

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 18-54 Financial Audit**

## Department of the Army's Freedom of Maneuver Project: Audit of Costs Incurred by PAE National Security Solutions LLC

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



JUNE  
2018

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On September 28, 2012, the Army Contracting Command (ACC) awarded a 1-year, \$18.3 million contract to A-T Solutions Inc. to fund the Freedom of Maneuver project. The project's objectives were to research and demonstrate solutions to counter the threat of improvised explosive devices in Afghanistan, and give those solutions to Afghan organizations responsible for combating insurgents. ACC modified the contract nine times, increasing the total amount to \$48.5 million and extending the period of performance to June 27, 2015. In May 2015, Pacific Architects and Engineers (PAE) acquired A-T Solutions and assumed responsibility for the contract.

SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe), reviewed \$27,494,779 in reimbursable costs charged to the contract from November 28, 2013, through June 27, 2015. The objectives of the audit were to (1) identify and report on significant deficiencies and material weaknesses in PAE's internal controls related to the contract; (2) identify and report on instances of material noncompliance with the terms of the contract and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether PAE has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of PAE's Special Purpose Financial Statement (SPFS). See Crowe's report for the precise audit objectives.

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

June 2018

## Department of the Army's Freedom of Maneuver Project: Audit of Costs Incurred by PAE National Security Solutions LLC

SIGAR 18-54-FA

### WHAT THE AUDIT FOUND

Crowe identified one material weakness and five significant deficiencies in PAE's internal controls, and five instances of noncompliance with the terms and conditions of the contract. Crowe found that PAE had inadequate support for its use of a noncompetitive procurement. Crowe also found that PAE did not provide documentation for 18 transactions and certain subcontractor travel and other direct costs. Additionally, PAE did not have adequate documentation to support that it acquired and used six property items, such as sleeping bags and a handheld radio, for the project.

As a result of these internal control deficiencies and instances of noncompliance, Crowe identified \$82,617 in total questioned costs, consisting entirely of 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 contract, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Lack of Documentation for Payments	\$0	\$2,077	\$2,077
Lack of Documentation for Subcontractor Costs	\$0	\$79,305	\$79,305
Lack of Documentation for Assets	\$0	\$1,235	\$1,235
<b>Totals</b>	<b>\$0</b>	<b>\$82,617</b>	<b>\$82,617</b>

Crowe identified four prior findings that required corrective action that could have a material effect on the SPFS or other financial data for the contract. The auditors determined that PAE took action on three. The fourth stemmed from PAE's inadequate support for its use of noncompetitive procurements.

Crowe issued an unmodified opinion on PAE's SPFS, finding that the statement presents fairly, in all material respects, the revenues earned, costs incurred, and balance for the indicated period under the contract.

### WHAT SIGAR RECOMMENDS

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

- 1. Determine the allowability of and recover, as appropriate, \$82,617 in questioned costs identified in the report.**
- 2. Advise PAE to address the report's six internal control findings.**
- 3. Advise PAE to address the report's five noncompliance findings.**



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

June 6, 2018

The Honorable James N. Mattis  
Secretary of Defense

The Honorable Mark T. Esper  
Secretary of the Army

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

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

We contracted with Crowe Horwath LLP (Crowe) to audit the costs incurred by A-T Solutions Inc. under a contract to fund the Army's Freedom of Maneuver project.<sup>1</sup> In May 2015, Pacific Architects and Engineers (PAE) acquired A-T Solutions and assumed responsibility for the contract. Crowe's audit covered \$27,494,779 in expenditures charged to the contract between November 28, 2013, and June 27, 2015. Our contract with Crowe required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Based on the results of audit, SIGAR recommends that the responsible contracting officer at the Army Contracting Command:

- 1. Determine the allowability of and recover, as appropriate, \$82,617 in total questioned costs identified in the report.**
- 2. Advise PAE to address the report's six internal control findings.**
- 3. Advise PAE to address the report's five noncompliance findings.**

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

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-117)

<sup>1</sup> The Army Contracting Command awarded contract number W911QX-12-C-0174 to A-T Solutions Inc. to research and demonstrate solutions to counter the threat of improvised explosive devices in Afghanistan, and give those solutions to Afghan organizations responsible for combating insurgents.



**PAE National Security Solutions LLC**  
**Freedom of Maneuver Project**  
**Special Purpose Financial Statement**  
**For the Period November 28, 2013 through June 27, 2015**  
**(With Independent Auditor's Report Thereon)**

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## Transmittal Letter

May 1, 2018

To the President and Management of PAE National Security Solutions LLC  
7799 Leesburg Pike  
Suite 300N  
Falls Church, Virginia 22043

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 PAE National Security Solutions LLC's ("PAE") contract with the United States Army's Army Contracting Command funding the Freedom of Maneuver project.

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

When preparing our report, we considered comments, feedback, and interpretations of PAE and the Office of the Special Inspector General for Afghanistan Reconstruction provided both in writing and orally throughout the audit planning and fieldwork phases. Management's final written responses have been incorporated herein.

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

Sincerely,

A handwritten signature in black ink that reads "John Weber".

John Weber, CPA, Partner  
Crowe Horwath LLP

# Summary

## Background

On September 28, 2012, the United States Army's Army Contracting Command ("Army ACC") awarded contract number W911QX-12-C-0174 to A-T Solutions, Inc. ("A-T Solutions"). The contract, which was structured as a cost plus fixed fee arrangement, was valued at \$18,287,886 and was intended to fund implementation of the Freedom of Maneuver ("FoM") project. The project's objectives were to research and demonstrate a comprehensive information management methodology that included both material and nonmaterial solutions to counter the threat of improvised explosive devices ("IED"). Solutions included cyber defense capabilities, human terrain mapping, sensors, tactics, procedures, and techniques. In addition, A-T Solutions was tasked with transitioning the solutions to Afghan organizations responsible for countering insurgent groups.

