

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 16-43 Financial Audit

Construction of the 4th Special Forces Kandak Facilities and Renovation of the 2nd Commando Brigade Headquarters: Audit of Costs Incurred by PRI/DJI, A Construction JV

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



JULY
2016

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On April 18, 2011, the 772nd Enterprise Sourcing Squadron, in support of the Air Force Center for Engineering and the Environment—reorganized in 2012 as the Air Force Civil Engineer Center (AFCEC)—awarded an 18-month, \$15.6 million cost plus fixed fee task order to PRI/DJI, A Construction JV (PRI/DJI). The joint venture is comprised of Project Resources, Inc. and Del-Jen, Inc. The purpose of the task order was to design and construct facilities for the Afghan National Army's 4th Special Forces Kandak, and renovate existing facilities for the 2nd Commando Brigade Headquarters, both located at Shindand Airfield in Herat province, Afghanistan. Through seven modifications to the task order, the period of performance was extended to September 14, 2013, and the total award amount increased to \$28.1 million.

SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe), reviewed \$28,179,391 in expenditures charged to the task order from April 18, 2011, through September 14, 2013. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in PRI/DJI's internal controls related to the task order; (2) identify and report on instances of material noncompliance with the terms of the task order and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether PRI/DJI has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of PRI/DJI's Special Purpose Financial Statement. See Crowe's report for the precise audit objectives.

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

July 2016

Construction of the 4th Special Forces Kandak Facilities and Renovation of the 2nd Commando Brigade Headquarters: Audit of Costs Incurred by PRI/DJI, A Construction JV

SIGAR 16-43-FA

WHAT THE AUDIT FOUND

Crowe identified three material weaknesses and two significant deficiencies in PRI/DJI's internal controls, and five instances of noncompliance with the terms of the task order. Specifically, Crowe found that neither PRI/DJI nor its subcontractor, Tetra Tech EC, Inc. (TtEC), could provide sufficient documentation to support the receipt, disposition, or transfer of \$6,177 in equipment and property used during the project. Additionally, Crowe noted that PRI/DJI and TtEC could not provide supporting documentation for \$53,800 in subcontractor costs. Also, TtEC did not provide adequate support for competitive procurement processes for four vendors/subcontractors, resulting in \$14,116 of potential overpayments for services. Finally, Crowe found that PRI/DJI incorrectly calculated its fixed-fee amount. However, this mathematical error did not prompt any questioned costs.

As a result of these internal control weaknesses and instances of noncompliance, Crowe identified \$74,093 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval. Crowe did not identify any ineligible costs—costs prohibited by the task order, applicable laws, or regulations.

Category	Unsupported	Ineligible	Total Questioned Costs
Subcontractors	\$74,093	\$0	\$74,093
Totals	\$74,093	\$0	\$74,093

PRI processed payments to its subcontractors beyond the 7-day FAR requirement, thus PRI/DJI effectively received an advance from the U.S. government, resulting in \$1,427 in interest due to the U.S. government.

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

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

WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the responsible contracting officer at AFCEC:

1. **Determine the allowability of and recover, as appropriate, \$74,093 in questioned costs identified in the report.**
2. **Collect \$1,427 in interest from PRI/DJI.**
3. **Advise PRI/DJI to address the report's five internal control findings.**
4. **Advise PRI/DJI to address the report's five noncompliance findings.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

July 8, 2016

The Honorable Ashton B. Carter
Secretary of Defense

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

General John W. Nicholson
Commander, U.S. Forces–Afghanistan and
Commander, Resolute Support

General Ellen M. Pawlikowski
Commander, U.S. Air Force Materiel Command

Mr. Randy E. Brown
Director, Air Force Civil Engineer Center

We contracted with Crowe Horwath LLP (Crowe) to audit the costs incurred by PRI/DJI, A Construction JV (PRI/DJI) under a task order awarded by the 772nd Enterprise Sourcing Squadron, in support of the Air Force Center for Engineering and the Environment—reorganized in 2012 as the Air Force Civil Engineer Center (AFCEC).¹ The purpose of the task order was to design and construct facilities for the Afghan National Army's 4th Special Forces Kandak, and renovate existing facilities for the 2nd Commando Brigade Headquarters, both located at Shindand Airfield in Herat province, Afghanistan. Crowe's audit reviewed \$28,179,391 in expenditures charged to the task order from April 18, 2011, through September 14, 2013. Our contract required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Based on the results of the audit, SIGAR recommends that the responsible contracting officer at AFCEC:

- 1. Determine the allowability of and recover, as appropriate, \$74,093 in questioned costs identified in the report.**
- 2. Collect \$1,427 in interest from PRI/DJI.**
- 3. Advise PRI/DJI to address the report's five internal control findings.**
- 4. Advise PRI/DJI to address the report's five noncompliance findings.**

The results of Crowe's audit are detailed in the attached report. We reviewed Crowe's report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on PRI/DJI's Special Purpose Financial Statement. We also express no opinion on the effectiveness of PRI/DJI's internal control or compliance with the task order, laws, and regulations. Crowe is responsible for the attached auditor's report and the conclusions expressed in the report. However, our review disclosed no

¹ The Air Force Center for Engineering and the Environment awarded contract no. FA890306-D-8506, task order 005, to PRI/DJI.



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instances where Crowe did not comply, in all material respects, with U.S. generally accepted government auditing standards issued by the Comptroller General of the United States.

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

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-078)



PRI/DJI, A Construction JV

Special Purpose Financial Statement

Contract Number FA890306-D-8506, Task Order 005

For the Period April 18, 2011, through September 14, 2013

(With Independent Auditor's Report Thereon)

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Transmittal Letter

May 27, 2016

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

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

We appreciate the opportunity to provide to you our report regarding the procedures that we have completed during the course of our audit of PRI/DJI, A Construction JV's ("PRI/DJI") contract number FA890306-D-8506, task order 005, with the United States Department of the Air Force funding the construction of the 4th Special Forces Kandak and renovation of the 2nd Commando Brigade's headquarters in Shindand, Afghanistan.

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

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

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

Sincerely,

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

Melinda J. DeCorte, CPA, Partner
Crowe Horwath LLP



www.crowehorwath.com

Summary

Background

On April 18, 2011, the 772nd Enterprise Sourcing Squadron, in support of the United States Air Force Center for Engineering and the Environment (“AFCEE”), awarded task order 005 under indefinite delivery indefinite quantity (IDIQ) contract number FA8903-06-D-8506 to PRI/DJI, A Construction JV¹. Included within the original task order proposal submitted to AFCEE alongside PRI/DJI was Tetra Tech EC (“TtEC”). TtEC was established as a teaming partner on the IDIQ contract executed by and between PRI/DJI and AFCEE effective October 24, 2008, as per modification P00007 of the IDIQ contract. AFCEE subsequently became a part of the Air Force Civil Engineer Center (“AFCEC”), which has current oversight of the contract.

The task order was established to fund the construction of the 4th Special Forces Kandak and renovation of the 2nd Commando Brigade’s headquarters in Shindand, Afghanistan. Task order 005 was issued as a cost plus fixed fee award valued at \$15,633,135 and including an initial period of performance beginning on the award date, April 18, 2011, and expiring on October 17, 2012.

Through seven subsequent modifications to the task order, the period of performance was extended to September 14, 2013, and the total award amount increased to \$28,179,391. The work was completed within the task order period of performance, and PRI/DJI reported total billings, including both costs incurred and fixed fee earnings, of \$28,179,391.

Work Performed

Crowe Horwath LLP (“Crowe”) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) to conduct a financial audit of PRI/DJI’s construction and renovation activities under the task order.

Objectives Defined by SIGAR

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

Audit Objective 1 – Special Purpose Financial Statement

Express an opinion on whether the Special Purpose Financial Statement for the task order presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government, and balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.

Audit Objective 2 – Internal Controls

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

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

Audit Objective 3 – Compliance

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

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations

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

Scope

The scope of the audit included the period April 18, 2011, through September 14, 2013. The audit was limited to those matters and procedures pertinent to the contract task order that have a direct and material effect on the Special Purpose Financial Statement (“SPFS”). The audit also included an evaluation of the presentation, content, and underlying records of the SPFS. Further, the audit included reviewing the financial records that support the SPFS to determine if there were material misstatements and if the SPFS was presented in the format required by SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

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

Methodology

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

For purposes of meeting Audit Objective 1 pertaining to the SPFS, transactions were selected from the financial records underlying the SPFS and were tested to determine if the transactions were recorded in accordance with the basis of accounting identified by the auditee; were incurred within the period covered by the SPFS and in alignment with specified cutoff dates; were appropriately allocated to the award if the cost benefited multiple objectives; and were adequately supported.

With regard to Audit Objective 2 regarding internal control, Crowe requested and the auditee provided copies of policies and procedures and verbally communicated those procedures that do not exist in written format to provide Crowe with an understanding of the system of internal control established by PRI/DJI. Similarly, due to PRI/DJI’s having subcontracted procurement and equipment and property management functions to its teaming partner, TtEC, Crowe obtained copies of documented policies and procedures from TtEC. Where written procedures did not exist or were not applied to activities in Afghanistan, Crowe conducted interviews of TtEC and obtained written narratives regarding the procedures that were implemented in-country. The system of internal control is intended to provide reasonable assurance of achieving reliable financial and performance reporting and compliance with applicable laws and regulations. Crowe corroborated internal controls identified by the auditee and conducted testing of select key controls to understand if they were implemented as designed.

Audit Objective 3 requires that tests be performed to obtain an understanding of the auditee's compliance with requirements applicable to the contract task order. Crowe identified – through review and evaluation of the contract task order and the IDIQ contract executed by and between AFCEE and PRI/DJI, the Federal Acquisition Regulation (“FAR”), and the Defense Federal Acquisition Regulation Supplement, the Air Force Federal Acquisition Regulation Supplement, and the Air Force Material Command Federal Acquisition Regulation Supplement – the criteria against which to test the SPFS and supporting financial records and documentation. Using sampling techniques, Crowe selected expenditures, invoices submitted to the Government for payment, procurements, property and equipment dispositions, and subcontracts issued under the contract and corresponding costs incurred. Supporting documentation was provided by the auditee and subsequently evaluated to assess PRI/DJI's compliance. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in accordance with the rates that were included within the proposal that resulted in the task order's award to PRI/DJI, review of TtEC's indirect cost rate calculation due to TtEC's not having an approved rate agreement, and reviewing adjustments to billings based on preliminary or proposed rates were made, as required and applicable.

