



# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On March 19, 2016, the Department of State (State) awarded a \$55,278,747 cost-plus-fixed-fee contract to PAE Justice Support (PAE) to support the Afghanistan Interdiction and Support Services program. The contract's objective was to support the National Interdiction Unit and Sensitive Investigation Unit of the Afghan government's Counter Narcotics Police. The contract also supported the Afghan Counter Narcotics Justice Center and 10 U.S. government locations and properties in the International Zone in Kabul. After 17 modifications, the contract's total funding increased to \$68,194,033, and the period of performance was extended from March 17, 2017, through September 18, 2017.

SIGAR's financial audit, performed by Davis Farr LLP (Davis Farr), reviewed \$32,616,282 in costs charged to the contract from March 19, 2016, through September 18, 2017. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies 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 Davis Farr'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 Davis Farr did not comply, in all material respects, with U.S. generally accepted government auditing standards.

June 2019

## Department of State's Afghanistan Interdiction and Support Services Program: Audit of Costs Incurred by PAE Justice Support

SIGAR 19-40-FA

### WHAT THE AUDIT FOUND

Davis Farr identified one significant deficiency in PAE's internal controls, and one instance of noncompliance with the terms and conditions of the contract. The auditors tested records of 398 transactions pertaining to nonpersonal services, such as labor and danger pay, to determine whether the costs were supported and allowable. PAE could not provide supporting documentation, such as timesheets and invoices, for 18 of the transactions.

Because of the internal control deficiency and instance of noncompliance, Davis Farr identified \$160,941 in total questioned costs, consisting entirely of unsupported costs—costs not supported with adequate documentation or that did not have required prior approval. Davis Farr did not identify any ineligible costs—costs prohibited by the agreement, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Nonpersonal Services	\$0	\$160,941	\$160,941
<b>Totals</b>	<b>\$0</b>	<b>\$160,941</b>	<b>\$160,941</b>

Davis Farr identified three prior audit reports that were relevant to PAE's contract. These audits had 15 findings that could have a material effect on the SPFS and other financial data significant to the audit objectives. Davis Farr conducted follow-up procedures and concluded that PAE had taken adequate corrective action on 10 of the findings. The five that PAE had not addressed were similar to the finding in this audit because they pertained to a lack of supporting documentation for costs.

Davis Farr issued an unmodified opinion on PAE's SPFS, noting that it presents fairly, in all material respects, revenues received, and costs incurred for the period indicated.

### WHAT SIGAR RECOMMENDS

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

- 1. Determine the allowability of and recover, as appropriate, \$160,941 in questioned costs identified in the report.**
- 2. Advise PAE to address the report's one internal control finding.**
- 3. Advise PAE to address the report's one noncompliance finding.**



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

June 10, 2019

The Honorable Michael R. Pompeo  
Secretary of State

The Honorable Kirsten D. Madison  
Assistant Secretary for International Narcotics and  
Law Enforcement Affairs

Ambassador John Bass  
U.S. Ambassador to Afghanistan

We contracted with Davis Farr LLP (Davis Farr) to audit the costs incurred by PAE Justice Support (PAE) under a cost-plus-fixed-fee contract from the Department of State (State) to support the Afghanistan Interdiction and Support Services program.<sup>1</sup> The contract's objective was to support the National Interdiction Unit and Sensitive Investigation Unit of the Afghan government's Counter Narcotics Police. The contract also supported the Afghan Counter Narcotics Justice Center and 10 U.S. government locations and properties in the International Zone in Kabul. Davis Farr reviewed \$32,616,282 in costs charged to the contract from March 19, 2016, through September 18, 2017. Our contract with Davis Farr 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 State:

- 1. Determine the allowability of and recover, as appropriate, \$160,941 in questioned costs identified in the report.**
- 2. Advise PAE to address the report's one internal control finding.**
- 3. Advise PAE to address the report's one noncompliance finding.**

The results of Davis Farr's audit are discussed in detail in the attached report. We reviewed Davis Farr'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 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. Davis Farr is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances in which Davis Farr 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-141)

<sup>1</sup> The contract number is SAQMMA16C0061.

**PAE JUSTICE SUPPORT**

Financial Audit of Costs Incurred Under  
Contract No. SAQMMA16C0061  
Afghanistan Interdiction and Support Services

For the Period March 19, 2016 through September 18, 2017

# PAE JUSTICE SUPPORT

Financial Audit of Costs Incurred Under  
Contract No. SAQMMA16C0061  
Afghanistan Interdiction and Support Services

For the Period March 19, 2016 through September 18, 2017

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May 17, 2019

Enclosed is the final report on the financial audit of costs incurred by PAE Justice Support ("PAE") under Contract Number SAQMMA16C0061 for Afghanistan Interdiction Support Services. The audit covers the period March 19, 2016 through September 18, 2017.

Included within the final report is a summary of the work performed, 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 from PAE, the Special Inspector General for Afghanistan Reconstruction and the U.S. Department of State, Bureau of International Narcotics and Law Enforcement Affairs. Management of PAE has prepared responses to the findings identified during our audit and those responses are included as part of this report. The responses have not been audited and we express no opinion on them.