The contract's initial period of performance spanned from September 28, 2012, through September 27, 2013, the required delivery date. Subsequent to the initial award, the contract was modified nine times. The modifications extended the period of performance to June 27, 2015 and increased the total value to \$48,519,616. The table, below, summarizes the contract modifications:

Modification No.	Date	Highlights
1	7/10/2013	Extended the period of performance from 9/26/2013 to 11/27/2013.
2	9/28/2013	Expanded the scope of work and increased funding by \$1,987,500. In addition, the period of performance was extended to 9/29/2014.
3	11/4/2013	Increased the estimated costs for Contract Line Item Number (CLIN) 00201 by \$8,295,200.
4	11/26/2013	Corrected the lines of accounting in CLINs 0002 and 00201 per the Contract Deficiency Report.
5	9/2/2014	Issued a new CLIN to fund new work in accordance with the revised performance work statement. The total funding increase amounted to \$9,038,801.
6	9/8/2014	Extended the period of performance for CLIN 0002 from 9/29/2014 to 10/29/2014.
7	1/12/2015	Changed the security clearance requirements applicable to personnel working on the contract and the facility.
8	3/27/2015	Extended the period of performance from CLIN 0003 from 3/29/2015 to 6/12/2015. In addition, funding for CLIN 0003 was increased by \$3,710,229.
9	5/22/2015	Extended the period of performance for CLIN 0003 from 6/12/2015 to 6/27/2015.

In May 2015, Pacific Architects and Engineers acquired A-T Solutions.<sup>1</sup> The FoM effort was later assigned to PAE's National Security Solutions business unit. Accordingly, this report is addressed to PAE National Security Solutions LLC ("PAE"). Further, due to the acquisition, the auditee is referred to throughout this report as "PAE" except in those instances where specific A-T Solutions policies or procedure are referenced.

The audit's scope includes activity within the period November 28, 2013 through June 27, 2015. Within the period under audit, PAE reported \$29,781,517 in total revenue as having been earned, including

<sup>1</sup> Pacific Architects and Engineers. "PAE 60<sup>th</sup> Anniversary: Evolving Through the Decades." Available at <https://www.pae.com/sites/default/files/PAE%20History%20Booklet%20-%20PAE%20Celebrates%2060%20Years.pdf>. Accessed on February 25, 2018.

\$27,494,779 in reimbursable costs. PAE used one major subcontractor, Engility Corporation, to help execute the scope of work. Approximately [REDACTED] was charged to the contract for Engility during the audit period.

## 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 PAE’s project.

## 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 contract presents fairly, in all material respects, revenues earned, costs incurred, items directly procured by the U.S. Government, and balance for the period audited in conformity with the terms of the delivery order and generally accepted accounting principles or other comprehensive basis of accounting.

### *Audit Objective 2 – Internal Controls*

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

### *Audit Objective 3 – Compliance*

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

### *Audit Objective 4 – Corrective Action on Prior Findings and Recommendations*

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

## Scope

The scope of the audit included the period November 28, 2013 through June 27, 2015. The audit was limited to those matters and procedures pertinent to the contract 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 and Activities;
- Cash Management;
- Equipment and Property Management; and
- Procurement.

## Methodology

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

For purposes of meeting Audit Objective 1 pertaining to the SPFS, transactions were selected from the financial records underlying the SPFS and were tested to determine if the transactions were recorded in

accordance with accounting principles generally accepted in the United States of America; were incurred within the period covered by the SPFS and in alignment with specified cutoff dates; were appropriately allocated to the award if the cost benefited multiple objectives; and were adequately supported.

With regard to Audit Objective 2 regarding internal control, Crowe requested and the auditee provided copies of policies and procedures to provide Crowe with an understanding of the system of internal control established by PAE during the period of performance. To the extent documented policies and procedures were unavailable due to the acquisition, records retention complications, or other matters, Crowe conducted interviews with management to obtain an understanding of the processes that were in place during the period of performance. The system of internal control is intended to provide reasonable assurance of achieving reliable financial reporting and compliance with applicable laws and regulations. Crowe corroborated internal controls identified by the auditee and conducted testing of select key controls to understand if they were implemented as designed.

Audit Objective 3 requires that tests be performed to obtain an understanding of the auditee's compliance with requirements applicable to the delivery order. Crowe identified – through review and evaluation of the contract executed by and between PAE and Army ACC, the Federal Acquisition Regulation (“FAR”), and the Defense Federal Acquisition Regulation Supplement – the criteria against which to test the SPFS and supporting financial records and documentation. Using various sampling techniques, including but not limited to audit sampling guidance for compliance audits provided by the American Institute of Certified Public Accountants, Crowe selected expenditures, invoices submitted to the Government for payment, procurements, property and equipment dispositions, and subcontracts issued under the contract and corresponding costs incurred. Supporting documentation was provided by the auditee and subsequently evaluated to assess PAE's compliance. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in accordance with the indirect cost rate memoranda issued by the Defense Contract Audit Agency. We also performed procedures to determine if adjustments to billings that were based on preliminary or provisional rates were made, as required and applicable.

Regarding Audit Objective 4, Crowe inquired of PAE, Army ACC staff participating in the audit entrance conference, and SIGAR to understand whether or not there were prior audits, reviews, or assessments that were pertinent to the audit scope. Crowe also conducted an independent search of publicly available information to identify audit and review reports. As a result of the aforementioned efforts, we identified one prior report applicable to PAE and the contract under audit for review and evaluation. The report pertained to work performed under the subject contract during the period September 28, 2012, through November 27, 2013.