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

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

Summary of Results

Upon completion of Crowe's procedures, Crowe identified six findings because they met one or more of the following criteria: (1) significant deficiencies in internal control, (2) material weaknesses in internal control, (3) noncompliance with rules, laws, regulations, or the terms and conditions of the contract task order; and/or (4) questioned costs resulted from identified instances of noncompliance. Other matters that did not meet the criteria were communicated either verbally to PRI/DJI or were included within a management letter dated December 3, 2015.

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

Crowe also reported on both PRI/DJI's compliance with the applicable laws, rules, regulations, and the terms and conditions of the contract task order and the internal controls over compliance and financial reporting. Three material weaknesses, two significant deficiencies, and five instances of noncompliance were reported. Where internal control and compliance findings pertained to the same matter, they were consolidated within a single finding. A total of \$74,093 in costs was questioned and \$1,427 in interest penalties were calculated. Questioned costs are presented in **TABLE A** contained herein.

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

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

TABLE A: Summary of Findings and Questioned Costs

Finding Number	Matter	Questioned Costs	Cumulative Unique Questioned Costs
2015-01	Property Management	\$6,177	\$6,177
2015-02	Subcontractor Monitoring	\$0	\$6,177
2015-03	Certificates of Current Cost and Pricing Data	\$53,800	\$59,977
2015-04	Prompt Payment of Subcontractors	\$0	\$59,977
2015-05	Noncompetitive Procurement and Cost Reasonableness	\$14,116	\$74,093
2015-06	Fixed Fee Billing	\$0	\$74,093
Total Questioned Costs			\$74,093

Summary of Management Comments

In general, management disagreed with the classifications of findings as material weaknesses or significant deficiencies. In addition, management disagreed with findings 2015-01, 2015-02, 2015-03, and 2015-05. PRI/DJI management disagreed with the audit's results because management considered that: 1) its disclosure of certain matters to the Government constituted reasonable justification or tacit approval of certain instances of noncompliance (e.g., lack of certificates of current cost or pricing data); 2) Government property items that were not appropriately tracked were of low value and should not have been classified as "material"; 3) it was acceptable for management to document a subcontractor monitoring policy after the task order's period of performance concluded; and 4) Government's acceptance of the project proposal, which included estimates of compensation for certain independent contractor-filled positions, reflected approval of compensation rates subsequently negotiated by and between the auditee and subcontractors. Additional detail is provided within management's comments at **Appendix A**. Management concurred with the facts underlying findings 2015-04 and 2015-06.

References to Appendices

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

INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

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

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

Report on the Special Purpose Financial Statement

We have audited the Special Purpose Financial Statement ("the Statement") of PRI/DJI, A Construction JV ("PRI/DJI"), and related notes to the Statement, with respect to the Construction of the 4th Special Forces Kandak and Renovation of the 2nd Commando Brigade Headquarters in Shindand, Afghanistan, project funded by contract number FA8903-06-D-8506, task order 5, for the period April 18, 2011, through September 14, 2013.

Management's Responsibility for the Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of the Statement in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") in Appendix IV of Solicitation ID11140014014 ("the Contract"). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a Statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

(Continued)

Basis for Qualified Opinion

Due to management's not having performed physical inventories of property acquired during the contract's period of performance or otherwise retaining adequate property records, we were unable to obtain sufficient, appropriate audit evidence to conclude that the value of property charged to the contract, which is stated as \$60,977, is accurate and complete and that the items funded were received. This matter may, therefore, result in a misstatement of an indeterminable amount to the costs incurred as reported on the Statement.

Qualified Opinion

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

Basis of Presentation

We draw attention to Note 1 to the Statement, which describes the basis of presentation. The Statement was prepared by PRI/DJI in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction in Appendix IV of the Contract and presents those expenditures as permitted under the terms of contract number FA8903-06-D-8506, task order 5, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the Award referred to above. Our opinion is not modified with respect to this matter.

Restriction on Use

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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued reports dated December 3, 2015, on our consideration of PRI/DJI's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PRI/DJI's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

December 3, 2015
Washington, D.C.

PRI/DJI, A Construction JV
Special Purpose Financial Statement
Contract Number FA8903-06-D-8507, Task Order 5
For the Period April 18, 2011, through September 14, 2013

			Questioned Costs		Notes
	Budget	Actual	Ineligible	Unsupported	
Revenues					4, C
AFCEC Contract FA8903-06-D-8506-0005	\$ 28,179,391	\$ 28,179,391			
Total Revenue	\$ 28,179,391	\$ 28,179,391			
Costs Incurred					5
Labor	\$ 1,124,942	\$ 1,281,191			
Subcontractors	22,857,890	22,673,949		\$ 74,093	A, B, D
Other Direct Costs:					
Travel/Subsistence	68,236	66,121			
Insurance	169,184	199,175			
Other	3,030	5,138			
G&A	2,188,918	2,152,144			
Cost Reduction	(38,803)	(4,321)			
Total Costs Incurred	\$ 26,373,397	\$ 26,373,397			
Fee	\$ 1,805,994	\$ 1,805,994			7
Balance	\$ -	\$ -		\$ 74,093	6

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

PRI/DJI, A Construction JV
Notes to the Special Purpose Financial Statement
For the Period April 18, 2011 through September 14, 2013

Note 1. Basis of Presentation

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Task Order 0005 issued under Contract No. FA8903-06-D-8506 by the Air Force Civil Engineering Center ("AFCEC") for Heavy Engineering Repair and Construction ("HERC") and the Construction of 4th Special Forces Kandak and 2nd Commando Brigade Headquarters at Shindand, Afghanistan for the period April 18, 2011 through September 14, 2013. Because the Statement presents only a selected portion of the operations of PRI/DJI, A Construction JV ("PRI/DJI"), it is not intended to and does not present the financial position, changes in net assets, or cash flows of PRI/DJI. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal contract task order. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Basis of Accounting

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

Note 3. Foreign Currency Conversion Method

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

Note 4. Revenues

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

Note 5. Costs Incurred by Cost Category

The budgeted amounts reflect those amounts approved as of Modification No. 07 dated September 18, 2014, which established the final budgetary amounts for the task order.

Note 6. Balance

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

Note 7. Fixed Fee

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

Total Fixed Fee	\$1,805,994
Amount Paid to Date	<u>1,780,994</u>
Balance Due	<u>\$ 25,000</u>

Note 8. Currency

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

Note 9. Program/Project Status

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

Note 10. Cost Reduction

The \$38,803 cost reduction reflected in the Statement represents a blanket reduction applied by the Government to the overall project budget but which was not itemized by cost item or deliverable. Accordingly, the reduction is reflected as a separate line item on the Statement and the corresponding \$4,321 represents costs that were incurred but unbilled as they exceeded the overall budget, inclusive of the cost reduction. The costs were considered by management to be otherwise allowable.

Note 11. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the April 18, 2011 through September 14, 2013, period covered by the Statement. Management has performed their analysis through December 3, 2015.

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

Note A. Property Management

Finding 2015-01 questioned \$6,177 in costs due to a lack of property records being available to support the receipt and appropriate disposition or transfer of equipment and property.

Note B. Certificates of Current Cost and Pricing Data

Finding 2015-03 questioned \$53,800 due to a lack of documentation and information being available to specify the costs, services, and/or items comprising certain lump sum prices included in subcontractor proposals provided to Tetra Tech EC.

Note C. Prompt Payment to Subcontractors

Finding 2015-04 identified \$1,427 in interest penalties as a result of PRI/DJI's not having paid its subcontractors within seven calendar days of PRI/DJI's receiving its reimbursement from the Government.

Note D. Noncompetitive Procurement and Cost Reasonableness

Finding 2015-05 questioned \$14,116 due to a lack of documentation available to support the reasonableness of consultant costs that were incurred following the sole source selection of two master electricians.

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Statement") of PRI/DJI, A Construction JV ("PRI/DJI"), and related notes to the Statement, with respect to the Construction of the 4th Special Forces Kandak and Renovation of the 2nd Commando Brigade Headquarters in Shindand, Afghanistan, project funded by contract number FA8903-06-D-8506, task order 5, for the period April 18, 2011, through September 14, 2013. We have issued our report thereon dated December 3, 2015, within which we have qualified our opinion.

Internal Control over Financial Reporting

PRI/DJI's management is responsible for establishing and maintaining effective internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the contract; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of presentation described in Note 1 to the Statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the Statement for the period April 11, 2008, through September 14, 2013, we considered PRI/DJI's internal controls to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of PRI/DJI's internal control. Accordingly, we do not express an opinion on the effectiveness of PRI/DJI's internal control.

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

(Continued)

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies noted in Findings 2015-01, 2015-02, and 2015-03 in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency noted in Findings 2015-04 and 2015-05 in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

We identified a deficiency in internal control that we communicated to management as identified in the accompanying Schedule of Findings and Questioned Costs as Finding 2015-06.

We noted certain matters that we reported to PRI/DJI's management in a separate letter dated December 3, 2015.

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

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

Purpose of this Report

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

Restriction on Use

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

Crowe Horwath LLP

Crowe Horwath LLP

December 3, 2015
Washington, D.C.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Statement") of PRI/DJI, A Construction JV ("PRI/DJI"), and related notes to the Statement, with respect to the Construction of the 4th Special Forces Kandak and Renovation of the 2nd Commando Brigade Headquarters in Shindand, Afghanistan, project funded by contract number FA8903-06-D-8506, task order 5, for the period April 18, 2011, through September 14, 2013. We have issued our report thereon dated December 3, 2015, within which we have qualified our opinion.

Management's Responsibility for Compliance

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Findings 2015-01, 2015-03, 2015-04, 2015-05, and 2015-06 in the accompanying Schedule of Findings and Questioned Costs.

We noted certain matters that we reported to PRI/DJI's management in a separate letter dated December 3, 2015.