Sincerely,

DAVIS FARR LLP



Marcus D. Davis, CPA  
Partner

## **PAE JUSTICE SUPPORT**

Financial Audit of Costs Incurred Under  
Contract No. SAQMMA16C0061  
Afghanistan Interdiction and Support Services

For the Period March 19, 2016 through September 18, 2017

### **Background**

On March 19, 2016, the U.S. Department of State (DOS), Bureau of International Narcotics and Law Enforcement Affairs (INL) awarded Contract Number SAQMMA16C0061 (Contract) to PAE Justice Support (PAE) to support Afghanistan Interdiction and Support Services program. The purpose of the program was to support two specialized narcotics law enforcement units within the Counter Narcotics Police of Afghanistan (CNPA) of the Government of the Islamic Republic of Afghanistan (GIROA), the National Interdiction Unit (NIU) and the Sensitive Investigation Unit (SIU). The Contract was also to support the Counter Narcotics Justice Center (CNJC), as well as operation, maintenance and life and mission supporting services for seven International Zone locations, and to support three Drug Enforcement Agency (DEA)-leased properties also located in the International Zone near the U.S. Embassy.

The contract was awarded in the original amount of \$55,278,747 as a cost plus fixed fee completion contract. The original awarded amount consisted of \$50,714,447 in cost reimbursement and \$4,564,300 in fixed fee components. The contract was awarded on March 19, 2016 for an original base period of twelve months through March 17, 2017. After 17 modifications to the contract, the period of performance was extended from March 17, 2017 through September 18, 2017 and the total award increased to \$68,194,033, consisting of \$62,254,710 in cost reimbursement and \$5,939,323 in fixed fee components.

Our audit procedures reviewed \$32,616,282 in expenses for the period from March 19, 2016 through September 18, 2017.

According to PAE's website and other publicly available information on the Internet, PAE was founded in 1955 and offers support for the missions of a wide range of customers, including the U.S. Government, its allies and international organizations. PAE was acquired by Lockheed Martin in 2006 but was subsequently sold in 2011. PAE's 2013 acquisition of CSC's Applied Technology Division expanded its portfolio to include military and space testing and training ranges primarily within the United States, infrastructure services and aviation maintenance support at critical U.S. government installations. The acquisition of the Applied Technology Division complemented PAE's acquisition of its Defense Support Services.

### **Work Performed**

Davis Farr LLP (Davis Farr) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of PAE's Special Purpose Financial Statement (SPFS) for the period March 19, 2016 through September 28, 2017. Total costs reported by PAE and subject to audit during this period were \$32,616,282.

## **PAE JUSTICE SUPPORT**

Financial Audit of Costs Incurred Under  
Contract No. SAQMMA16C0061  
Afghanistan Interdiction and Support Services

For the Period March 19, 2016 through September 18, 2017

### **Objectives, Scope, and Methodology**

#### **Objectives Defined by SIGAR**

The objectives of the audit include the following:

- *Special Purpose Financial Statement (SPFS)* – Express an opinion on whether PAE’s SPFS for the Contract 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 Contract and generally accepted accounting principles or other comprehensive basis of accounting.
- *Internal Controls* – Evaluate and obtain a sufficient understanding of PAE’s internal controls related to the Contract; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether PAE complied, in all material respects, with the Contract requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the Contract and applicable laws and regulations, including potential fraud or abuse that may have occurred.
- *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 SPFS or other financial data significant to the audit objectives.

#### **Scope**

The scope of this audit included the actual costs incurred of \$32,616,282 under the cost reimbursement component of the Contract, and excluded the fixed fee component of the Contract. Our testing of the indirect cost rates was limited to verifying that the rates billed were calculated using the provisional rates as approved by the Defense Contract Management Agency (DCMA).

#### **Methodology**

In order to accomplish the objectives of this audit, we designed our audit procedures to include the following:

##### **Entrance Conference**

An entrance conference was held via conference call on September 21, 2018. Participants included representatives of Davis Farr, PAE, SIGAR and the DOS.

## PAE JUSTICE SUPPORT

Financial Audit of Costs Incurred Under  
Contract No. SAQMMA16C0061  
Afghanistan Interdiction and Support Services

For the Period March 19, 2016 through September 18, 2017

### Planning

During our planning phase, we performed the following:

- Obtained an understanding of PAE;
- Reviewed the Contract and all modifications to date;
- Reviewed sections of the Federal Acquisition Regulation (FAR) and the Department of State Acquisition Regulation System (DOSAR) as applicable to the Contract;
- Performed a financial reconciliation; and
- Selected samples based on our approved sampling techniques. According to the approved Audit Plan, we used the detailed accounting records that were reconciled to the financial reports, and based upon the risk assessment and materiality included as part of the approved Audit Plan, we performed data mining to assess individual expenditure accounts and transactions that were considered to be high, medium or low risk for inclusion in our test of transactions. The labor and labor uplifts populations were homogeneous in nature, so we selected statistical samples of labor and labor uplifts costs using a 95% confidence level with a 5% maximum tolerable error rate. There were 29,685 labor transactions and 2,748 labor uplifts transactions. When the statistical sampling parameters were applied, this resulted in sample sizes of 110 and 106 transactions for labor and labor uplifts, respectively. All remaining samples were selected on a judgmental basis. Our sampling methodology for judgmental samples was as follows:
  - For accounts that appear to contain unallowable and restricted items according to the terms of the Contract, FAR, DOSAR and any other applicable regulations, we sampled 100% of the transactions.
  - For high risk cost categories, we sampled transactions greater than \$122,300, and additional transactions below \$122,300 to ensure that at least 50% of the total amount expended for each cost category was sampled.
  - For medium risk categories, we sampled transactions that are greater than \$244,600, and additional transactions below \$244,600 to ensure at least 20% of the total amount expended for each cost category was sampled.
  - Low risk categories consisted of defense base insurance and fixed fee. We reviewed an invoice for defense base insurance to ensure the costs were properly supported, and the fixed fee component was outside the scope of the audit and thus not tested.