## 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; and/or (4) questioned costs resulted from identified instances of noncompliance.

Crowe issued an unmodified opinion on the SPFS.

While Crowe issued an unmodified opinion on the SPFS, Crowe also reported on both PAE's compliance with the applicable laws, rules, regulations, and the terms and conditions of the contract and the internal controls over compliance and financial reporting. One material weakness, in internal control, five significant deficiencies in internal control 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.

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to PAE's financial performance under the contract. Based on Crowe's communications with PAE and the Army ACC staff members participating in the audit entrance conference, there was one such prior audit or assessment report. Four findings requiring corrective action were identified. **Section 2: Summary Schedule of Prior Audit and Review Findings** provides additional detail regarding the findings. Crowe determined that adequate corrective action pertaining to three of the four findings had been taken.

The following summary is intended to present an overview of the audit results and is not intended to be a representation of the audit's results in their entirety. Due to the same costs being questioned in multiple findings, we have included a "Cumulative Unique Questioned Costs" column that is intended to eliminate any duplication of costs within the final questioned cost amount.

### **Schedule of Findings and Questioned Costs**

Finding No.	Finding Name	Classification	Questioned Costs	Cumulative Unique Questioned Costs
2018-01	Insufficient Documentation to Support Payment	Significant Deficiency and Noncompliance	\$2,077	\$2,077
2018-02	Inadequate Supporting Documentation for Subcontractor Charges	Significant Deficiency and Noncompliance	\$79,305	\$81,382
2018-03	Supervisory Review of Reimbursement Requests	Significant Deficiency	None	\$81,382
2018-04	Inadequate Support for Noncompetitive Procurement	Material Weakness and Noncompliance	None	\$81,382
2018-05	Inadequate Documentation to Support Receipt of Government Property	Significant Deficiency and Noncompliance	\$1,235	\$82,617
2018-06	Accuracy of Property Records	Significant Deficiency and Noncompliance	None	\$82,617
<b>Total Questioned Costs:</b>				<b>\$82,617</b>

### **Summary of Management Comments**

Management agreed with findings 2018-02 through 2018-06. Regarding finding 2018-01, management partially disagreed as PAE was able to locate additional supporting documentation. The documentation was provided to Crowe for consideration along with management's request to reduce the questioned costs in the finding to \$2,077.

### **Auditor's Response to Management Comments**

Upon review of the additional supporting documentation provided by PAE, Crowe concurs with management's request to reduce the questioned costs on finding 2018-01 to \$2,077. Whereas management did not disagree with findings 2018-02 through 2018-06, Crowe has not modified those findings.

### **References to Appendices**

The auditor's reports are supplemented by one appendix, **Appendix A**, which contains management's responses to the audit findings.

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

To the President of PAE National Security Solutions LLC  
7799 Leesburg Pike  
Suite 300N  
Falls Church, Virginia 22043

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 PAE National Security Solutions LLC ("PAE"), and related notes to the Statement, with respect to the Freedom of Maneuver project funded by contract number W911QX-12-C-0174 for the period November 28, 2013, through June 27, 2015.

***Management's Responsibility for the Special Purpose Financial Statement***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on the 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.

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(Continued)

## **Opinion**

In our opinion, the Statement referred to above presents fairly, in all material respects, revenue earned, 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 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 PAE in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction and presents those expenditures as permitted under the terms of contract number W911QX-12-C-0174 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 contract task orders referred to above. Our opinion is not modified with respect to this matter.

## **Restriction on Use**

This report is intended for the information of PAE National Security Solutions LLC, the United States Army's Army Contracting Command, 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 April 27, 2018, on our consideration of PAEs 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 PAE's internal control over financial reporting and compliance.



Crowe Horwath LLP

April 27, 2018  
Washington, D.C.

**PAE National Security Solutions LLC**  
**Special Purpose Financial Statement**  
**Contract No. W911QX-12-C-0174**  
**For the Period November 28, 2013 to June 27, 2015**

			Questioned Costs			
	Budget		Actual	Ineligible	Unsupported	Notes
<i>Revenue Earned</i>						
Contract No. W911QX-12-C-0174	\$	██████████	\$	██████████		
<b>Total Revenue Earned</b>	\$	48,519,616	\$	29,781,517		4, 5
<i>Costs Incurred</i>						
CLIN No. 0001, <i>Develop methodology plan</i>	\$	██████████	\$	██████████	\$ 133	6 A
CLIN No. 0002, <i>Develop enhanced methodology plan</i>					\$ 81,249	A, B
CLIN No. 0003, <i>Develop optimized methodology plan</i>					-	
<b>Total Costs Incurred</b>	\$	44,588,796	\$	27,494,779	\$ 1,235	C
<b>Balance</b>	\$	3,930,820	\$	2,286,738	\$ 82,617	7

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

PAE NATIONAL SECURITY SOLUTIONS LLC  
NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT  
For the Period November 28, 2013, through June 27, 2015

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**Note 1. Basis of Presentation**

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Contract Number W911QX-12-C-0174 for the FREEDOM OF MANEUVER contract for the period November 28, 2013, through June 27, 2015. Because the Statement presents only a selected portion of the operations of PAE National Security Solutions LLC, it is not intended to and does not present the financial position, changes in net assets, or cash flows of PAE National Security Solutions LLC. 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. 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 on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 48, Part 31 of the Code of Federal Regulations, *Contract Cost Principles and Procedures*, 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 were not required.

**Note 4. Revenues**

Revenues on the Statement represent the amount of funds to which PAE National Security Solutions LLC is entitled to receive from the US Army (DOD) for allowable, eligible costs incurred under the contract with a maximum fixed fee of [REDACTED] during the period of performance.