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

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed

in accordance with *Government Auditing Standards* in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

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

Crowe Horwath LLP

Crowe Horwath LLP

December 3, 2015
Washington, D.C.

SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2015-01: Property Management

Material Weakness and Noncompliance

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

During the course of the audit, TtEC developed a listing of equipment and property items using purchase orders and subcontractor invoices to provide its best estimate of items received and used during the award’s period of performance. The sum of the values appearing in the listing (\$60,977) and items transferred to TtEC for use on the award (\$23,236) listing is \$84,213. Per review of the transfer-in document summarizing items turned over to the Government during the project completion and closeout period, \$78,036 in property was transferred to the Government. The difference of \$6,177, per TtEC, is assumed to represent items that were transferred or provided to other individuals for use on other projects or were lost, stolen, damaged, or destroyed. A listing or other such support specifying which individuals or organizations received which items was not provided.

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

- Inspection of items delivered at the receiving office or field site and subsequent completion and signing of the Tetra Tech Material Received Report;
- Maintenance of adequate control records of all Government property in Tetra Tech’s possession, including contractor-acquired property;
- Property records to be maintained in an automated system;
- Performance of a 100% physical inventory on an annual basis, at a minimum, that includes all accountable Government property under the contract to include Tetra Tech owned property and accountable Government property in the custody of subcontractors; and
- Provision of a Loss, Damaged, Destroyed, or Stolen property report in each instance that property is lost, damaged, destroyed, or subject to theft.

FAR 52.245-5, which was incorporated within PRI/DJI’s indefinite delivery indefinite quantity contract, states that “The Contractor shall be responsible and accountable for all Government property provided under the contract...” The regulation continues to require the Contractor to notify the Contracting Officer upon loss or destruction of, or damage to, Government property provided under the contract.

Questioned costs: \$6,177, which represents the value of property items presently unaccounted for and that are identifiable from existing property records. Due to the inadequacy of the property records, the actual value of all property that remains unaccounted for is indeterminable.

Effect: In the absence of adequately maintained records, one cannot determine if the property items invoiced to the Government were received, were appropriately used for Federal project purposes only, and if the items that were not transferred to the Government were provided to appropriate parties at the conclusion of the award’s period of performance.

Cause: TtEC did not develop a transition plan to ensure that property management responsibilities were appropriately transitioned to another individual upon the initial property manager’s separation from the company. TtEC’s management did not adequately monitor in-country activities to ensure that property management activities were being executed, as intended.

(Continued)

Recommendation: We recommend that PRI/DJI collaborate with TtEC to develop a full accounting of equipment and property purchased under the task order. We further recommend that PRI/DJI modify its teaming agreement with TtEC to require that TtEC conduct a periodic review of property records and inventories to ensure that records are being maintained and inventories are being conducted. Lastly, we recommend that PRI/DJI reimburse the Government \$6,177, which represents the unaccounted value of property items.

(Continued)

Finding 2015-02: Subcontractor Monitoring

Material Weakness

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

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

Questioned costs: None.

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

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

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

(Continued)

Finding 2015-03: Certificates of Current Cost and Pricing Data

Material Weakness and Non-Compliance

Condition: During our testing procedures, we identified four subcontracts that triggered the requirement for certified cost and pricing data. The threshold was exceeded for the four subcontracts noted below.

Procuring Organization	Subcontractor	Subcontract / PO Number	Amount
PRI/DJI	Tetra Tech EC	116002.01-003	\$8,665,244
PRI/DJI	Emrooz Engineering	1165-160-01	\$5,827,745
Tetra Tech EC	Emrooz Engineering	1072816	\$9,192,595
Tetra Tech EC	Emrooz Engineering	1059492	\$2,433,285

Of the four subcontracts, certificates of current cost or pricing data were not provided by PRI/DJI for three modifications to Subcontract 116002.01-003: modification 001 in the amount of \$2,525,919; modification 002 in the amount of \$1,860,101; and modification 004 in the amount of \$981,913. In addition, Tetra Tech EC did not provide copies of the certificates of current cost or pricing data for modifications 4, 10, and 14, respectively, to subcontract 1072816. The modification amounts were \$1,118,575 (modification 4), \$886,789 (modification 10), and \$739,704 (modification 14).

During our review of the modifications, we noted that the supporting documentation for Emrooz modification No. 4 was inadequate to fully support the amount of the modification. Of the amounts included in the modification support, we identified \$53,800 in lump sum estimates without sufficient support to understand what was being purchased and whether the components were reasonable. Tetra Tech EC's support for reasonableness, in response to the Purchasing Agent's inquiry regarding how the price was established, consistent of the following assertion: "Lump sum price from Emrooz. Comparable to past pricing." In the absence of additional cost or pricing data and associated price analysis, the reasonableness of the cost is in question.

Regarding other components of the modification, Tetra Tech EC's historical email support and written explanations indicated that reasonableness of the remaining costs was determined through comparisons to costs from the competitive procurement. An internal engineering estimate was also provided; however, the date of the estimate and the basis for estimates were not included in or on the supporting documents.

With respect to the remaining three subcontracts, PRI/DJI and Tetra Tech EC provided documentation indicating that competitive procedures had been completed and, therefore, the requirement for certified cost and pricing data was not applicable. No issues were identified with respect to subcontract 1165-160-01. However, with respect to purchase orders 1072816 and 1059492, the supporting documentation provided did not provide sufficient detail to assess the extent to which cost was factored in the vendor's selection. Rather, the solicitation documents indicated that the award(s) would be made based on best value, and the additional narratives provided by TtEC stated that awards were made based on a combination of the "lowest unit rates received or selection of appropriate unit rates based upon past experience." The weighting of these factors, however, was unclear.

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

FAR 52.215-12(b) states, "The Contractor shall require the subcontractor to certify in substantially the form prescribed in FAR 15.406-2 that, to the best of its knowledge and belief, the data submitted under

(Continued)

paragraph (a) of this clause were accurate, complete, and current as of the date of agreement on the negotiated price of the subcontract or subcontract modification."

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

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

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

- (c) *Standards for exceptions from certified cost or pricing data requirements—*
- (1) *Adequate price competition.* A price is based on adequate price competition if—
- (i) Two or more responsible offerors, competing independently, submit priced offers that satisfy the Government's expressed requirement and if—
- (A) Award will be made to the offeror whose proposal represents the best value (see 2.101) where price is a substantial factor in source selection; and
- (B) There is no finding that the price of the otherwise successful offeror is unreasonable. Any finding that the price is unreasonable must be supported by a statement of the facts and approved at a level above the contracting officer.

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

Questioned costs: \$53,800, the value of the lump sum estimates for which sufficient support was not provided to understand what was being purchased and whether the components were reasonable.

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

Cause: TtEC chose not to request certificates of current cost or pricing data from foreign subcontractors due to an initial inability to obtain the certificates. PRI/DJI could not locate the certificates provided by TtEC.

Recommendation: We recommend the following:

1. That PRI/DJI conduct a review of TtEC-led procurements to determine if additional instances of noncompliance with certified cost and pricing data may exist.
2. That PRI/DJI incorporate, as a component of its subcontract closeout process, a review of the procurement file to ensure certificates of current cost and pricing data are present and have been retained.
3. That PRI/DJI require TtEC to undergo additional training regarding procurements conducted under the FAR, inclusive of price and cost analyses.
4. That TtEC either identify documentation sufficient to support the reasonableness of the costs or otherwise repay the Government for the \$53,800 in costs incurred and reimbursed to Emrooz.
5. That TtEC modify its procurement procedures to require internal engineering estimates to be dated and the basis for calculating estimates to be documented on the final engineering estimate.
6. That TtEC modify its procurement procedures to incorporate a requirement that evaluation criteria be quantified and identified in both procurement files and solicitation documents.

(Continued)

Finding 2015-04: Prompt Payment of Subcontractors

Significant Deficiency and Non-Compliance

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

No.	Invoice #	Subcontractor	Amount	Date Paid	Days Late	Interest Penalty
1	50513602	Tetra Tech	\$ 511,601	1/17/2012	1	\$ 28.42
2	50580853	Tetra Tech	\$ 325,849	9/14/2012	8	\$ 126.72
3	50580853	Tetra Tech	\$ 258,656	9/14/2012	8	\$ 100.59
4	50571535	Tetra Tech	\$ 2,441	8/6/2012	3	\$ 0.36
5	29	Emrooz	\$ 454,073	5/24/2012	10	\$ 252.26
6	30	Emrooz	\$ 166,703	5/24/2012	10	\$ 92.61
7	50559826	Tetra Tech	\$ 786,574	6/12/2012	11	\$ 480.68
8	50559826	Tetra Tech	\$ 465,044	6/12/2012	11	\$ 284.19
9	50580853	Tetra Tech	\$ 84,146	9/14/2012	8	\$ 32.72
10	50571535	Tetra Tech	\$ 179,565	8/6/2012	3	\$ 26.19
11	50571535	Tetra Tech	\$ 17,989	8/6/2012	3	\$ 2.62
Total Interest Penalty						\$ 1,427

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

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

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

Questioned costs: None. However, the interest penalty payable is \$1,427

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

Cause: For the invoice ending in 9826, the item was missed in the weekly accounts payable run and was paid the next week. For invoice 1535, PRI/DJI did not print the receipt until four days after receipt of

(Continued)

payment. Therefore, the trigger to make the payment was late. For the invoice ending in 0853, PRI/DJI had received a short payment and could not determine which items were short paid. This caused a delay in issuing payments to vendors. In addition, the payment terms of the subcontract with Tetra Tech was 10 calendar days from receipt of payment, which was less restrictive than the regulatory requirement and contributed to payment errors.

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

1. Incorporate a periodic review of subcontractor payments to ensure that payments are made in a timely manner.
2. Remit the \$1,427 in interest penalties to the Government for appropriate resolution and distribution.
3. Modify the terms of the TtEC subcontract to require payment within seven days of receipt of reimbursement from the Government to be consistent with the Federal regulatory requirements.