## **PAE JUSTICE SUPPORT**

Financial Audit of Costs Incurred Under  
Contract No. SAQMMA16C0061  
Afghanistan Interdiction and Support Services

For the Period March 19, 2016 through September 18, 2017

### Internal Control Related to the SPFS

We reviewed PAE's internal controls related to the SPFS. The system of internal control is intended to provide reasonable assurance of achieving reliable financial reporting and compliance with applicable laws and regulations. We corroborated internal controls identified by PAE and conducted testing of select key controls to understand if they were implemented as designed and operating effectively.

### Compliance with Agreement Requirements and Applicable Laws and Regulations

We reviewed the Contract and modifications and documented all compliance requirements that could have a direct and material effect on the SPFS. We assessed inherent and control risk as to whether material noncompliance could occur. Based upon our risk assessment, we designed procedures to test a sample of transactions to ensure compliance with the Contract requirements and laws and regulations.

### Corrective Action on Prior Findings and Recommendations

We reached out to SIGAR, PAE and DOS and requested all reports from previous engagements, as well as searched publicly available information for other reports, in order to evaluate the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS. See the Review of Prior Findings and Recommendations subsection of this Summary for this analysis.

### Special Purpose Financial Statements

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Contract, modifications and general ledger;
- Traced receipt of funds to the accounting records;
- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the Contract and reasonable. If the results of a judgmental sample indicated a material error rate, our audit team consulted with our Audit Manager and Partner as to whether the sample size should be expanded. If it appeared that based upon the results of the judgmental sample, an entire account was deemed not allowable, we did not expand our testing, but instead questioned the entire account; and
- Limited testing of indirect costs to ensure that the indirect cost rates charged to the Contract were based upon the provisional rates approved by DCMA. We did not audit the indirect cost rates.

### Exit Conference

An exit conference was held on March 15, 2019 via conference call. Participants included representatives from Davis Farr, PAE, SIGAR and DOS. During the exit conference, we discussed the preliminary results of the audit and established a timeline for providing any final documentation for consideration and reporting.

## PAE JUSTICE SUPPORT

Financial Audit of Costs Incurred Under  
Contract No. SAQMMA16C0061  
Afghanistan Interdiction and Support Services

For the Period March 19, 2016 through September 18, 2017

### **Summary of Results**

Our audit of the costs incurred by PAE under the Contract with DOS identified the following matters. Findings are classified as either internal control or noncompliance or a combination of internal control and noncompliance.

### **Auditor's Opinion on SPFS**

We issued an unmodified opinion on the fairness of the presentation of PAE's SPFS. We also identified \$160,941 of questioned costs under the Contract. A summary of findings and questioned costs is described in the next section.

### **Summary of Findings and Questioned Costs**

Finding Number	Nature of Finding	Matter	Questioned Costs	Total Cumulative Questioned Cost
2019-01	Internal control – significant deficiency Noncompliance	Unsupported costs	\$160,941	\$160,941

### **Internal Control Findings**

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we considered PAE's internal control over financial reporting and performed tests of those controls. The results of our tests disclosed one internal control weakness required to be reported under *Government Auditing Standards*. See Independent Auditor's Report on Internal Control on page 13.

### **Compliance Findings**

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we performed tests of its compliance with certain provisions of the Contract and other laws and regulations, noncompliance with which could have a direct and material effect on the determination of the SPFS. The results of our tests disclosed one instances of noncompliance related to this audit. See Independent Auditor's Report on Compliance on page 15.

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

## **PAE JUSTICE SUPPORT**

Financial Audit of Costs Incurred Under  
Contract No. SAQMMA16C0061  
Afghanistan Interdiction and Support Services

For the Period March 19, 2016 through September 18, 2017

### **Review of Prior Findings and Recommendations**

We requested from PAE, SIGAR and DOS copies of any prior engagements including audits, reviews, attestation engagements and other studies that relate to PAE's activities under this Contract. We had identified three prior reports issued by SIGAR as follows:

- Audit Report: SIGAR 18-54 "*Department of the Army's Freedom of Maneuver Project: Audit of Costs Incurred by PAE National Security Solutions LLC*" for the period November 28, 2013 through June 27, 2015, which was conducted by Crowe Horwath LLP on behalf of SIGAR and was issued by SIGAR on June 6, 2018
- Audit Report: SIGAR 15-69 "*Department of State's Afghanistan Justice Sector Support Program II: Audit of Costs Incurred by Pacific Architects and Engineers, Inc.*" for the period March 31, 2010 through September 24, 2013, which was conducted by Crowe Horwath on behalf of SIGAR and was issued by SIGAR on July 6, 2015
- Audit Report: SIGAR 15-22 "*Department of State's Afghanistan Justice Sector Support Program: Audit of Costs Incurred by Pacific Architects and Engineers, Inc.*" for the period March 31, 2005 through May 30, 2010, which was conducted by Crowe Horwath on behalf of SIGAR and was issued by SIGAR on December 1, 2014

Based on our review of these reports, we identified 15 findings that could have a material effect on the SPFS or other financial data significant to the audit objectives. We have performed follow-up procedures including discussion with management, reviewed policies and procedures and conducted testing of similar areas surrounding these issues during our current audit. Accordingly, we have concluded that PAE has taken adequate corrective actions on 10 of the findings. The remaining 5 findings all relate to a lack of adequate supporting documentation. This same issue was noted in our current audit and reported as Finding 2019-01. See the Status of Prior Findings on page 17 for a detailed description of the prior findings and recommendations.

