Unallowable Subcontract Costs Is Precluded, in Part, by the Statute of Limitations

Any potential government claim to recover the allegedly unallowable subcontract costs paid in FY 2014 accrued, in part, more than six years ago and is barred by the Contract Disputes Act's ("CDA") six-year statute of limitations. The CDA requires that "each claim by the Federal Government against a contractor relating to a contract shall be submitted within 6 years after the accrual of the claim." 41 U.S.C. § 605(a)(4)(A). A claim accrues when "all events, that fix the alleged liability . . . and permit assertion of the claim, were known or should have been known," and some injury has occurred. FAR § 33.201. For statute of limitations purposes, the events fixing liability are known, or should have been known, at the time they occurred, except in those instances where they were concealed or inherently unknowable. *Raytheon Missile Sys.*, ASBCA No. 58011, 13-1 BCA ¶ 35,241. Thus, a government claim begins to accrue under the CDA when: (1) all events that fix the alleged liability have occurred; (2) all events that permit assertion of the claim have occurred; and (3) the government knew or should have known of its potential claim.

The events that fixed the alleged liability and permitted the government to assert its claim to recover allegedly unallowable subcontract and travel costs occurred, in part, more than six years ago when CH2M invoiced DTRA for the subcontract and travel costs and DTRA paid those costs. See *Sparton DeLeon Springs, LLC*, ASBCA No. 60416, 17-1 BCA ¶ 36,601; *JBG/Fed. Ctr., LLC*, CBCA 5506, 18-1 BCA ¶ 37,019. At the time CH2M submitted its invoices, DTRA had all of the information it needed to determine whether the subcontract and travel costs were allowable and paid the invoices for these costs. Any potential government claim to recover allegedly unallowable subcontract and travel costs for FY 2014, therefore accrued, in part, more than six years ago and is now barred by the CDA's six-year statute of limitations.

3. CONCLUSION

For all the reasons set forth above, the Audit Report's findings are unsupported and CH2M maintains that its accounting system is adequate and no subcontract or travel cost disallowances are appropriate. CH2M fully performed the Contract and DTRA accepted the benefit of CH2M's subcontract and travel costs at the time the work was performed. Any

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cost disallowance now, long after CH2M's record retention requirements expired, would result in an inappropriate windfall to the government.

CH2M looks forward to further discussing this matter with the DTRA Contracting Officer and resolving these audit findings. Please contact the undersigned with any questions.

Sincerely,

A handwritten signature in blue ink, appearing to read "John R. Henderson".

John R. Henderson
Vice President, Government Compliance



Independent Member of Nexia International

cohnreznick.com

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:

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