(Continued)

Finding 2015-05: Noncompetitive Procurement and Cost Reasonableness

Significant Deficiency and Non-Compliance

Condition: During our testing of thirteen procurements, we identified four instances in which noncompetitive procedures were utilized for vendor/subcontractor selection without adequate justification. Tetra Tech EC's procurement support, including the sole source justification and award decision memoranda, indicates that the use of noncompetitive procedures was due to 1) the contractor being the only person capable of performing the work task and 2) unusual or compelling urgency. PRI/DJI further indicated that there were [REDACTED] concerns with utilizing local employees and, therefore, the company elected to not engage local nationals for certain positions. During our review of procurement files, we did not locate documentation supporting management's assertion that there was only one individual available to serve as a master electrician or construction superintendent. In addition, we reviewed documentation from another U.S. Government-funded construction project in Afghanistan that included both evidence of the Government's having approved compensation rates for Afghan electricians and construction managers as well as evidence of construction managers having worked on the project. This support suggests that management's assertion was incorrect and/or unsupported. In addition, documentation supporting the unusual or compelling urgency scenario and the presence of [REDACTED] issues was not provided. Accordingly, the use of noncompetitive procedures does not appear to be appropriate.

The table, below, identifies the referenced procurements.

Subcontract/Purchase Order Number	Consultant	Subcontract/Purchase Order Amount
1070638	[REDACTED]	\$382,364
1081532	[REDACTED]	\$26,467
1079607	[REDACTED]	\$40,637
1080163	[REDACTED]	\$13,814

Of the four procurements, the reasonableness of one consultant's rate was inadequately supported within the procurement file. [REDACTED] who served as a construction superintendent, was paid \$22,000 per month. TtEC did not perform a market analysis or other such benchmarking effort to identify reasonable compensation levels. During additional discussions with PRI/DJI and TtEC, we noted that consultants were identified based upon referrals made by individuals that the companies were familiar with or had previously worked with. Local nationals were not evaluated due to concerns with in-country [REDACTED] practices and a perceived lack of expertise within the local culture.

As a result of the compensation matter noted with [REDACTED], we also reviewed other consultants' compensation structures. We identified three additional individuals with salaries that were considered to be higher than expected: [REDACTED] (Master Electrician), [REDACTED] (Master Electrician), and [REDACTED] (Construction Superintendent).

TtEC was able to provide salary bracket information for the construction superintendent position as provided by TtEC's human resources department. The salary brackets are developed based upon available national and regional compensation survey data obtained by Tetra Tech EC as part of its standard human resources and compensation activities. Per review of this information, the compensation amounts for the construction superintendent position were considered to be reasonable.

With regard to the master electrician position, adequate documentation to support reasonableness of the rates was not provided. Per the United States Bureau of Labor Statistics (BLS), using 2014 data, the electrician average salary (at the 90 percentile level to reflect enhanced skills and experience for a master electrician) is \$85,590. We have questioned the difference between the actual compensation paid to the consultants filling the master electrician position and what would be considered reasonable per our review of BLS information.

Lastly, during the selection of Emrooz Engineering and Construction to provide site investigation and design services, Emrooz was allowed to provide a best and final offer (BAFO). The provision of the BAFO resulted

in Emrooz's being the lower of two bidders participating in the procurement process. TtEC did not have evidence to show that the second bidder () was allowed to provide a BAFO. Further, the project manager and not just purchasing agent communicated with the respondent, which is contrary to TtEC procedures.

Criteria: FAR 52.244-05, as incorporated within PRI/DJI's basic contract with the U.S. Government and included in TtEC's subcontract, states that the contractor shall select subcontractors (including suppliers) on a competitive basis to the maximum practical extent consistent with the objectives and requirements of the contract.

Section 5.7 of TtEC's Acquisition Planning procedure identifies the permitted reasons for utilizing sole source procedures, which are summarized below:

- Only one firm is capable of performing the identified work;
- Unusual and compelling urgency. (However, lack of advance planning does not justify sole-source utilization);
- Authorized or required by statute;
- Client directed. A written directive from the client that directs use of a specified source;
- Team subcontractors of competitively awarded prime contracts;
- Client-approved subcontracting plans containing particular companies based on their socioeconomic category such as a HUBZone small business, small business, small disadvantaged business, small women-owned businesses, historically black college or university/minority institution, veteran owned small business (all categories), etc.
- Government project or Overhead acquisitions awarded at \$10,000.00 or below.

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

31.201–2 Determining allowability.

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

- (1) Reasonableness.
- (2) Allocability.
- (3) Standards promulgated by the CAS Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the circumstances.
- (4) Terms of the contract.
- (5) Any limitations set forth in this subpart.

31.201–3 Determining reasonableness.

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

Reference Tetra Tech EC's procurement overview (PD-400), Section 3.2.2, "Responsibilities", establishes the Purchasing Agent as the individual with responsibility for communication with offerors. Section 3.3.2.1, "Amending the Solicitation" states, "After releasing a solicitation, project personnel should not have further contact with the vendors except through or in conjunction with the [Purchasing Agent]."

Questioned costs: \$14,116

Effect: The Government may have been overcharged for the services provided and the Federal Acquisition Regulation requirements appear to have been violated.

Cause: The following items were noted as having contributed to the referenced internal control and noncompliance matters:

1. TtEC elected to hire independent contractors in lieu of employees and relied upon referrals from others to identify the potential pool of applicants rather than having an open recruitment process.
2. TtEC assumed that individuals in-country would not be ██████ sound and did not possess the necessary construction knowledge to serve in the applicable positions.
3. TtEC and PRI interpreted AFCEE statements regarding the need for qualified electricians to support the exclusion of local electricians.
4. PRI/DJI and TtEC considered the Government's acceptance of a proposal or modification that disclosed monthly pay rates to be an approval of their allowability, which includes reasonableness.
5. TtEC did not have management review the procurement files' award decision memoranda (ADM).
6. PRI/DJI did not conduct adequate monitoring of TtEC's procurement activities such that these matters could be detected and corrected.

Recommendation: We recommend that the following actions be taken:

1. TtEC and PRI/DJI should document a procedure for the recruitment of professionals working on international projects and include, as a component of the procedure, a process for the setting of compensation levels, outreach to the applicable U.S. Embassy for available compensation data when such information is not otherwise available through TtEC and PRI/DJI's designed processes, and conduct of a market assessment to determine the reasonableness of compensation levels.
2. TtEC should issue a written memorandum to procurement staff reiterating the expectation that a separate individual serve as the reviewer/approver of ADMs.
3. PRI/DJI, as the prime contractor, should reimburse the Government \$14,116 or otherwise provide documentation showing that the costs paid are reasonable based on a market analysis of compensation paid during the audit period for the same or similar work performed.
4. PRI/DJI should establish a process to conduct periodic reviews of TtEC's procurement files when TtEC functions as a teaming partner or subcontractor.
5. PRI/DJI should require that TtEC's management staff enroll in a training course to help mitigate the risk that FAR requirements will be violated for current and/or future Federal contracts.

Finding 2015-06: Fixed Fee Billing

Deficiency and Non-Compliance

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

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

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

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

Questioned costs: None

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

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

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

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

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

APPENDIX A: VIEWS OF RESPONSIBLE OFFICIALS

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



May 6, 2016

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

Attn: Ms. Melinda J. DeCorte

Subject: PRI/DJI, a Construction JV Response to SIGAR Draft Audit Report
Reference: Contract No. FA8903-06-D-8506, Task Order 0005

Dear Ms. DeCorte,

Enclosed is the PRI/DJI JV response to SIGAR audit Findings of the costs billed to the Government for AFCEC HERC Contract FA8903-06-D-8506, Task Order 0005.

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

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

Overall, while we do not agree with many of the points raised, PRI/DJI JV is open to further discussion with AFCEC to resolve any outstanding matters. We note that the findings account for less than three tenths of one percent of the total contract costs for this task order. One can only conclude that there is no harm (material or otherwise) to the Government demonstrated as a result of this audit process.

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

Sincerely,

PRI/DJI, a Construction JV

A handwritten signature in blue ink that reads 'William T. Campbell'.

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

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

Melinda J. DeCorte, CPA, Partner
Crowe Horwath LLP

PRI/DJI, a Construction JV Management Response

Special Purpose Financial Statement
Contract Number FA8903-06-D-8506, Task Order 0005
for
Construction of 4th Special Forces Kandak Headquarters and Renovation
of 2nd Commando Brigade Headquarters, Shindand, Afghanistan

May 6, 2016



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

Thank you for allowing PRI/DJI, a Construction JV (“PRI/DJI”) to respond to the Draft Audit Report prepared by Crowe Harwath LLP (“Crowe”) of the PRI/DJI performance of HERC Contract No. FA8903-06-D-8506, Task Order No. 0005 (“TO 0005”), with the United States Department of the Air Force funding the construction of the headquarters for the 4th Special Forces Kandak and renovation of the 2nd Commando Brigade’s headquarters in Shindand, Afghanistan.

I.

INTRODUCTION

In summary, we do not agree that there were material weaknesses or significant deficiencies in PRI/DJI’s or Tetra Tech EC, Inc.’s (“TtEC”) execution of the project. Accordingly, and for the reasons set forth, we respectfully request that the Findings be modified as presented and discussed further in this response. We have provided additional detailed explanations and supporting documentation for Crowe to reconsider their Findings. PRI/DJI is open to further discussion with Crowe and AFCEC on the points raised in this audit.

The Draft Audit Report states that “the objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition.” To the extent that the audit reflects a failure to account for the unique operating conditions in an extremely remote war zone under which TO 0005 was executed is unreasonable. What is reasonable must account for material differences in working in Afghanistan, a remote war zone over 7,300 miles away. To that extent, the Draft Audit Report in its questioning of costs, appears in some cases to seek “absolute” assurance, which is contrary to the fundamental objectives of the audit.

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

This fact was reflected in comments by the Air Force “Assessing Official” who prepared the PRI/DJI Final Contractor Performance Assessment Report (“CPAR”) for TO 0005, stating as follows:

“PRI/DJI worked closely with AFCEC officials to successfully complete 100% of the work. There were extensive scope changes during the construction and renovation work which increased the contract budget and schedule duration. During this task order the enemy activity closed main supply routes through the Pakistan Border which required the contractor to adapt and revise material sources. PRI/DJI’s construction activities involved utilization of over 400 Afghan laborers with no safety incidents. PRI/DJI maintained excellent communications with the COR and Contracting Officer and responded to changes in a professional, responsive manner and met the goals of the contract.”