### **Summary of PAE's Responses**

PAE disagreed with Finding 2019-01 indicating that there should be no questioned costs for the transactions identified as these transactions have not yet been billed to the U.S. Government. Additionally, PAE disagrees with our determination that the corrective actions for certain prior audit findings and recommendations have not been adequately implemented. The complete responses received can be found in Appendix A to this report.

**INDEPENDENT AUDITOR'S REPORT  
ON SPECIAL PURPOSE FINANCIAL STATEMENT**

PAE Justice Support  
1320 N. Courthouse Road, Suite 800  
Arlington, Virginia 22201

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 accompanying Special Purpose Financial Statement of PAE Justice Support (PAE) under Contract No. SAQMMA16C0061 (Contract) with the United States Department of State (DOS), Bureau of International Narcotics and Law Enforcement Affairs (INL) for Afghanistan Interdiction Support Services for the period March 19, 2016 through September 18, 2017, and the related notes to the Special Purpose Financial Statement.

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

Management is responsible for the preparation and fair presentation of the Special Purpose Financial Statement in accordance with the methods of preparation described in Note 2; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements (including the Special Purpose Financial Statement) that are 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 the standards applicable to financial audits contained in *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 Special Purpose Financial Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Special Purpose Financial Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Special Purpose Financial 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 Special Purpose Financial 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

PAE Justice Support  
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Arlington, Virginia 22201

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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 Special Purpose Financial Statement.

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

### ***Opinion***

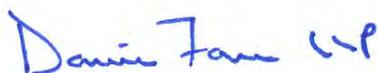
In our opinion, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received and costs incurred by PAE under the Contract for the period March 19, 2016 through September 18, 2017 in accordance with the basis of accounting described in Note 2.

### ***Restriction on Use***

This report is intended for the information of PAE, DOS, and the Special Inspector General for Afghanistan Reconstruction (SIGAR), and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our reports dated May 17, 2019 on our consideration of PAE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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.

Handwritten signature in blue ink that reads "Danie Jane" followed by a stylized mark.

Irvine, California  
May 17, 2019

**PAE JUSTICE SUPPORT**  
 Contract No. SAQMMA16C0061  
 Afghanistan Interdiction and Support Services

Special Purpose Financial Statement

For the Period March 19, 2016 through September 18, 2017

	Budget	Actual	Questioned Costs			Notes
			Ineligible	Unsupported	Total	
Revenues:						
SAQMMA16C0061	\$ 68,194,033	██████████	\$ -	\$ -	\$ -	(3)
Total revenues	<u>68,194,033</u>	<u>██████████</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						
Non-personal services	68,178,747	██████████	-	160,941	160,941	(4), (A)
Trash and septic removal	<u>15,286</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	(4), (A)
Total costs incurred	<u>68,194,033</u>	<u>██████████</u>	<u>-</u>	<u>160,941</u>	<u>160,941</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (160,941)</u>	<u>\$ (160,941)</u>	(5), (B)

See Notes to Special Purpose Financial Statement  
 and Notes to Questioned Costs Presented on Special Purpose Financial Statement

## PAE JUSTICE SUPPORT

Financial Audit of Costs Incurred Under  
Contract No. SAQMMA16C0061  
Afghanistan Interdiction and Support Services

Notes to Special Purpose Financial Statement<sup>1</sup>

For the Period March 19, 2016 through September 18, 2017

### (1) **Background**

On March 19, 2016, the U.S. Department of State (DOS), Bureau of International Narcotics and Law Enforcement Affairs (INL) awarded Contract Number SAQMMA16C0061 (Contract) to PAE Justice Support (PAE) for two specialized narcotics law enforcement units within the Counter Narcotics Police of Afghanistan (CNPA) of the Government of the Islamic Republic of Afghanistan (GIROA), the National Interdiction Unit (NIU) and the Sensitive Investigation Unit (SIU). The Contract was also to support the Counter Narcotics Justice Center (CNJC), as well as operation, maintenance and life and mission supporting services for seven International Zone locations, and to support three Drug Enforcement Agency (DEA)-leased properties also located in the International Zone near the U.S. Embassy.

The contract was awarded in the original amount of \$55,278,747 as a cost plus fixed fee completion contract. The original awarded amount consisted of \$50,714,447 in cost reimbursement and \$4,564,300 in fixed fee components. The contract was awarded on March 19, 2016 for an original base period of twelve months through March 17, 2017. After 17 modifications to the contract, the period of performance was extended from March 17, 2017 through September 18, 2017 and the total funding increased to \$68,194,033, consisting of \$62,254,710 in cost reimbursement and \$5,939,323 in fixed fee components.

### (2) **Summary of Significant Accounting Policies**

#### Basis of Presentation

The accompanying Special Purpose Financial Statement (SPFS) includes costs incurred for Afghanistan Interdiction Support Services for the period March 19, 2016 through September 18, 2017. Because the SPFS presents only a selected portion of the operations of PAE, it is not intended to and does not present the financial position, changes in financial position, or cash flows of PAE. The information in the SPFS is presented in accordance with the requirements specified by the Special Inspector General for Afghanistan Reconstruction (SIGAR), accounting principles generally accepted in the United States of America, and is specific to the aforementioned Contract.

#### Basis of Accounting

Expenditures reported on the SPFS are required to be presented in accordance with accounting principles generally accepted 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 Federal Acquisition Regulation ("FAR") Part 31 – *Contracts with Commercial Organizations*.

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<sup>1</sup> The Notes to the Special Purpose Financial Statement are the responsibility of PAE.