**Note 5. Revenue Recognition**

Revenue under the accrual basis of accounting, is recorded when goods/services are transferred/rendered.

**Note 6. Costs Incurred by Budget Category**

The budget categories presented and associated amounts reflect the budget line items presented within modification number 8 dated March 27, 2015.

**Note 7. Balance**

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

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(Continued)

PAE NATIONAL SECURITY SOLUTIONS LLC  
NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT  
For the Period November 28, 2013, through June 27, 2015

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**Note 8. Currency**

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

**Note 9. Project Status**

The FREEDOM OF MANEUVER contract is complete. The period of performance for the contract concluded on June 27, 2015 as noted in modification number 9 dated May 22, 2015. Accordingly, adjustments to amounts currently reported on the Special Purpose Financial Statement may be made as a result of changes in indirect rates through the audit(s) of incurred cost submissions.

**Note 10. Subsequent Events**

Management has performed an analysis of the activities and transactions subsequent to November 28, 2013, through June 27, 2015 period covered by the Statement. Management has performed their analysis through April 27, 2018.

PAE NATIONAL SECURITY SOLUTIONS LLC  
NOTES TO THE QUESTIONED COSTS PRESENTED ON THE  
SPECIAL PURPOSE FINANCIAL STATEMENT

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A. Finding 2018-01 questioned \$2,077 due to PAE's inability to provide payment support for 18 transactions selected for testing.

B. Finding 2018-02 questioned \$79,305 due to PAE's inability to produce supporting documentation for certain subcontractor costs that were submitted to the Government for reimbursement.

C. Finding 2018-05 includes \$1,235 in reported questioned costs due to PAE's not having provided adequate documentation to support that six assets were received and used for project purposes. The property records did not identify the CLIN to which the costs were allocated. Therefore, the \$1,235 amount has been included on the "Total Costs Incurred" line reflecting all costs incurred within the audit period that PAE has concluded are allowable.

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the President of PAE National Security Solutions LLC  
7799 Leesburg Pike  
Suite 300N  
Falls Church, Virginia 22043

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

We have audited the Special Purpose Financial Statement (“the Statement”) of PAE National Security Solutions LLC (“PAE”), and related notes to the Statement, with respect to the Freedom of Maneuver project funded by contract number W911QX-12-C-0174 for the period November 28, 2013, through June 27, 2015. We have issued our report thereon dated April 27, 2018.

**Internal Control over Financial Reporting**

PAE’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 November 28, 2013, through June 27, 2015, we considered PAE’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 PAE’s internal control. Accordingly, we do not express an opinion on the effectiveness of PAE’s internal control.

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

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as

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(Continued)

finding 2018-04 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as findings 2018-01, 2018-02, 2018-03, 2018-05, and 2018-06 to be significant deficiencies.

We noted certain matters that we reported to PAE's management in a separate letter dated April 27, 2018.

### **PAE National Security Solutions LLC's Response to the Findings**

PAE'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 PAE National Security Solutions LLC, the United States Army's Army Contracting Command, 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

April 27, 2018  
Washington, D.C.

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the President of PAE National Security Solutions LLC  
7799 Leesburg Pike  
Suite 300N  
Falls Church, Virginia 22043

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

We have audited the Special Purpose Financial Statement ("the Statement") of PAE National Security Solutions LLC ("PAE"), and related notes to the Statement, with respect to the Freedom of Maneuver project funded by contract number W911QX-12-C-0174 for the period November 28, 2013, through June 27, 2015. We have issued our report thereon dated April 27, 2018.

**Management's Responsibility for Compliance**

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the contract task orders is the responsibility of the management of PAE National Security Solutions LLC.

**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 the accompanying Schedule of Findings and Questioned Costs as findings 2018-01, 2018-02, 2018-04, 2018-05 and 2018-06.

**PAE National Security Solutions LLC's Response to the Findings**

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

**Purpose of this Report**

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

## Restriction on Use

This report is intended for the information of PAE National Security Solutions LLC, the United States Army's Army Contracting Command, 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

April 27, 2018  
Washington, D.C.

**Finding 2018-01: Insufficient Documentation to Support Payment and Authorization of Costs Incurred**

Significant Deficiency and Noncompliance

**Criteria:** Pursuant to FAR 52.216-7(b), *Allowable Costs and Payment*, reimbursable costs are defined as those recorded allowable costs that, at the time of the request for reimbursement, have been paid by cash, check, or other form of actual payment or that will be paid ordinarily within 30 days of the submission of the payment request and in accordance with the terms and conditions of a subcontract or invoice.

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

A-T Solutions's Procurement Manual, *Procurement Authority* section, states: "The Procurement Organization is vested with sole authority to bind A-T Solutions to performance under contract and commit A-T Solutions to purchases within its supply chain. Except in circumstances where life and limb are literally in peril, no procurements made outside the Procurement Organization will be binding on A-T Solutions without ratification by the Vice President-Contracts."

**Condition:** During our testing of 79 transactions selected from a population of 9,684 total transactions, we noted that PAE did not produce copies of cancelled checks, Automated Clearing House payments, or wire transfers for 18 items to evidence that payments were made for those costs submitted to the Government for reimbursement. The total amount of the costs without sufficient payment support is \$2,077, which is in question.

**Questioned costs:** \$2,077

**Effect:** The Government may have been charged and paid for costs that were not reimbursable or were unauthorized.

**Cause:** During the acquisition of A-T Solutions, PAE did not establish adequate processes to retain all necessary documentation required to support payment of each cost submitted to the Government for reimbursement. PAE has been unable to obtain additional support from its financial institutions.