We respectfully submit Management's Responses to the Findings in the Draft Audit Report for HERC Contract, Task Order 0005 and submit that no material weakness or significant deficiencies should be assessed with respect to the Findings.

II.
FACTUAL BACKGROUND

A. The PRI/DJI Team

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

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

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

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

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

2. TtEC – Team Subcontractor

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

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

III. MANAGEMENT RESPONSE

A. Finding 2015-01: Property Management

We do not concur with Finding 2015-01 that this is a material weakness and disagree with the questioned costs of \$6,177. We have requested TtEC respond to Finding 2015-01, and concur with the comments and rebuttal that they have provided, as stated below. With regard to the exercise equipment, PRI/DJI previously provided AFCEC a credit on its Voucher 27, dated June 11, 2012 and the audit Findings should be adjusted accordingly.

1. TtEC Response

TtEC disagrees this is a material weakness and disagrees with the questioned cost of \$6,177 for unaccountable items.

TtEC acknowledges that a higher level of diligence could have been placed on monitoring Government Property during the execution of TO 0005. However, there were mitigating circumstances that protected the Government from economic loss and therefore, a more costly Government tracking system and the cost-reimbursable labor to administer the system was not necessary. The main intent of FAR Part 45, Government Property, and the FAR contract clauses incorporated into Contract Number FA890306-D-8506 (the Prime Contract) is to ensure the Government maintains title and therefore, derives economic benefit from Government-furnished or contractor-acquired property used in the performance of a contract. In summary, there was no Government-Furnished Equipment (GFE) transferred to TtEC to monitor, maintain and turn back over to the Government after completion of TO 0005. The only Government Property was Contractor-Acquired Property (CAP) that was specifically used in support of our Life Support Area (LSA); and our interpretation is that all of these items should be considered a consumable

as their economic life did not extend beyond the duration of the task order. In addition and in compliance with the clause noted below, TtEC did a walk-through with the Contracting Officer's Representative (COR) and documented the LSA items at the end of the task order as they were all left in place at the site when TtEC demobilized. COR and TtEC PM signed DD1150 turnover documents are provided as **Exhibits TtEC-1 & 2**.

TO 0005 clause 1.2.14 952.225-0016(a)(5) – CONTRACTOR MOBILIZATION (NOV 2010), contained the following requirement:

A joint inventory shall be conducted of the equipment by the prime contractor, USG representative, and the Contracting Officer or their representative, within 10 calendar days after the end of the contract performance period. The prime contractor shall report lost, damaged or destroyed property immediately to the Contracting Officer, but no later than the joint inventory at the end of the contract period.

Performance of TO 0005 took place at an isolated location in a region of Afghanistan that had high levels of terrorist activities at the time of TO 0005's execution. Due to the harsh weather conditions of this contingency operation, including the extreme temperatures and sand/dust present in the air, the majority of the CAP had no economic value at the end of TO 0005 and therefore, should be considered a material that was consumed during the course of performance as the useful life of the material acquired did not exceed the duration of the task order. Any item not impacted by the harsh conditions (i.e., connex box) were reviewed with the COR upon completion of the contract and were left in place when TtEC demobilized. It is TtEC's position that all CAP should be considered a material or consumable and, as a result, TtEC met the requirements and the intent of FAR 45, FAR clause FAR 52.245-05 Government Property (Cost Reimbursement, Time-and-Material, or Labor-Hour Contracts) (DEVIATION) (MAY 2004) and TO 0005 clause 1.2.14 952.225-0016(a)(5) – CONTRACTOR MOBILIZATION (NOV 2010).

In summary, TtEC's mission under TO 0005 was to deliver a critical project to the Government under a contingency operation in harsh and dangerous conditions on an accelerated timeline. The CAP provided life support to the workers and was consumed such that the CAP had no economic value at the end of the task order. We disagree with the conclusion that this is a Material Weakness and Noncompliance based on the circumstances described above. The remainder of this response specifically addresses the \$6,177 that represents the value of unaccounted property items listed as questioned cost in the audit

The \$6,177 of CAP identified by the audit as not specifically listed on the TO 0005 transfer documents includes LSA and field office items such as office fans, small tools, disposable phones and simm cards, a projector, a coffee maker, small portable heaters, 2 dryers, 2 Split-Pak AC units, digital cameras, exercise equipment, a backup hard drive, generator parts, and a surge protector. All of these items were low-value property.

It should be noted that half of the items that make up the \$6,177 value had a purchase price of less than \$100 each, and 67% of the questioned items were purchased for less than \$200. As discussed above, the items identified on the equipment log include: fans, disposable phones, a projector, a coffee maker, portable heaters, digital cameras, hard drives, and a surge protector. All of these items are low-value consumables that are regularly replaced or destroyed during the

course of project execution, especially in an environment like Afghanistan where harsh working conditions tended to contribute to short CAP life cycles. High temperature ranges, dusty desert climates, construction work zones, and heavy usage were common reasons for typical wear and tear of these consumable items.

Several of the items listed on the equipment log meet this FAR clause's definition of "material" and should not have been included on the equipment list. "Material" means property that may be consumed or expended during the performance of a contract, component parts of a higher assembly, or items that lose their individual identity through incorporation into an end item. Material does not include equipment, special tooling, special test equipment or real property. "Nonseverable" means property that cannot be removed after construction or installation without substantial loss of value or damage to the installed property or to the premises where installed. FAR 52.245-1(a) and FAR 45.101.

- Generator parts were itemized on the equipment log, but they were affixed to the generators (Nonseverable) that are shown in the turnover documents and should not have been considered in this audit.
- Two (2) Split-Pak units were included as part of the equipment log, but they were installed at the FOB Thomas Project Office that is shown on the turnover documents and should not be considered in this audit.
- Two (2) Dryers (Nonseverable) were itemized as part of the equipment log. Though not specifically itemized, these dryers would have been included in the turnover price of \$23,236.20 of the entire building as shown on the signed DD1150 turnover form. Furthermore, during the course of approximately two years of project execution, and the fact that 15 to 20 staff supported this project from that field office, these two dryers received heavy use and would have had little to no value at the time of turnover. Given the lack of value at the time of turnover, there would have been no reason to move the dryers from the project office, and it is reasonable to assume these dryers were included in the building turnover. Cumulative value of these two dryers at time of purchase was \$860.00.

The exercise equipment was purchased for TtEC employees working out of the Kabul PMO office. This equipment was listed on the equipment log at the time of acquisition, however during the invoice review process between PRI/DJI, TtEC, and AFCEC it was later determined to be non-billable. The cost of this equipment was initially billed to the Government, but was later reversed via a credit memo (See **Exhibit TtEC-3**). Therefore the exercise equipment and its value of \$2,200 is not properly part of the audit and should not be included in the \$6,177 of questioned costs in the audit Findings.

All items discussed above were used for the execution of the project and any items not consumed during the project were left in place and not listed on turnover documents due to their relative low dollar value or their incorporation into other assets. As a result, it is TtEC's position that no credit, or \$0, is owed to the Government with respect to this audit Finding.

2. Response to Finding 2015-01: Property Management Recommendations

No.	Recommendation	PRI/DJI or TtEC Response
1	That PRI/DJI collaborate with TtEC to develop a full accounting of equipment and property purchased under the task order.	If further directed by AFCEC, PRI/DJI will collaborate with TtEC to develop a full accounting of equipment and property purchased under the task order.
2	That PRI/DJI modify its teaming agreement with TtEC to require that TtEC conduct a periodic review of property records and inventories to ensure that records are being maintained and inventories are being conducted.	In any future teaming agreements between PRI/DJI and TtEC, PRI/DJI will require TtEC to conduct a periodic review of property records and inventories to ensure that records are being maintained and inventories are being conducted.
3	That PRI/DJI reimburse the Government \$6,177, which represents the unaccounted value of property items.	Do not concur based on the responses to the audit Finding.

B. Finding 2015-02: Subcontractor Monitoring

PRI/DJI does not concur with this Finding. We disagree with the assertion that PRI/DJI “did not conduct monitoring/oversight” of TtEC to ensure that equipment and property management and procurement activities were performed in accordance with Federal requirements and terms and conditions of the subcontract. This Finding in many respects is derived from other Findings in the audit of TO 0005 which we dispute, as stated in our response. The conclusions stated in the audit Findings should be more consistent with the facts and be based on reasonable, and not absolute standards as have been applied. PRI/DJI monitored TtEC in an entirely reasonable manner.

Further it is not reasonable to state that “PRI did not consider monitoring to be necessary due to TtEC's past experience and expertise.” Rather, PRI/DJI actively monitored TtEC’s performance at every stage of the work, with our PRI/DJI onsite personnel and stateside. PRI/DJI management was directly involved in subcontractor oversight and management, particularly when issues arose which raised material problems and thus warranted greater attention. Where necessary, corrective action was decisively and clearly taken, with full knowledge of our AFCEC partners, who approved of TtEC’s selection for this subcontract role for TO 0005, and appreciated their efforts and the value they added.

It is also reasonable for PRI/DJI to take into account TtEC’s track record, experience and expertise in determining how much oversight was necessary. It would be unreasonable to apply

the same level of monitoring to a relatively inexperienced subcontractor as to a seasoned company such as TtEC. PRI/DJI had also previously successfully completed several projects with Tetra Tech at Wright-Patterson AFB beginning in 2006.

PRI/DJI acted reasonably in its monitoring of TtEC, and the results amply vindicate the results of our judgment and faith in TtEC's capabilities. We therefore disagree that PRI/DJI should develop a new "subcontract administration process." The joint venture's existing processes were adequate to the task and, while we are always ready to update our processes to reflect changing conditions and lessons learned, TO 0005 does not present any such circumstances.

PRI/DJI further disputes the item noted in the Draft Audit Report that "PRI/DJI did not conduct adequate monitoring of TtEC's procurement activities such that these matters could be detected and corrected." Prior to adding TtEC as a subcontractor to our PRI/DJI JV HERC team for work in Afghanistan, PRI/DJI traveled to San Antonio and met with the AFCEC Contracting Officer and Program Operations personnel who were familiar with TtEC on similar work performed to vet TtEC's past performance.