## PAE JUSTICE SUPPORT

Financial Audit of Costs Incurred Under  
Contract No. SAQMMA16C0061  
Afghanistan Interdiction and Support Services

Notes to Special Purpose Financial Statement

(Continued)

### (2) Summary of Significant Accounting Policies (Continued)

#### Currency

All amounts presented are shown in U.S. dollars, the reporting currency of PAE.

### (3) Revenue

As of September 18, 2017, PAE has reported \$32,616,282 in revenue. This revenue equals the expenditures incurred by PAE under the Contract for the period March 19, 2016 through September 18, 2017.

### (4) Cost Categories

The cost categories included in the SPFS are those as identified in the Contract and modifications. PAE further details its costs incurred into other cost categories to more align with its accounting records. Below are the actual costs incurred by PAE using its internal cost categories. Indirect costs are not recorded separately, but are included in each of these internal cost categories.

<u>Cost Category</u>	<u>Amount</u>
Labor	\$ [REDACTED]
Labor uplifts	[REDACTED]
Defense base insurance	[REDACTED]
Other direct costs	[REDACTED]
Program costs	[REDACTED]
Total costs	[REDACTED]

### (5) Outstanding Fund Balance

As of September 18, 2017, there was no outstanding fund balance under the Contract as the SPFS is prepared under the accrual basis of accounting described in Note 2.

### (6) Subsequent Events

PAE has evaluated subsequent events through May 17, 2019, which is the date the SPFS was available to be issued. There were no subsequent events identified that would impact the SPFS as of this date.

## PAE JUSTICE SUPPORT

Financial Audit of Costs Incurred Under  
Contract No. SAQMMA16C0061  
Afghanistan Interdiction and Support Services

Notes to Questioned Costs Presented on Special Purpose Financial Statement<sup>2</sup>

For the Period March 19, 2016 through September 18, 2017

There are two categories of questioned costs, ineligible and unsupported. Ineligible costs are those costs that are explicitly questioned because they are unreasonable; prohibited by the Contract or applicable laws and regulations; or not Contract related. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

**(A) Non-Personal Services**

PAE reported non-personal services costs in the total amount of \$32,616,282 for the period March 19, 2016 through September 18, 2017. During our audit of these costs, PAE did not provide any supporting documentation for \$140,011, which consisted of labor, labor uplifts, other direct costs and program costs. The types of documentation that was requested but not provided included timesheets, personnel files, background checks, invoices, procurement files and evidence of payment. Indirect costs applicable to these unsupported non-personal services costs were \$20,930. This resulted in total questioned costs of \$160,941. See Finding 2019-01.

**(B) Outstanding Fund Balance**

The total outstanding fund balance as of September 18, 2017 is \$160,941, which represents the total questioned costs, consisting of \$160,941 in unsupported costs.

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<sup>2</sup> The Notes to Questioned Costs presented on the Special Purpose Financial Statement were prepared by the auditor for informational purposes only and as such are not a part of the audited Special Purpose Financial Statement.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF THE SPECIAL PURPOSE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**INDEPENDENT AUDITOR'S REPORT**

PAE Justice Support  
1320 N. Courthouse Road, Suite 800  
Arlington, Virginia 22201

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 of PAE Justice Support (PAE) representing revenues received and costs incurred under Contract No. SAQMMA16C0061 (Contract) with the United States Department of State (DOS), Bureau of International Narcotics and Law Enforcement Affairs (INL) for Afghanistan Interdiction Support Services for the period March 19, 2016 through September 18, 2017, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated May 17, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the Special Purpose Financial Statement, we considered PAE's internal control over financial reporting (internal control) to determine the audit procedures that were appropriate in the circumstances for the purpose of expressing our opinion on the Special Purpose Financial 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.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify one deficiency in internal control, described in the accompanying Detailed Audit Findings as Finding Number 2019-01, that we consider to be a significant deficiency.

### **PAE's Response to Findings**

PAE's response to the finding identified in our audit is included verbatim in Appendix A. PAE's response 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 internal control and the result of that testing, and not to provide an opinion on the effectiveness of PAE'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.

This report is intended for the information of PAE, DOS, and the Special Inspector General for Afghanistan Reconstruction (SIGAR), and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.



Irvine, California  
May 17, 2019

**REPORT ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF THE SPECIAL PURPOSE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**INDEPENDENT AUDITOR'S REPORT**

PAE Justice Support  
1320 N. Courthouse Road, Suite 800  
Arlington, Virginia 22201

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 of PAE Justice Support (PAE) representing revenues received and costs incurred under Contract No. SAQMMA16C0061 (Contract) with the United States Department of State (DOS), Bureau of International Narcotics and Law Enforcement Affairs (INL) for Afghanistan Interdiction Support Services for the period March 19, 2016 through September 18, 2017, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated May 17, 2019.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether PAE's Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned Contract, noncompliance with which could have a direct and material effect on the determination of Special Purpose 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Detailed Audit Findings as Finding Number 2019-01.

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### **PAE's Response to Findings**

PAE's response to the finding identified in our audit is included verbatim in Appendix A. PAE's response 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 internal control. Accordingly, this communication is not suitable for any other purpose.

This report is intended for the information of PAE, DOS, and the Special Inspector General for Afghanistan Reconstruction (SIGAR), and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

A handwritten signature in blue ink, appearing to read "David J. ...".

