



# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

Between 2015 and 2017, the Department of Defense, through the United States Navy's Space and Naval Warfare Systems Command (renamed the Naval Information Warfare Systems Command in 2019), awarded two cost-plus-fixed-fee contracts for a total estimated cost of \$9,845,917 to Ideal Innovations Inc. (I<sup>3</sup>). The contracts' objectives were to maintain, operate, and sustain the Afghan Automated Biometrics Identification System. The first contract totaled \$5,952,023, and had a period of performance from July 16, 2015, to September 30, 2016. The second totaled \$3,893,894, and had a period of performance from November 15, 2017, to September 30, 2018. The department modified the first contract seven times, which extended the first contract's period of performance to November 21, 2017, and increased funding by \$4,941,871. The department modified the second contract twice; however neither of the modifications affected the period of performance or contract cost.

SIGAR's financial audit, performed by CohnReznick LLP (CohnReznick), reviewed \$14,423,703 in costs charged to the two contracts from July 16, 2015, through September 30, 2018. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in I<sup>3</sup>'s internal controls related to the contracts; (2) identify and report on instances of material noncompliance with the terms of the contracts, and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether I<sup>3</sup> has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of I<sup>3</sup>'s Special Purpose Financial Statement (SPFS). See CohnReznick's report for the precise audit objectives.

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

April 2020

Department of Defense's Efforts to Maintain, Operate, and Sustain the Afghan Automated Biometrics Identification System: Audit of Costs Incurred by Ideal Innovations Inc.

SIGAR 20-32-FA

### WHAT SIGAR FOUND

CohnReznick did not identify any material weaknesses or significant deficiencies in I<sup>3</sup>'s internal controls, or any instances of noncompliance with the terms and conditions of the contracts. Accordingly, CohnReznick did not identify any questioned costs.

CohnReznick reviewed four prior financial statement audit reports applicable to I<sup>3</sup>'s contracts and did not identify any findings or recommendations that could have a material effect on the organization's SPFS.

CohnReznick issued an unmodified opinion on I<sup>3</sup>'s SPFS, noting that it presents fairly, in all material respects, revenues received and costs incurred.

### WHAT SIGAR RECOMMENDS

CohnReznick did not report any findings specific to the SPFS of the two contracts under review. Therefore, SIGAR is not making any recommendations.



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

April 1, 2020

The Honorable Dr. Mark T. Esper  
Secretary of Defense

The Honorable Thomas B. Modly  
Acting Secretary for the Navy

General Kenneth F. McKenzie Jr.  
Commander, U.S. Central Command

General Austin S. Miller  
Commander, U.S. Forces-Afghanistan  
Commander, Resolute Support

We contracted with CohnReznick LLP (CohnReznick) to audit the costs incurred by Ideal Innovations Inc. (I<sup>3</sup>) under two Department of Defense Naval Information Warfare Systems Command contracts to maintain, operate, and sustain the Afghan Automated Biometrics System.<sup>1</sup> CohnReznick reviewed \$14,423,703 in costs incurred from July 16, 2015, through September 30, 2018. Our contract with CohnReznick required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Based on the results of the audit, CohnReznick did not report any findings related to the two contracts under review. Therefore, SIGAR is not making any recommendations.

CohnReznick discusses the results of the audit in detail in the attached report. We reviewed CohnReznick's report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on I<sup>3</sup>'s Special Purpose Financial Statement. We also express no opinion on the effectiveness of I<sup>3</sup>'s internal control or compliance with the contracts, laws, and regulations. CohnReznick is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances in which CohnReznick did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

A handwritten signature in black ink, appearing to read "John F. Sopko".

John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction

(F-170)

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<sup>1</sup> The two contracts are N6523614D4989 and N0003918C0004.