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

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

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

Additional JV management oversight included the Operations Manager, Controller, QC and H&S Director going to Afghanistan to review project performance. PRI/DJI conducted a

financial review of TO 0005 during June 2012 by flying our corporate controller to Shindand Afghanistan to review billing, subcontractor and cost matters. The Controller reconciled and processed corrections to Emrooz invoices against its subcontract.

In PRI/DJI’s Final AFCEC CPAR Performance Rating, the Assessing Official stated “PRI/DJI worked closely with AFCEC officials to successfully completed 100% of the work. There were extensive changes during the construction and renovation work which increased the contract budget and schedule duration. During the task order the enemy activity closed main supply routes through the Pakistan Border which required the contractor to adapt and revise material sources. PRI/DJI’s construction activities involved utilization of over 400 Afghan laborers with no safety incidents. PRI/DJI maintains excellent communications with the COR and Contracting Officer and responded to changes in a professional, responsive manner and met the goals of the contract.”

We note that the Findings account for less than three tenths of one percent of the total contract costs for this task order. One can only conclude that there is no harm (material or otherwise) to the Government demonstrated as a result of this audit process.

1. Response to Finding 2015-02: Subcontractor Monitoring Recommendation

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

C. Finding 2015-03: Certificates of Current Cost and Pricing Data

1. PRI/DJI Response

For this Finding, we do not concur in the case of the cost questioned. PRI/DJI did obtain a Certificate of Current Cost and Pricing from TtEC for TO 0005 and for the costs questioned in Modification 04. Moreover, for the Cost and Pricing Data concerns raised for both PRI/DJI and TtEC, AFCEC’s real-time awareness and consent to the costs proposed must be considered. AFCEC reviewed subcontractor cost proposals along with PRI/DJI and TtEC, sometimes through multiple rounds of submissions and negotiations. In addition, PRI/DJI’s proposal for Modification 04 specifically stated in the table that a Certificate of Current Cost and Pricing Data was not provided for Emrooz for the reasons stated.

Please note that the amounts questioned in the audit totaling \$53,800 represents 100% of those subcontract modification line items while there is no question that the work for these line items was successfully performed and that the Government received the benefit of this work. With these perspectives, it is reasonable to assign no adverse assessment of PRI/DJI and TtEC's business practices in this regard. We concur with the TtEC response to this Finding as follows.

2. TtEC Response Concerning Questioned Costs

TtEC disagrees this is a material weakness and disagrees with the questioned cost of \$53,800.

TtEC originally awarded the Subcontract 1072816 (the Subcontract) to Emrooz Engineering, an Afghan-owned and operated company, as the result of a competitive, best value-based procurement. As adequate competition provides an exception to the requirement to obtain a certificate of current cost or pricing, TtEC did not have to obtain this certificate for the original subcontract award.

TtEC concurs that we did not receive certificates of current cost or pricing data for the three modifications for Subcontract 1072816 issued to Emrooz Engineering. The reason for this was disclosed in each of our proposals to AFCEC which included subcontractor pricing. As stated in the proposals under the "Air Force Proposal Adequacy Checklist for Sole Source Actions above TINA Threshold," item 12.1 in both our July 28, 2011 TO 0005 Modification 1 proposal and the November 14, 2013 TO 0005 Modification 7 proposal (see **Exhibit TtEC-4**), Certificates of Pricing were not obtained for modifications as the "Price/Cost Analysis was performed on [the] original proposal. The follow-on or additional work will be awarded to current subcontractors to avoid discontinuity of the work." Additionally, as the original work was competitively bid and all subsequent modifications were found to be comparable to the original pricing, all modifications were therefore determined to be fair and reasonable under a competitive process. In addition, TtEC did undergo a fair and reasonable assessment of each of the subcontractor's costs proposals.

TtEC followed the process to document the prices were fair and reasonable thus mitigating exposure of pass through of unreasonable cost to the Government. The auditors concluded that TtEC did have support for fair and reasonable costs for 98% of the three modifications that totaled \$2.7 Million of which only two are actual modifications (totaling \$1.86 Million). The audit includes Emrooz Modification 10 as a Finding which was a reversal of Modification 9 with a net effect of \$0 change to the PO. The inclusion of Modification 10 in the Finding is inappropriate as the values included in Modifications 9 and 10 were part of the original value awarded to Emrooz that was competitively bid. There were a few line items on Modification 4 that total \$53,800 that have been questioned by the audit. The below description provides a background on how TtEC addressed the line items composing the \$53,800 at the time of evaluation and negotiation in 2011.

During project execution and prior to the award of Modification 4 to PO 1072816 (Emrooz), TtEC previously identified this modification and the \$53,800 in Lump Sum (LS) items as a concern with respect to being able to determine if Emrooz's proposed price was fair and reasonable. During the procurement review process, TtEC's Procurement Director initially

refused to approve the \$1,118,575 modification until the \$53,800 in LS prices could be determined to be fair and reasonable or otherwise justified. As a result, a conference call was held on December 29, 2011 that included the following TtEC personnel: VP of International Operations (VP), the Federal Programs Deputy Program Manager (DPM), the Director of Procurement (DP), the Program Manager (PM), and the Procurement Manager (collectively referred to as the “TtEC management team”). During that call, the TtEC management team discussed each LS item in detail and outlined for the groups benefit what was generally included in the LS values (type of work, breadth of scope, and estimated quantities of units). The VP, DPM, and PM all had construction knowledge stemming from their extensive construction experience on our Iraq program which included over 50 projects as well as a specific understanding of this project site and the Afghan war environment. It should also be noted that TtEC has core competencies in geotechnical investigations and design and the TtEC management team had the expertise to evaluate these small lump sum items associated with these TtEC core competencies as fair and reasonable. In addition, this group communicated to the TtEC DP that schedule was also a critical component to consider since AFCEC had routinely stated the project needed to finish as early as possible to minimize costs and allow for military usage of the site.

The TtEC management team also relayed that if time were spent to try to locate another bidder, the construction on the project would have been delayed thereby leading to increase project costs due to high burn rates. Another bidder would have also had to include mobilization and other startup costs that would have made their pricing unreasonable given the quote from Emrooz who was already established on site, performing work, and providing reasonable pricing for modifications. In light of the detailed lump sum line item review conference call, combined with the additional information related to minimizing cost and schedule, the TtEC Director of Procurement was eventually satisfied with the fair and reasonableness of all line items and he approved the modification. Procurement procedures were followed and the project team made a determination at the time that the pricing was fair and reasonable.

These costs were further disclosed to the Government in the PRI/DJI proposal for this element of work which were subsequently reviewed, approved, and awarded by the Government as additional scope and budget to the project.

In response to this preliminary audit Finding, TtEC has gone back and compared the Emrooz Modification 4 LS pricing to the pricing submitted to AFCEC in the original task order proposal that was competitively bid. (See **Exhibit TtEC-5**). In Exhibit TtEC-5, the first page provides a summary that shows Emrooz’s pricing for this modification, the questioned Lump Sum (LS) amounts highlighted in RED, and comments to the right of each questioned amount relating to the supporting cost justification. Additional pages from the original task order bid cost estimate and CostWorks/RS Means are further attached with notes denoting the relative price comparisons. The exhibit shows that the all design costs in modification 4 are appropriate as a percentage of the value of construction per item.

In PRI/DJI/TtEC’s original proposal to AFCEC for this task order, all design elements were competitively bid and a review of Emrooz’s previous pricing shows that all design efforts were valued at \$265,000 and that the total construction was valued \$5,628,303. Design was therefore

4.7% of the construction price, or \$265,000 / \$5,628,303. A similar comparison of all of Emrooz’s pricing in Modification 4 shows that all design elements were less than the original 4.7% design/construction ratio.

For the water lines and pumping system, comparable pricing in the original bid is identified to support the reasonableness of the values provided in Modification 04.

Lastly, for the debris removal items, backup from Cost Works/RS Means has been provided to support the costs for these two items.

In conclusion, TtEC understands the requirement for subcontractor certification of cost or pricing data and the underlying requirement to provide a fair and reasonable price evaluation to protect the Government from unreasonable cost. Based on the following bullet points, we disagree with the Finding of Material Weakness and believe it should be changed to No Finding.

- TtEC understands TINA Certification requirements and procurement staff are regularly trained on those requirements.
- TtEC disclosed to AFCEC that certificates of current cost or pricing would not be provided because 1) we were using the competitively bid unit prices to negotiate and award subsequent modifications and 2) this also allowed us to avoid costly discontinuity in the work and delay of the schedule.
- The auditors reviewed and concluded that 98% of the modifications that did not have the TINA certification were fair and reasonable when compared to the subcontractor’s original proposal that was competitively bid.
- The fact that TtEC Director of Procurement called a special meeting with management and key project participants to specifically discuss the \$53,800 in question demonstrates this is not a systemic issue within TtEC, but rather demonstrates TtEC’s understanding of the requirement and the process TtEC used to determine the LS price was fair and reasonable while balancing that process with the costs that likely would have been incurred if TtEC brought in a new subcontractor to perform the work (such an action would have held up the project schedule with a significantly high daily dollar burn rate).

3. Response to Finding 2015-03: Certificates of Current Cost and Pricing Data Recommendations

Based on the foregoing, these are our responses to the Recommendations included in Finding No. 2015-03.