Irvine, California  
May 17, 2019

## PAE JUSTICE SUPPORT

Financial Audit of Costs Incurred Under  
Contract No. SAQMMA16C0061  
Afghanistan Interdiction and Support Services

### Status of Prior Findings

For the Period March 19, 2016 through September 18, 2017

We requested from PAE, SIGAR and DOS copies of any prior engagements including audits, reviews, attestation engagements and other studies that relate to PAE's activities under this Contract. We identified three prior reports under the scope of our audit, which contained 15 findings that could have a potential material effect on the SPFS or other financial data significant to the audit objectives. We have performed follow up procedures including discussion with management, reviewed policies and procedures and conducted testing of similar areas surrounding these issues during our current audit. Accordingly, we have concluded that PAE has taken adequate corrective actions on 10 of the findings. The remaining 5 findings all relate to a lack of adequate supporting documentation. This same issue was noted in our current audit and reported as Finding 2019-01. The summary of prior audit findings are listed below:

**Audit Report: SIGAR 18-54 "Department of the Army's Freedom of Maneuver Project: Audit of Costs Incurred by PAE National Security Solutions LLC" for the period November 28, 2013 through June 27, 2015, which was conducted by Crowe Horwath LLP on behalf of SIGAR and was issued by SIGAR on June 6, 2018**

- **Finding 2018-01 (Insufficient Documentation to Support Payment)**: The audit firm noted that PAE was unable to provide support for payment and authorization of costs. The missing support included cancelled checks, automated clearing house payments or wire transfers.

**Status**: During our testing of costs incurred, PAE was unable to provide any documentation to support costs for 18 out of 398 transactions tested. As such, the corrective action has not been adequately implemented.

- **Finding 2018-02 (Inadequate Supporting Documentation for Subcontractor Charges)**: The audit firm noted that PAE was unable to provide support for travel and other direct costs included in one of its subcontractor's invoices.

**Status**: During our testing of costs incurred, PAE was unable to provide any documentation to support costs for 18 out of 398 transactions tested. As such, the corrective action has not been adequately implemented.

- **Finding 2018-03 (Supervisory Review of Reimbursement Requests)**: The audit firm noted that the reimbursement requests submitted to the Department of the Army contained no evidence that they were reviewed prior to submission.

**Status**: During our review of reimbursement requests to the DOS, we noted that all requests were reviewed by a supervisor. As such, the corrective action has been adequately implemented.

- **Finding 2018-04 (Inadequate Support for Noncompetitive Procurement)**: The audit firm noted that PAE was unable to provide sole source justification for one of its subcontractors.

## PAE JUSTICE SUPPORT

Financial Audit of Costs Incurred Under  
Contract No. SAQMMA16C0061  
Afghanistan Interdiction and Support Services

Status of Prior Findings

(Continued)

**Status:** During our testing of subcontractors, we noted that the subcontract files were complete and included sole source justifications, if applicable. As such, the corrective action has been adequately implemented.

- **Finding 2018-05 (Inadequate Documentation to Support Receipt of Government Property):** The audit firm noted that PAE was unable to provide evidence that acquired government property was received.

**Status:** The contract under audit had no equipment costs included. However, based upon our discussions with PAE personnel, PAE has an approved property management system which requires the collection and maintenance of records to substantiate costs. As such, the corrective action has been adequately implemented.

- **Finding 2018-06 (Accuracy of Property Records):** The audit firm noted that PAE's records of government property items were incomplete.

**Status:** The contract under audit had no equipment costs included. However, based upon our discussions with PAE personnel, PAE has an approved property management system which requires the collection and maintenance of records to substantiate costs. As such, the corrective action has been adequately implemented.

**Audit Report: SIGAR 15-69 "Department of State's Afghanistan Justice Sector Support Program II: Audit of Costs Incurred by Pacific Architects and Engineers, Inc." for the period March 31, 2010 through September 24, 2013, which was conducted by Crowe Horwath on behalf of SIGAR and was issued by SIGAR on July 6, 2015**

- **Finding 2015-01 (Allowable Costs: Equipment Management):** The audit firm noted that PAE's records related to equipment were incomplete.

**Status:** The contract under audit had no equipment costs included. However, based upon our discussions with PAE personnel, PAE has an approved property management system which requires the collection and maintenance of records to substantiate costs. As such, the corrective action has been adequately implemented.

**Audit Report: SIGAR 15-22 "Department of State's Afghanistan Justice Sector Support Program: Audit of Costs Incurred by Pacific Architects and Engineers, Inc." for the period March 31, 2005 through May 30, 2010, which was conducted by Crowe Horwath on behalf of SIGAR and was issued by SIGAR on December 1, 2014**

## PAE JUSTICE SUPPORT

Financial Audit of Costs Incurred Under  
Contract No. SAQMMA16C0061  
Afghanistan Interdiction and Support Services

Status of Prior Findings

(Continued)

- **Finding 2014-01 (Cash Management Procedures)**: The audit firm noted that PAE did not remit payment to a vendor in a timely manner after receiving reimbursement from the DOS.

**Status**: During our testing of costs incurred, payments were made timely to vendors without exception. As such, the corrective action has been adequately implemented.

- **Finding 2014-02 (Procurement Practices)**: The audit firm noted that PAE was unable to provide documentation that some items tested for procurement were properly approved.

**Status**: During our testing of costs incurred, PAE was unable to provide any documentation to support costs for 18 out of 398 transactions tested. As such, the corrective action has not been adequately implemented.

- **Finding 2014-03 (Allowable Costs: Inadequate Supporting Documentation)**: The audit firm noted that PAE was unable to provide documentation to support selected program costs.

**Status**: During our testing of costs incurred, PAE was unable to provide any documentation to support costs for 18 out of 398 transactions tested. As such, the corrective action has not been adequately implemented.

- **Finding 2014-04 (Improper Maintenance of Equipment)**: The audit firm noted that PAE was unable to provide documentation to support the disposition of equipment.