**Recommendation:** We recommend that PAE either provide documentation to support evidence of payment and authorization for each transactions or otherwise reimburse the Government \$2,077.

PAE NATIONAL SECURITY SOLUTIONS LLC  
SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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**Finding 2018-02: Inadequate Supporting Documentation for Subcontractor Charges**

Significant Deficiency and Noncompliance

**Criteria:** The Engility Subcontract, Section "G3 Invoicing Instructions," states:

(6) Travel receipts must be provided to A-TS for all travel claims. Travel backup shall include employee name, destination, travel dates, purchase and total cost, including G&A expenses. No fee is allowable. Per Diem rates in accordance with the JTR shall be adhered to. No travel will be paid without the proper back up.

(7) Material/ODC backup must include descriptions of item, quantity and total cost, including M&H no fee is allowable.

Pursuant to FAR 31.201-2(d), *Determining Allowability*, states, "A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements."

Pursuant to FAR 31.205-46(a)(7), *Travel Costs*, states, "Costs shall be allowable only if the following information is documented: (i) Date and place (city, town, or other similar designation) of the expenses; (ii) Purpose of the trip; and (iii) Name of person on trip and that person's title or relationship to the contractor."

**Condition:** During our testing of costs incurred by Engility Corporation and billed to PAE for reimbursement by the Government, we noted that PAE did not retain supporting documentation for travel and other direct costs (ODC) charges included on the subcontractor's invoices. As a result, there is insufficient evidence to support that the amounts billed are allowable, allocable, and associated with the contract's scope of work. The invoices noted as having inadequate support are listed below. The costs associated with travel and ODCs, \$79,305, are in question.

Sample #	Vendor Invoice	Total Invoice Amount	Travel/ODC Amount
66	EGL - 0000936245	\$ [REDACTED]	\$ [REDACTED]
67	EGL - 0000804372	\$ [REDACTED]	\$ [REDACTED]
79	EGL - 0000818841	\$ [REDACTED]	\$ [REDACTED]
<b>TOTALS:</b>		<b>\$ 623,987.76</b>	<b>\$ 79,304.94</b>

**Questioned costs:** \$79,305

**Effect:** PAE may have invoiced the Government for unallowable costs or for costs that did not benefit the FoM project.

**Cause:** During the acquisition of A-T Solutions, PAE did not establish adequate processes to retain all necessary documentation required to support payment of each cost submitted to the Government for reimbursement.

**Recommendation:** We recommend that PAE either provide supporting documentation for the costs or reimburse the Government \$79,305.

**Finding 2018-03: Supervisory Review of Reimbursement Requests**

Significant Deficiency

**Criteria:** Section 5.0 of A-T Solutions's Standard Operating Procedure for invoicing states that all invoices and required supporting documentation are forwarded to the Vice President/Controller for review and approval prior to submission to the client. Per discussion with PAE, both the financial analyst and program manager conduct a detailed review of documentation prior to submission of the reimbursement request to the Vice President/Controller for signature. The financial analyst and program manager reviews are relied upon by the Vice President/Controller.

**Condition:** We selected 32 of 82 reimbursement requests submitted to the Government for payment during the audit period. For each of the 32 sampled reimbursement requests to the U.S. Army, PAE was unable to provide documentation showing that the Program Manager or Financial Analyst approved the request.

**Questioned costs:** None

**Effect:** In the absence of program manager or financial analyst review and approval, the risk that unallowable or misallocated costs will be included on a reimbursement request is increased.

**Cause:** PAE did not retain evidence of reviews and, therefore, could not produce the requested documentation.

**Recommendation:** We recommend that PAE ensure that its current reimbursement request procedures require retention of the approval documentation.

**Finding 2018-04: Inadequate Support for Noncompetitive Procurement**

Material Weakness and Noncompliance

**Criteria:** Pursuant to FAR 52.244-5, *Competition in Subcontracting*, "The Contractor shall select subcontractors (including suppliers) on a competitive basis to the maximum practical extent consistent with the objectives and requirements of the contract."

A-T Solutions's Procurement Manual states the following with respect to Noncompetitive Source Justification (NCJ) support:

**Objective Evidence**

Noncompetitive source justifications shall be supported with valid objective evidence when required. The objective evidence required shall depend on the noncompetitive source justification used. In general, "valid objective evidence" is defined as documentation obtained from a reliable third party that supports the findings of the Noncompetitive Source Justification.

**Condition:** The noncompetitive source justification form supporting PAE's selection of Engility Corporation to provide counter-improvised explosive device (C-IED) training services included one rationale for the sole source selection: Expert Services. The form proceeded to highlight that Engility had performed similar work in Afghanistan since 2009. PAE completed the market research section of the noncompetitive source justification form, but did not include information from the market assessment specifying what outreach efforts were taken, what market was assessed, what the results of the market research was, indicating how PAE concluded that Engility was the only available supplier of the training, or that no other companies or DOD contractors provided the same or similar services during the same timeframe and had the same or similar expertise. Therefore, one cannot conclude, based on the evidence provided in the procurement file, which Engility was the only qualified contractor to propose on the C-IED training work.

Through six modifications to the subcontract, the ceiling value of Engility's award was [REDACTED]. We obtained a copy of the price analysis completed by PAE that was used by management to conclude that the prices proposed by Engility were reasonable. In consideration of the price analysis results, no costs have been questioned.

**Questioned costs:** None

**Effect:** The Government may have been charged more than necessary or required due to the potential improper use of sole source procedures.

**Cause:** Management's review of the procurement file failed to detect the missing supporting documentation.

**Recommendation:** We recommend that PAE develop and provide training regarding the noncompetitive source justification process to: 1) ensure appropriate supporting evidence and documentation is provided prior to approval of sole sources; and 2) provide instruction to managers regarding the required contents of noncompetitive procurement files prior to approval.