No.	Recommendation	PRI/DJI or TtEC Response
1	That PRI/DJI conduct a review of TtEC-led procurements to	PRI/DJI has conducted a review of TtEC-led TO 0005 procurements and determined there are

No.	Recommendation	PRI/DJI or TtEC Response
	determine if additional instances of noncompliance with certified cost and pricing data may exist.	no additional instances of noncompliance with certified cost and pricing data.
2	That PRI/DJI incorporate, as a component of its subcontract closeout process, a review of the procurement file to ensure certificates of current cost and pricing data are present and have been retained.	PRI/DJI revised its procurement procedures in March 2014 adding Policy PR33 addressing “Managing Cost Reimbursable Procurements”. PRI/DJI will review its subcontract closeout process and, if opportunities for improvement are observed, changes will be made. Given the US Government’s current preference for Afghan contractors, in the future both PRI/DJI and TtEC will seek guidance from the Contracting Officer where subcontractors refuse to complete a certification of current cost or pricing and seek a general waiver under 15.403(c)(4).
3	That PRI/DJI require TtEC to undergo additional training regarding procurements conducted under the FAR, inclusive of price and cost analyses.	TtEC will also provide PRI/DJI evidence of staff training regarding procurement conducted under its Federal procurement procedures and the related prime contract FAR requirements, inclusive of price and cost analysis.
4	That TtEC either identify documentation sufficient to support the reasonableness of the costs or otherwise repay the Government for the \$53,800 in costs incurred and reimbursed to Emrooz.	TtEC has provided documentation to support the reasonableness of the \$53,800 in cost (see Exhibit TtEC-6).
5	That TtEC modify its procurement procedures to require internal engineering estimates to be dated and the basis for calculating estimates to be documented on the final engineering estimate.	TtEC will update its procurement procedures to require internal engineering estimates to be dated and the basis for calculating estimates to be documented on the final engineering estimate.
6	That TtEC modify its procurement procedures to incorporate a requirement that evaluation criteria be quantified	TtEC will update its procurement procedures to incorporate a requirement that evaluation criteria be quantified and identified in both procurement files and solicitation documents.

No.	Recommendation	PRI/DJI or TtEC Response
	and identified in both procurement files and solicitation documents.	

D. Finding No. 2015-04: Prompt Payment of Subcontractors

In this Finding, the Draft Audit Report indicates five subcontractor payments of 105 invoices received and paid were processed beyond the seven day FAR requirement. PRI/DJI processed payments on a weekly scheduled basis order to meet the seven day pay when paid requirement. Specific reasons which may have caused payments to be delayed at the time to the following week were not found in the file. Below is our response to the Recommendations.

1. Response to Finding 2015-04: Prompt Payment of Subcontractors Recommendations

No.	Recommendation	PRI/DJI Response
1	Incorporate a periodic review of subcontractor payments to ensure that payments are made in a timely manner.	PRI/DJI will revise its payment process by logging daily all contract payments received requiring seven day payment terms and noting if an expedited payment is required in advance of the next scheduled weekly processing. Additionally, in situations where not all required information has been provided by the vendor, file notes will be maintained in the payment folder.
2	Remit the \$1,427 in interest penalties to the Government for appropriate resolution and distribution.	Payment will be remitted to the Government or offset against outstanding fees due as determined by AFCEC.
3	Modify the terms of the TtEC subcontract to require payment within seven days of receipt of reimbursement from the Government to be consistent with the Federal regulatory requirements.	No action required as the TtEC subcontract has expired.

E. Finding 2015-05: Noncompetitive Procurement and Cost Reasonableness

PRI/DJI does not concur with this audit Finding and agrees with the TtEC position as stated below.

TtEC disagrees this is a significant deficiency and disagrees with the questioned cost of \$14,116.

The audit asserts that TtEC utilized noncompetitive procedures without adequate justification when we hired independent contractors as part of our field management staff. The audit further asserts that TtEC did not adequately support the reasonableness of the compensation paid to some of our independent contractors and recommended that TtEC reach out to the US Embassy for available compensation data to obtain market data. The audit also cites US Bureau of Labor Statistics data to support the questioned costs. TtEC disagrees with the audit Findings and questioned costs for the following reasons:

1. TtEC sought qualified candidates in a manner analogous to FAR Part 36's procedures in that TtEC first sought out individuals that met (i) TO 0005's stated requirements for construction personnel assigned to work on the project; and (ii) TtEC's requirements. AFCEC repeatedly stressed the importance of ex-pat oversight ("Less ex-pat oversight, risk increases" (Exhibit TtEC-9)) and they strongly recommended the use of ex-pat supervision to provide the expertise needed to supervise Afghan firms for electrical work. These requirements are discussed in greater detail below. Once TtEC identified qualified candidates, TtEC then proceeded to negotiate appropriate compensation given the harsh and dangerous conditions in which such individuals would be working.
2. The US Embassy rates and US Bureau of Labor Statistics are not a good measure for use in determining the proper rate to pay an independent contractor that will be required to work an extended work week on a contingency operation under harsh and dangerous conditions. This is also discussed in greater detail below.

Lastly, the audit asserts TtEC did not provide the subcontractor, [REDACTED], the opportunity to provide a Best and Final Offer (BAFO) on a solicitation for site investigation and design services, thereby inferring that we violated our procurement procedures. TtEC concurs that we did not give [REDACTED] the opportunity to submit a BAFO. This decision needs to be put in context. A BAFO was pursued with a separate subcontractor after the competitive bid process and AFCEC award of the task order. While not required, TtEC's BAFO after the AFCEC award was an attempt to save our client money. In addition, TtEC elected not to request the BAFO from [REDACTED] because of financial issues this subcontractor was having at the time. Additional detail on this matter is provided later in the response.

Site Personnel Selection Process

As part of TO 0005's requirements, it states that, "The Contractor shall identify, comply, and ensure that personnel and subcontractors and at all tiers obey all applicable federal, state, and local statutes; DoD/Air Force/host nation instructions, manuals, handbooks, regulations, guidance, and policy letters, Executive Orders (EOs). The construction shall adhere to the

International Building Code (IBC), Unified Facilities Criteria (UFC), National Fire Protection Association (NFPA), National Electrical Code (NEC)...” among a variety of other requirements.

The US standards required by TO 0005 were very different from —and much higher than— the typical standards of construction otherwise common place in Afghanistan. Given TO 0005’s stated construction requirements for personnel assigned to work on the project, TtEC was unable to locate any Afghanis that had the appropriate knowledge of the IBC, the NEC, or TO 0005’s other construction requirements.

Through briefings and presentations given by AFCEC to the HERC contractors, AFCEC repeatedly stressed the importance of life safety issues and strongly recommended the use of ex-pat supervision to provide the expertise needed to supervise Afghan firms for electrical work. This is a life safety issue and AFCEC was unambiguous in their strong recommendation to the HERC Contractors. The following are excerpts from AFCEC presentations that were presented to PRI/DJI TtEC as well as other HERC contractors. The presentations are included as **Exhibits TtEC 6 through 9.**

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

When interviewing Afghans for any TtEC position, TtEC also considered several key criteria during the selection process including: 1) The applicant's ability to communicate in English and translate to non-English speaking subcontractor personnel, 2) The applicant's willingness to work in a hazardous war zone for a US based company (An Afghan that was identified and captured by the Taliban and accused of working for a US company was typically murdered and their families often became targets as well.), and 3) The applicant's technical knowledge and ability to communicate technical instructions to non-English speaking staff.

This cumulative set of circumstances that required high US construction standards put Afghans at a disadvantage. Furthermore, and as a result of Afghani cultural and technical disadvantages, Afghans were precluded from being reasonably qualified to serve as a Master Electrician on this project. There were numerous examples of other contractors in Afghanistan that tried using local nationals in this role which ultimately led to various amounts of rework that often included hiring a US Master Electrician as the remedy. These instances of inadequate understanding of US regulations and substandard quality ultimately added additional costs to the Government. TtEC actively approached the execution of this project in consideration of the lessons learned from our competitors in order to provide a high quality product while reducing overall project costs by minimizing the schedule and limiting rework and warranty items.

As a result of the challenges noted above and as part of our approach to achieve the successful turnover of the project, TtEC hired qualified US expatriates to serve as our Master Electrician to ensure that all standards and regulations were being implemented. TtEC attempted to adhere to the US Policy to "hire Afghans first" in all instances where appropriate, but hiring a qualified Afghani as a US qualified Master Electrician was not possible.

It is of important note that PRI/DJI/TtEC never had any electrical incidents in Afghanistan.

In conclusion, TtEC sought qualified candidates in a manner analogous to FAR Part 36's procedures in that TtEC first sought out individuals that met (i) TO 0005's stated requirements for construction personnel assigned to work on the project; and (ii) TtEC's requirements. In addition, PRI/DJI TtEC followed AFCEC strong recommendation provided to HERC contractors

regarding the importance of high quality ex-pat oversight, especially for electrical scopes of work. Once TtEC identified qualified candidates, TtEC then proceeded to negotiate appropriate compensation given the harsh and dangerous conditions in which such individuals would be working.

Questioned Costs

The compensation paid to the independent contractors was fair and reasonable. TtEC disagrees that the compensation paid to the qualified US Master Electricians are unreasonable or that the Government was overcharged for the services provided.

TtEC is unclear how the auditor developed the \$19,737 monthly compensation (which led to the \$14,116 cumulative Finding) as an estimated reasonable monthly compensation, but it appears that this value is based on a 40-hour work week which would be an inappropriate determination given that the actual work week at the site was 72 hours per week (6 days x 12hrs/d).

Furthermore, the auditor’s analysis is based on the United States Bureau of Labor Statistics (BLS) title of an Electrician at the 90th percentile which is not the same as a Master Electrician. Though these positions are similar, their compensation ranges can differ significantly and using a range from one position to compare against another is a less than accurate comparison that led to somewhat irrelevant results.

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

TtEC site employees worked 72 hours per week (12 hours a day for 6 days per week) and their monthly compensation was reflective of the additional 32 hours of work performed. TtEC paid our Master Electricians \$22,000 per month and the auditors have determined that \$19,737 is their “Estimated Reasonable...Monthly Compensation” where the difference between these two values is only \$2,263 per month.

If the auditors were to account for these additional 32 hours per week, it appears their calculation would actually yield a monthly compensation that exceeds the compensation TtEC paid to these Master Electricians.

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

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

The TtEC monthly payment of \$22,000 compensated our independent contractors for the additional hours worked beyond the traditional 40 hours that the BLS values are based on. We maintain that the compensation paid to Master Electricians were appropriate, fair, and reasonable. It is TtEC's position that no credit, or \$0, is owed to the Government with respect to this audit Finding.

Regarding the use of US Embassy rates, they are not a good measure for use in determining the proper rate to pay an independent contractor that will be required to work an extended work week on a contingency operation under harsh and dangerous conditions. Individuals who worked for the US Embassy (i) work less than 50 hours per week, many of them only 40 hours, (ii) live in superior conditions, (iii) have a significantly greater security presence, and (iv) are not located in remote zones without the support of the Embassy or US Forces. TtEC's staff lived remotely and on many occasions without any US support whatsoever working 72 hours per week to get the work completed and return to a safer environment. Additionally, the contract employees were responsible for providing their own healthcare and other benefits. TtEC only provided independent contractors with travel and housing. There were no benefits provided to independent contractors. Our compensation levels were based on what TtEC determined was the compensation required by the market to hire quality professional expats for construction work in a war zone while meeting US standards and licensing requirements for the various construction trades in accordance with the Prime Contract's requirements.