**Status**: The contract under audit had no equipment costs included. However, based upon our discussions with PAE personnel, PAE has an approved property management system which requires the collection and maintenance of records to substantiate costs. As such, the corrective action has been adequately implemented.

- **Finding 2014-05 (Special Purpose Financial Statement Review/Approval)**: The audit firm noted that the SPFS provided by PAE was not complete in that it did not contain adjustments made to the accounting records.

**Status**: We reconciled the SPFS to the accounting records without exception. As such, the corrective action has been adequately implemented.

- **Finding 2014-06 (Conflict of Interest Clause omitted in Subcontracts)**: The audit firm noted that PAE's subcontracts did not contain conflict of interest clauses.

**Status**: During our review of the subcontracts, we noted that the subcontracts contain conflict of interest clauses. As such, the corrective action has been adequately implemented.

## PAE JUSTICE SUPPORT

Financial Audit of Costs Incurred Under  
Contract No. SAQMMA16C0061  
Afghanistan Interdiction and Support Services

Status of Prior Findings

(Continued)

- **Finding 2014-07 (Federal Daily Rates (FDRs) Based on Individual Qualifications)**: The audit firm noted that PAE was unable to provide support that personnel charged to the award had the qualifications necessary for their associated rates of pay.

**Status**: During our testing of costs incurred, PAE was unable to provide any documentation to support costs for 18 out of 398 transactions tested. As such, the corrective action has not been adequately implemented.

- **Finding 2014-08 (Federal Daily Rates (FDRs) Based on Individual Qualifications)**: The audit firm noted that PAE was unable to support the substitution of key personnel.

**Status**: During our testing of contract compliance, there were no substitutions of key personnel made. As such, the corrective action has been adequately implemented.

## PAE JUSTICE SUPPORT

Financial Audit of Costs Incurred Under  
Contract No. SAQMMA16C0061  
Afghanistan Interdiction and Support Services

### Detailed Audit Findings

For the Period March 19, 2016 through September 18, 2017

#### **Finding 2019-01: Unsupported Costs**

##### **Nature of Finding:**

Internal control – significant deficiency  
Noncompliance

##### **Condition:**

We tested 398 from the total 49,777 transactions, and we determined that 18 out of 398 transactions tested under Contract Line Item Number (CLIN) 001 for non-personal services such as labor, labor uplifts, which includes danger pay and post differential, other direct costs and program costs. PAE did not provide any documentation to support the following transactions.

<u>Internal Cost Category</u>	<u>Transaction Project Name</u>	<u>Date</u>	<u>Amount</u>
Labor	Interdiction WDC Labor	10/16/16	\$ 9,391
Labor	Interdiction WDC Labor	10/16/16	9,785
Labor	Interdiction WDC Labor	10/16/16	9,361
Labor	Interdiction WDC Labor	10/9/16	8,390
Labor	Interdiction FN Labor	6/21/17	109
Labor	Interdiction WDC Labor	no date	26
Labor Uplifts	Interdiction Danger Pay	9/25/16	472
Labor Uplifts	Interdiction Post Diff	9/25/16	538
Labor Uplifts	Interdiction Post Diff	9/25/16	639
Labor Uplifts	Interdiction Danger Pay	12/25/16	639
Labor Uplifts	Interdiction Post Diff	12/11/16	592
Labor Uplifts	Interdiction Post Diff	12/31/16	84
Labor Uplifts	Interdiction Post Diff	12/31/16	533
Other Direct Costs	Facilities	no date	10,894
Other Direct Costs	Facilities	no date	27,723
Other Direct Costs	Facilities	no date	13,414
Program Costs	Facilities	8/28/16	34,773
Program Costs	Facilities	8/28/16	<u>12,648</u>
Total unsupported costs			<u>\$140,011</u>

During our testing procedures, we determined that the above listed transactions were recorded in the general ledger and that these transactions occurred in 2016 and 2017. During our review however, we determined that some of the transactions did not include specific dates, but rather identified the accounting period in which they were recorded. We asked PAE to provide documentation and evidence to justify and support these transactions, however, PAE could not provide any supporting documentation to demonstrate that these costs were incurred, are allowable, allocable to the contract, and comply with applicable regulations.

## PAE JUSTICE SUPPORT

Financial Audit of Costs Incurred Under  
Contract No. SAQMMA16C0061  
Afghanistan Interdiction and Support Services

Detailed Audit Findings

(Continued)

### Cause:

PAE indicated that its internal policies include only providing documentation to auditors which support transactions incurred if PAE has internally reviewed, approved and billed the transaction to the government. PAE further indicated that it had not internally reviewed, approved and had not yet decided whether it would bill the government or not for the identified transactions. Since these transactions were incurred in some cases more than two years prior to conducting our audit, and the U.S. government was billed for these costs, this does not explain PAE's lack of documentation. In addition, PAE lacks procedures to retain documentation.

### Criteria:

48 CFR 31.201-2, *Determining Allowability*, states, in part:

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

48 CFR 4.705-1, *Financial and cost accounting Records*, states, in part:

"...(e) Accounts payable records to support disbursements of funds for materials, equipment, supplies, and services, containing originals or copies of the following and related documents: remittance advices and statements, vendors' invoices, invoice audits and distribution slips, receiving and inspection reports or comparable certifications of receipt and inspection of material or services, and debit and credit memoranda: Retain 4 years..."

48 CFR 4.705-2, *Pay administration records*, states, in part:

"(a) Payroll sheets, registers, or their equivalent, of salaries and wages paid to individual employees for each payroll period; change slips; and tax withholding statements: Retain 4 years.