PAE NATIONAL SECURITY SOLUTIONS LLC  
SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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**Finding 2018-05: Inadequate Documentation to Support Receipt of Government Property**

Significant Deficiency and Noncompliance

**Criteria:** Per FAR Title 48 Part 52.245-1(f)(1)(ii), *Receipt of Government Property*, "The Contractor shall receive Government property and document the receipt, record the information necessary to meet the record requirements of paragraph (f)(1)(iii)(A)(1) through (5) of this clause, identify as Government owned in a manner appropriate to the type of property (e.g., stamp, tag, mark, or other identification), and manage any discrepancies incident to shipment."

A-T Solutions's Government Property Standard Operating Procedure, states:

**Receiving**

All [Government Property (Government Furnished Property/Contractor Acquired Property)] entering an A-TS facility or issued to A-TS contract management personnel will be received, inspected, and processed by the site A-TS Property Administrator (usually the [Program Manager/Project Manager] or designated representative) prior to its use. A copy of the receiving report and supporting documentation will be forwarded electronically (i.e. fax or email) to the [Operations Center] within one business day of receipt of the shipment for inclusion in the company's WASP asset management system. The original receiving report will be attached to the shipping documents and retained in the site's property files as a permanent record of the property received. Until all documents are appropriately reconciled the purchase is not charged to the applicable contract. Such documents will be retained until accountability is transferred to the Government.

FAR 52.215-2(f), *Audit and Records - Negotiation*, as incorporated into the contract, requires that PAE retain records, materials, and other evidence for examination, audit, or reproduction until 3 years after final payment under the contract.

**Condition:** We selected a sample of 60 government property items from the population of 1,414 total items. During our testing of the sample, we noted that PAE was unable to produce a receiving report for 58 of 60 items totaling \$13,738. In the absence of receiving reports, we requested documentation to support that a three-way match was completed between purchase orders, invoices, and one of the following: asset check-out, asset check-in, hand receipt, or a request for issue document signed off by management. Using the three-way match, receipt was supported for 48 of the 58 sample items for which a receiving report was not produced. Of the remaining 10 items, four had adequate disposition support such that existence could be confirmed. We were unable to validate that the six items, which are contractor acquired property items listed below, were received and utilized for project purposes. The acquisition cost of these items is \$1,235, which is in question.

Sample Item #	Asset Tag	Property Type	Column1	CAP/GFE/ATS/CO NSUM	Purchase Cost
2	6820	ICOM IC-V82	ICOM 7W HANDHELD RADIO	CAP	\$ [REDACTED]
6	4885	WIGGY SUPER LIGHT	SLEEPING BAG	CAP	\$ [REDACTED]
18	4910	WIGGY BIVY	WIGGY BIVY	CAP	\$ [REDACTED]
28	4876	WIGGY SUPER LIGHT	SLEEPING BAG	CAP	\$ [REDACTED]
35	4790	SOFT ARMOR SET	SOFT ARMOR	CAP	\$ [REDACTED]
48	5876	WIGGY BIVY	WIGGY BIVY	CAP	\$ [REDACTED]
<b>Total:</b>					<b>\$1,235.33</b>

PAE NATIONAL SECURITY SOLUTIONS LLC  
SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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Lastly, the Government Property procedure indicated that receiving records will be retained until accountability is transferred to the government, which is in conflict with the records retention requirements in the contract.

**Questioned costs:** \$1,235

**Effect:** The costs associated with the contractor acquired property (CAP) items listed above may have been charged to the Government, but the items may not have been received and/or utilized for project purposes.

**Cause:** Following the acquisition of A-T Solutions by PAE, receiving documents were not saved. Further, the property records retention procedure was improperly designed.

**Recommendation:** We recommend that PAE:

- 1) Provide receiving support for the questioned records noted above or reimburse the Government \$1,235; and
- 2) Modify government property procedures to require record retention periods to ensure that costs incurred and reimbursed are fully and accurately supported.

**Finding 2018-06: Accuracy of Property Records**

Significant Deficiency and Noncompliance

**Criteria:** Pursuant to FAR 52.245-1(f)(1)(iii), *Records of Government Property*, "The Contractor shall create and maintain records of all Government property accountable to the contract, including Government-furnished and Contractor-acquired property.

(A) Property records shall enable a complete, current, auditable record of all transactions and shall, unless otherwise approved by the Property Administrator, contract the following:

- (1) The name, part number and description, National Stock Number (if needed for additional item identification tracking and/or disposition), and other data elements as necessary and required in accordance with the terms and conditions of the contract.
- (2) Quantity received (or fabricated), issued, and balance-on-hand.
- (3) Unit acquisition cost.
- (4) Unique-item identifier or equivalent (if available and necessary for individual item tracking).
- (5) Unit of measure.
- (6) Accountable contract number or equivalent code designation.
- (7) Location.
- (8) Disposition.
- (9) Posting reference and date of transaction.
- (10) Date placed in service (if required in accordance with the terms and conditions of the contract)."

In addition, FAR 52.245-1(f)(1)(iv), *Physical inventory*, states that a final physical inventory shall be performed upon contract completion or termination.

A-T Solutions's Government Property Standard Operating Procedure, states:

**Records**

All [Government Property] furnished to or acquired by A-TS will be recorded in the WASP MobileAsset system, a comprehensive asset management and mobile data collector program, that tracks and records all Government required information and will include the following data points: name, part number, description, manufacturer, model number, quantity received, acquisition cost, unique identifier (if necessary), unit of measure, contract number, location, disposition, date of transaction, and date placed into service all in accordance with the FAR 52.245-1(f)(1)(iii). Our procedure is to have all property entered into our GP WASP system and a record created within 72 hours of receipt. As a redundancy, we verify all inventories semi annually. Additionally, we require all contract management personnel to submit a quarterly acquisition report which details any/all items procured during the previous quarter. This enables us to ensure that proper records are kept for all GP.