Lastly, this project was competitively bid and went through various modifications that disclosed detailed cost builds up showing the unit rates that are now being questioned. AFCEC ultimately reviewed and approved every instance where the \$22,000 monthly rate was used.

In conclusion, TtEC maintains that the compensation paid to independent contractors on this project were appropriate given that (i) their skills and experience met TO 0005's specifications; (ii) the contractors were willing to work extended hours in the dangerous conditions imposed by the project location; and (iii) TO 0005's requirement for quality construction and electrical systems that would replace the dangerous systems that were otherwise in place in Afghanistan.

The audit also asserts that TtEC did not follow internal procedure PD-400 that states, "After releasing a solicitation, project personnel should not have further contact with the vendors except through or in conjunction with the [Purchasing Agent]." TtEC concurs that there were some instances where staff, other than the Purchasing Agent (PA), were involved in procurement processes. Reasons for this additional support include the remote location of the project site in Afghanistan, intermittent/unreliable internet services in country, and time zone differences of up to 10.5 hours. For selection of independent contractors it was extremely valuable to conduct interviews face to face which only our in country staff could perform as our procurement department and PA were located over 7,300 miles away.

Response to BAFO Process and [REDACTED] [REDACTED]

Selection of the site investigation and design was competitively bid between [REDACTED] [REDACTED] and Emrooz Engineering and Construction. During the time that we obtained the initial bid from [REDACTED] and Emrooz and the time that we went out for BAFO (which was after

AFCEC award), [REDACTED] encountered financial difficulty. Our field staff worked side by side other projects and regularly interacting with other contractors like [REDACTED] at Shindand Air Base. The information of their financial difficulty was relayed verbally from a [REDACTED] PM to our PM/VP who then shared this knowledge with the project team, and consequently, no request for a BAFO was pursued with [REDACTED] as it had already been identified that they would not be in a position to execute the project. Additionally, the BAFO process was initiated after AFCEC award and PRI/DJI/TtEC was under no specific obligation to pursue this cost saving measure that was ultimately passed on to the Government.

In order to provide the best value to the Government, the project team considers all relevant information during the bid and execution process to minimize overall costs and schedule. Given the unique remote and austere location of the project site with respect to our procurement office located 7,300 miles away, this valuable and project execution critical information would not have otherwise been known had it not been for the prudent actions of our field team sharing this information with the rest of our staff and procurement department.

Evidence of [REDACTED] financial problems is further supported by SIGAR’s own investigation that states [REDACTED] abandoned one of their other projects in 2011 when PRI/DJI/TtEC’s was pursuing the bid for this task order. Full report can be found at: <https://www.sigar.mil/pdf/inspections/SIGAR%20Inspection%2013-9.pdf>

1. Response to Finding 2015-05: Noncompetitive Procurement and Cost Reasonableness Recommendations

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

No.	Recommendation	PRI/DJI or TtEC Response
1	TtEC and PRI/DJI should document a procedure for the recruitment of professionals working on international projects and include, as a component of the procedure, a process for the setting of compensation levels, outreach to the applicable US Embassy for available compensation data when such information is not otherwise available through TtEC and PRI/DJI’s designed processes, and conduct of a market assessment to determine the	TtEC and PRI/DJI will document a procedure for the recruitment of professionals working on international projects and include, as a component of the procedure, a process for the setting of compensation levels and documenting a market assessment to determine the reasonableness of compensation levels.

No.	Recommendation	PRI/DJI or TtEC Response
	reasonableness of compensation levels.	
2	TtEC should issue a written memorandum to procurement staff reiterating the expectation that a separate individual serve as the reviewer/approver of ADMs.	TtEC does have a procurement policy where ADMs are reviewed and approved by a separate individual. TtEC concurs there were a few instances where the signature block of the ADM was not signed by a reviewer. However, in every instance, the entire PO which includes the ADM as a subset of information was reviewed, approved, and signed by the Procurement Manager prior to execution of that PO. However, TtEC will send out an internal memo to procurement staff to reinforce the requirement to have the ADM signature block signed by the reviewer.
3	PRI/DJI, as the prime contractor, should reimburse the Government \$14,116 or otherwise provide documentation showing that the costs paid are reasonable based on a market analysis of compensation paid during the audit period for the same or similar work performed.	PRI/DJI has provided data as part of this management response, that the cost paid to the Master Electrician was fair and reasonable. It is our position that no credit, or \$0, is owed to the Government with respect to this audit Finding.
4	PRI/DJI should establish a process to conduct periodic reviews of TtEC's procurement files when TtEC functions as a teaming partner or subcontractor.	PRI/DJI revised its procurement procedures in March 2014 adding Policy PR33 addressing "Managing Cost Reimbursable Procurements"; in any event, the TtEC subcontract has expired.
5	PRI/DJI should require that TtEC's management staff enroll in a training course to help mitigate the risk that FAR requirements will be violated for current and/or future Federal contracts.	TtEC will also provide PRI/DJI evidence of staff training regarding procurement conducted under its Federal procurement procedures and the related prime contract FAR requirements.

F. Finding 2015-06: Fixed Fee Billing

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

1. PRI/DJI Response to Finding 2015-06: Fixed Fee Billing Recommendations

No.	Recommendation	PRI/DJI Response
1	That PRI/DJI revise its billing procedures to address invoicing of fixed fee amounts and document a process by which the percentage completion will be evaluated for billing purposes.	In the future, PRI/DJI will examine the applicable payment provision in each new contract and where the percentage of completion of the work can be readily determined, a methodology acceptable to the Contracting Officer will be developed and submitted for Contracting Officer’s approval.

APPENDIX B: AUDITOR'S REBUTTAL

Crowe Horwath LLP ("Crowe" or "we" or "us") has reviewed the letter dated May 6, 2016, containing PRI/DJI, A Construction JV's ("PRI/DJI" or "the auditee") responses to the draft audit report. In consideration of those views, Crowe has included the following rebuttal to certain matters presented by the auditee. The responses below are intended to clarify factual errors and provide context, where appropriate, to assist users of the report in their evaluation of the audit report. In those instances where management's response did not provide new information and support to modify the facts and circumstances that resulted in the initial finding, we have not provided a response. The absence of a rebuttal indicates that Crowe does not deem it necessary to correct or clarify any response of the auditee.

General Items

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

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

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

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

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

deviation, or modification to the contract arrangements, the compliance requirements referenced in the report remain unchanged.

Finding 2015-01

We have reviewed management's comments as well as the additional documentation provided. We note that the documentation provided does not include unique identifiers, does not indicate that the items charged to the Government were received, and does not otherwise provide for an auditable mechanism to clearly indicate that the items in question were credited to the Government in response to debit memo TT022412.

Further, management's response referenced the provisions of FAR 52.245-1(a) and FAR 45.101 within its response and asserted that the items contributing to the \$6,177 questioned cost amount should be classified as "material." However, the contractual requirement noted within the contractual agreement with the Government references FAR 52.245-5. Neither the provisions included within the contract nor those referenced by management exclude "material" from the requirements applicable to Government property.

In consideration of the above, the finding has not been modified.

Finding 2015-02

Based upon our review of management's response, we concur that the occurrence of frequent telephone calls, invoice reviews, and other steps taken by PRI/DJI may constitute monitoring. However, we do not concur that this monitoring was adequate as it failed to detect and correct the instances of noncompliance identified within the report. Management is correct in that the finding is partially derived from other elements of the report. However, the finding stands alone as an expected element of a sound system of internal control. Audit findings 2015-01, 2015-03, and 2015-05 provide examples of the errors that support the need for an adequate subcontractor monitoring plan.

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

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

Finding 2015-03

We have reviewed management's response to the finding. We note the following:

- PRI/DJI indicated that a certificate of current cost or pricing data was obtained from TtEC for TO 0005 and for the costs questioned in modification 04. However, no costs were questioned with respect to TtEC modification 04. In addition, we reviewed the file provided by PRI/DJI entitled "TO 005 Tetra Tech TINA Certs.xlsx" and the electronic copies of the certificates of current cost or pricing data provided by PRI/DJI. The facts included within the finding are consistent with the documentation that has been provided. Therefore, the finding has not been modified with respect to this matter.
- Both PRI/DJI and TtEC noted that a disclosure was made to the Government indicating that a Certificate of Current Cost and Pricing Data was not provided for Emrooz Modification No. 4. However, documentation was not provided that 1) indicated that the Government provided either a deviation or a waiver from the cost or pricing data requirements, 2) adequately supported that an exception to cost or pricing data requirements was applicable to the modification, or 3) that outlines the components of the lump sum amount that is in question or otherwise supports the

reasonableness of the costs.

- The potential exposure to the Government, as a result of the noncompliance, is greater than a material amount of the Special Purpose Financial Statement's costs incurred and revenues earned amounts. The presence of alternative support for reasonableness of cost contributed to the questioned cost amount being lower than would otherwise have been necessary. It does not, however, reduce the risk to which the Government is exposed by the internal control deficiency and the identified noncompliance. Therefore, the matter is appropriately classified as a material weakness.

In consideration of the items noted above, the finding has not been modified.

Finding 2015-05

We have reviewed management's responses and noted that additional documentation to support the reasonableness of the compensation paid to the applicable individuals has not been provided. Further, while we understand that AFCEC highlighted certain concerns and challenges and indicated that there was generally a low number of skilled workers existing in Afghanistan, the Government did not expressly authorize PRI/DJI to not comply with the contractual requirement for competition to occur to the maximum extent practicable. The information provided also does not indicate or support TtEC's executing non-competitive procedures for reasons contrary to its adopted corporate policies. Rather, the AFCEC briefs provided further support the existence of the finding in that it is evident that there are individuals who may provide the services that were sole sourced. In consideration of these items, the questioned costs and the content of the finding have not been modified.

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