(b) Clock cards or other time and attendance cards: Retain 2 years..."

### Effect:

Failure to provide supporting documentation for accounting transactions recorded and included in the SPFS may have resulted in the US government paying for unsupported or unallowable costs.

## PAE JUSTICE SUPPORT

Financial Audit of Costs Incurred Under  
Contract No. SAQMMA16C0061  
Afghanistan Interdiction and Support Services

Detailed Audit Findings

(Continued)

### Questioned Costs:

Total questioned costs, including the associated indirect costs, resulting from the unsupported costs is as follows:

Unsupported costs	\$140,011
Indirect costs	<u>20,930</u>
Total questioned costs	<u>\$160,941</u>

### Recommendation:

- (1) We recommend that PAE either provide adequate documentation to support the costs incurred, or return \$160,941 to the US government.
- (2) We recommend that PAE establish procedures and instruct management to ensure that if costs are incurred, recorded in its general ledger, and included on the SPFS, that adequate documentation be made available for audit when requested by the US government or its representatives in accordance with the Code of Federal Regulations.



1320 N. Courthouse Road, Suite 800  
Arlington, VA 22201

April 26, 2019

Erick Martin  
Davis Farr LLP  
2301 Dupont Drive  
Suite 200  
Irvine, CA 92612

Subject: PAE Responses to SIGAR Audit of Contract No. SAQMMA16C0061

Reference: SIGAR Draft Audit Received April 15, 2019

Dear Mr. Martin:

PAE hereby submits the following management response to the audit findings included in the SIGAR draft audit, received by PAE on April 15, 2019.

**Finding 2019-01: Unsupported Costs**

The auditors tested 398 transactions, and for 18 of these, the draft report asserts “PAE did not provide any documentation to support the following transactions.”

In addition, draft report includes the following inaccurate and contradictory statement:

“PAE indicated that its internal policies include only providing documentation to auditors which support transactions incurred if PAE has internally reviewed, approved and billed the transaction to the government. PAE further indicated that it had not internally reviewed, approved and had not yet decided whether it would bill the government or not for the identified transactions. Since these transactions were incurred in some cases more than two years prior to conducting our audit, and the U.S. government was billed for these costs, this does not explain PAE’s lack of documentation.”

**PAE Response:**

PAE strongly contests these claims. As PAE noted during the exit call, these 18 items have not yet been billed to the Government, which we demonstrated to the auditors during on-site field work and throughout the course of the audit. These costs are currently in PAE’s general ledger as unbilled costs, and we do not expect to complete contract close out until the end of this fiscal year.

PAE’s policy is to provide all documentation that we can locate, and we held to that standard for this audit. PAE provided detailed backup documentation for more than over 90 invoices. Non-financial transactions included background checks, procurement samples, and additional subcontractor documents.

**Prior Audits:**

It is unclear what methodology or assumptions the auditors used to determine that prior audit findings had not been adequately addressed. For some of these findings, the auditors incorrectly assert that PAE did not provide “any documentation” to support costs, and this appears to result in the statement that “corrective action has not

been adequately implemented.” Aside from the misstatement about “any documentation,” many of the findings include cost categories that are either unrelated to the unbilled costs or include cost elements which do not exist under the contract number SAQMMA16C0061.

Sincerely,



Contracts, PAE

**PAE JUSTICE SUPPORT**

Financial Audit of Costs Incurred Under  
Contract No. SAQMMA16C0061  
Afghanistan Interdiction and Support Services

Auditor's Rebuttal to PAE's Response to Findings

For the Period March 19, 2016 through September 18, 2017

PAE disagreed with the finding, as well as our conclusions regarding the corrective actions taken on prior audit findings and recommendations. We have reviewed management's response and provide the following rebuttals

**Finding 2019-01: Unsupported Costs**

PAE disagreed with this finding indicating that while the questioned costs are included in its general ledger, the costs have not yet been billed to the government and that it does not expect to complete the contract close out until the end of the fiscal year. The issue of whether or not the costs have yet been billed to the government is not the subject of the finding. The finding focuses on the fact that 18 transactions were included in the SPFS, and PAE did not provide any documentation to support that these 18 transactions were incurred, are allowable, allocable to the contract, and comply with applicable regulations. Furthermore, PAE did not provide any new additional documentation pertaining to this finding. In the absence of such documentation, our finding remains unchanged.

**Prior Audits**

PAE disagreed with our determination that certain prior audit recommendations have not been adequately addressed. PAE indicates that many of these prior audit findings include cost categories which are unrelated to the cost categories included in the contract under the scope of our audit. While we agree that some of the cost categories in the prior findings and recommendations are not included in Contract No. SAQMMA16C0061, but even then PAE was unable to provide adequate supporting documentation for the costs claimed or provided incomplete documentation. Based on our assessment, we concluded that the same exact issue is present in the current audit under Finding 2019-01. Therefore, we are unable to state that the corrective action has been adequately implemented. As such, the assertion of the status of prior findings and recommendations remains unchanged.

## 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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## To Report Fraud, Waste, and Abuse in Afghanistan Reconstruction Programs

To help prevent fraud, waste, and abuse by reporting allegations of fraud, waste, abuse, mismanagement, and reprisal, contact SIGAR's hotline:

- Web: [www.sigar.mil/fraud](http://www.sigar.mil/fraud)
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- Phone Afghanistan: +93 (0) 700-10-7300
- Phone DSN Afghanistan: 318-237-3912 ext. 7303
- Phone International: +1-866-329-8893
- Phone DSN International: 312-664-0378
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## Public Affairs

Public Affairs Officer

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