**Physical Inventories**

All GP will be inventoried semi annually which includes a validation at or about June 30 and a 100% physical inventory on or about December 31. Inventories will be conducted by contract PgM/PM, or designated representative, personnel with a 10% audit of programs annually that will be conducted by a representative of OPSCEN. Contract personnel responsible for maintaining property records will not assist in the inventories conducted by OPSCEN personnel. Inventories will be designed to achieve the following objectives:

- Verify that recorded property is still on hand.
- Confirm or determine current location.
- Identify unrecorded property, which qualifies for control.
- Locate or identify missing property.
- Identify unused or underutilized property as well as material in need of repair or rehabilitation.

PAE NATIONAL SECURITY SOLUTIONS LLC  
SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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Results of site inventories, including the identification of any discrepancies noted, will be reported semi-annually to the Government Property Administrator (GPA) within 30 days of OPSCEN receiving the inventory results from contract personnel. The OPSCEN will assist PgM/PM's in resolving discrepancies and if relief from accountability is granted by the GPA, the OPSCEN will make appropriate inventory adjustments to the property database and will inform the A-TS Contract Administrator to ensure that the contract reflects the correct GP list.

**Condition:** We tested 60 government property items and noted that the information recorded in the property records was incomplete or inadequately supported for 16 items. For 10 of the 60 items, an invoice or purchase order was either not provided or the amounts did not agree to the purchase cost included in the property records. In addition, the purchase cost on the property records for six additional items did not agree to the amount reported in the disposition support.

Next, we noted that five items denoted as contractor acquired property (CAP) within the equipment and property listing did not have purchase costs in the equipment and property listing provided for audit. An additional 104 items in the equipment and property listing did not include purchase costs and were also not labeled as CAP, government-furnished property, consumables, or ATS owned items.

Lastly, PAE provided an equipment and property listing as of January 31, 2014 which was identified as the final physical inventory; however, the period of performance ended on June 27, 2015. A reconciliation of the property listing to the project financial records was not provided such that it is unclear whether all equipment and property funded by the contract was incorporated into the population and represented in the final inventory.

**Questioned Costs:** None

**Effect:** Government property items may be lost, stolen, damaged, destroyed, or improperly disposed of without management's awareness in the absence of inventories and reconciliations to financial records. In addition, errors in PAE's government property records, to the extent relied upon by the Government, may result in the Government's recording inaccurate information in its records.

**Cause:** Management failed to implement an adequate monitoring procedure to detect and correct instances in which PAE did not implement its government property procedures, as designed. In addition, management did not implement a process during its acquisition of A-T Solutions to ensure that no records were lost or misplaced.

**Recommendation:** We recommend that PAE design and implement a periodic monitoring control to ensure that government property inventories are being completed as appropriate and that inventories reconcile to project financial records. We further recommend that PAE reconcile the property records for the contract to the financial records to identify any potential missing government property items.

PAE NATIONAL SECURITY SOLUTIONS LLC  
SECTION II: SUMMARY SCHEDULE OF PRIOR AUDIT,  
REVIEW, AND ASSESSMENT FINDINGS

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Crowe reviewed one prior audit report that is applicable to the Department of the Army's Freedom of Maneuver Project and that is pertinent to the audit objectives prescribed by SIGAR. The report contained one audit finding that required corrective action. Following completion of our review, we conducted follow-up procedures on the matter as it could have a direct and material effect on the Special Purpose Financial Statement or other financial information significant to the audit objectives. The matter is summarized below.

**Finding No. 2015-01: Ineligible Travel Costs Incurred**

**Report:** SIGAR 15-32 Financial Audit, "Department of the Army's Freedom of Maneuver Project: Audit of Costs Incurred by A-T Solutions, Inc."

**Issue:** A-T Solutions (now PAE) incurred unallowable/unreasonable costs totaling \$2,376. Costs were to upgrade flights to "Economy Plus" which was deemed unnecessary and therefore unreasonable.

**Status:** A formal letter was written by the CFO of PAE to SIGAR agreeing to credit a future invoice to make up for the \$3,473 of ineligible costs; the \$3,473 includes the \$2,376 noted within the finding. The \$3,473 amount was reimbursed to the government as part of the Government's negotiations with PAE for modification number 8 to the contract. We did not identify any exceptions regarding the reasonableness of costs incurred, during our audit. This matter is not repeated.

**Finding No. 2015-02: Costs Incurred**

**Report:** SIGAR 15-32 Financial Audit, "Department of the Army's Freedom of Maneuver Project: Audit of Costs Incurred by A-T Solutions, Inc."

**Issue:** A-T Solutions (now PAE) incurred unreasonable costs totaling \$1,097.11 incurred for M&IE and lodging for travel that was deemed unnecessary.

**Status:** A formal letter was written by the CFO of PAE to SIGAR agreeing to credit a future invoice to make up for the \$3,473 of ineligible costs; the \$3,473 includes the \$1,097 questioned within the finding. The \$3,473 amount was reimbursed to the government as part of the Government's negotiations with PAE for modification number 8 to the contract. We did not identify any exceptions regarding the reasonableness of costs incurred, during our audit. This matter is not repeated.

**Finding No. 2015-03: Procurement of Services**

**Report:** SIGAR 15-32 Financial Audit, "Department of the Army's Freedom of Maneuver Project: Audit of Costs Incurred by A-T Solutions, Inc."

**Issue:** Two instances of services paid for by A-T Solutions and billed back to the government without a competitive bid process without justification. The costs in question were for tactical weapons refresher courses and totaled \$48,800.

**Status:** A-T Solutions (now PAE) procurement department put a new policy in place to improve the requirements for the justifications of any sole source contracts. We tested the procurement process to determine if PAE selected subcontractors using competitive procedures to the maximum extent practical. We identified an instance in which a noncompetitive procurement process was executed without adequate supporting documentation to support the use of a sole source process. See Finding 2018-04 in this report.

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PAE NATIONAL SECURITY SOLUTIONS LLC  
SECTION II: SUMMARY SCHEDULE OF PRIOR AUDIT,  
REVIEW, AND ASSESSMENT FINDINGS

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**Finding No. 2015-04: Arming Requirements**

**Report:** SIGAR 15-32 Financial Audit, "Department of the Army's Freedom of Maneuver Project: Audit of Costs Incurred by A-T Solutions, Inc."

**Issue:** Several A-T Solutions (now PAE) personnel in Afghanistan carried weapons for their personal protection without the proper documentation/licenses.

**Status:** A-T Solutions (now PAE) had until June 2015 to acquire a business license from the Iraqi or Afghan Ministry of Trade or Interior. They acquired the license on March 10, 2015. This matter is not repeated.

PAE NATIONAL SECURITY SOLUTIONS LLC  
APPENDIX A: VIEWS OF RESPONSIBLE OFFICIALS

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PAE National Security Solutions LLC's response is on the following pages.



April 30, 2018

Crowe Horwath LLP  
1455 Pennsylvania Avenue N.W., Suite 700  
Washington, D.C. 20005

Ladies and Gentlemen:

PAE has prepared this response to your draft report of the Special Purpose Financial Statement (the "financial statement") of PAE National Security Solutions LLC ("PAE" or "we" or "us") for the period November 28, 2013, through June 27, 2015, for contract number W911QX-12-C-0174.

The findings presented in the report are as follows:

**Schedule of Findings and Questioned Costs**

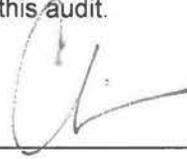
2018-01	Insufficient Documentation to Support Payment and Authorization of Costs Incurred	Material Weakness and Noncompliance	\$1,424,226	\$1,424,226
2018-02	Inadequate Supporting Documentation for Subcontractor Charges	Significant Deficiency and Noncompliance	\$79,305	\$1,424,226
2018-03	Supervisory Review of Reimbursement Requests	Significant Deficiency	None	\$1,424,226
2018-04	Inadequate Support for Noncompetitive Procurement	Material Weakness and Noncompliance	None	\$1,424,226
2018-05	Inadequate Documentation to Support Receipt of Government Property	Significant Deficiency and Noncompliance	\$1,235	\$1,425,461
2018-06	Accuracy of Property Records	Significant Deficiency and Noncompliance	None	\$1,425,461
<b>Total Questioned Costs:</b>			<b>\$1,425,461</b>	

PAE provides the following response to the findings identified:

<u>Issue Number</u>	<u>PAE Position</u>	<u>PAE Actions Taken</u>	<u>PAE Corrective Action</u>
2018-01	Partially disagree	PAE is disputing the total amount of \$1,424,226. Per the company records, the amount indicates it should be \$ [REDACTED]. PAE has collected banking statements which demonstrate that payments have been made to subcontractors and vendors for the period against the contract. PAE can document payments for \$ [REDACTED] of questioned costs under this report. In addition, PAE has identified \$ [REDACTED] of costs that are not cash related charges. They are intercompany/non-cash transactions. PAE is requesting that the questioned cost amount to be reduced to \$2,077.	PAE's accounting system is compliant with all FAR requirements and has been certified by DCAA and DCMA. PAE also has an approved purchasing system by DCMA as required under DFARS 244.305-71. Our most recent audit in Fall 2017 tested our ability to "Establish and maintain adequate documentation to provide a complete and accurate history of purchase transactions to support vendors selected and prices paid". No findings were identified against PAE for this condition. PAE procedures require appropriate documentation for all purchasing to include signed documentation
2018-02	Agree	PAE has attempted to obtain documentation from our significant subcontractor, Engility. Engility does not have any of the supporting documentation	PAE has a certified purchasing system. For the period of the audit, the transactions were all performed prior to PAE's acquisition of A-T Solutions and were tied to old accounting systems. Our current systems enable programs to store the supporting data with the payment records.
2018-03	Agree	PAE reviewed all A-T Solutions files to locate approval evidence and were unsuccessful	PAE's policies and procedures call for similar approval requirements in accordance with a delegation of authority. Based on the approved purchasing system, PAE has routinely documents and maintains approvals in the subcontract and vendor files.
2018-04	Agree		PAE's certified purchasing system and updated policies and procedures as well as training for procurement staff have addressed market research and have changed the format of the sole source justification to better address market research.
2018-05	Agree		PAE has a certified property management system. The procedures in place under PAE along with the systems allow for improved tracking of government property, contractor acquired property and material management
2018-06	Agree		PAE has a certified property management system. The procedures in place under PAE along with the systems allow for improved tracking of government property, contractor acquired property and material management

PAE remains fully committed to comply with all federal regulations in support of the FOM program. With the acquisition of A-T Solutions, PAE has changed and updated policies, procedures, and supporting

systems that greatly improve our ability to respond with the documentation for these audits. Based on the above, PAE plans to return \$82,617 to the Government as a result of this audit.



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Chief Executive Officer (or equivalent)



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Chief Financial Officer (or equivalent)

## SIGAR's Mission

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

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

## Obtaining Copies of SIGAR Reports and Testimonies

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