**Financial and Closeout Audit of Costs Incurred by**

**Ideal Innovations Incorporated (I<sup>3</sup>), under the**

**Afghan National Biometrics Program**

**Contract No. N65236-14-D-4989, Delivery Orders 0001 and 0004**

**for the Period from July 16, 2015 through November 21, 2017; and**

**Contract No. N0003918C0004**

**for the Period from November 15, 2017 through September 30, 2018**

**Performed by**



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**TRANSMITTAL LETTER**

March 20, 2020

Board of Directors  
Ideal Innovations Incorporated (I<sup>3</sup>)  
950 N. Glebe Rd, Suite 800  
Arlington, VA 22203

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

We appreciate the opportunity to provide to you our final report reflecting the procedures that we have completed during the course of our financial and closeout audit of the costs incurred as part of the Special Purpose Financial Statement (SPFS) by Ideal Innovations Incorporated (I<sup>3</sup>), under the Afghan National Biometrics Program, Contract No. N65236-14-D-4989, Delivery Orders 0001 and 0004, for the period from July 16, 2015 through November 21, 2017; and Contract No. N0003918C0004, for the period from November 15, 2017 through September 30, 2018.

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

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

When preparing our report, we considered comments, feedback and interpretations of I<sup>3</sup>, the Office of the Special Inspector General for Afghanistan Reconstruction, and the Department of Defense throughout the planning, fieldwork, and reporting phases of the audit.

It was our pleasure to work with you on this opportunity to conduct the financial and closeout audit of the SPFS by I<sup>3</sup> under the Afghan National Biometrics Program.

Sincerely,



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

**Ideal Innovation Incorporated (I<sup>3</sup>)**  
**Financial and Closeout Audit of the Special Purpose Financial Statement**  
**Contract Nos. N65236-14-D-4989 (Delivery Order 0001 and 0004) and N0003918C0004**  
**For the Period from July 16, 2015 through September 30, 2018**

**SUMMARY**

**Background**

Between 2015 and 2017, the Department of Defense (DoD), through the United States Navy’s Space and Naval Warfare Systems Command (NAVWAR), as renamed Naval Information Warfare Systems Command during June 2019, awarded two cost-plus-fixed-fee contracts to I<sup>3</sup>.

The first contract awarded (no. N65236-14-D-4989) included two delivery orders totaling \$10,893,894.18. Delivery order 0001 was awarded on July 16, 2015, with an original award amount of \$4,973,366.86 and obligated amount of \$1,041,432.77, and a period of performance from July 16, 2015, through July 15, 2016. The contract was modified three times, increasing the obligated funds by \$3,820,461.00, from \$1,041,432.77 to \$4,861,893.77 in the first modification, and \$111,473.09 to \$4,973,366.86 in the third modification. The second delivery order, 0004, was issued on July 16, 2016, in the original amount of \$978,655.94 and a period of performance from July 16, 2016, through September 30, 2016. This delivery order was amended four times, increasing the amount to \$5,920,527.32 and extending the period of performance through November 21, 2017.

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

**N65236-14-D-4989-0001 (Delivery Order 0001)**

<b>Modification No.</b>	<b>Effective Date</b>	<b>Modification Summary</b>
1	9/8/2015	The purpose of this modification is to provide incremental funding. The total amount of funds obligated to the task is hereby increased from \$1,041,432.77 by \$3,820,461.00 to \$4,861,893.77. This increase is allocated to the Contract Line (CLIN) and Sub-Contract Line (SLIN) 100103 and 100104. CLIN/SLIN 100103 increased from \$0.00 to \$3,707,342. CLIN/SLIN 100104 increased from \$0.00 to \$113,119. The total value and the period of performance of the Task Order did not change.
2	9/25/2015	The purpose of this modification is to update TBC Clause 5152.225-5908 Government Furnished Contractor Support to include additional Contract Authorized Government Services. All other terms and conditions remain unchanged, including the amount of obligated funds and the total value of the Task Order and the period of performance.
3	6/15/2016	The purpose of this modification is to increase the amount of obligated funds by \$111,473.09 to a total of \$4,973,366.86. These new funds are allocated to CLIN/SLIN 100105. The total value of the Task Order and period of performance did not change.

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**For the Period from July 16, 2015 through September 30, 2018**

N65236-14-D-4989-0004 (Delivery Order 0004)

Modification No.	Effective Date	Modification Summary
1	10/1/2016	The purpose of this modification is to: 1) Increase the ceiling of the Task Order by \$2,460,238.78 in accordance with I <sup>3</sup> 's proposal, reference #J3-P-GAB, dated 9/4/2016, and extend the Period of Performance through 4/30/2017 from the initial end date of 9/30/2016. The ceiling increased from \$978,655.94 to \$3,438,894.72. 2) Add \$2,381,622.00 in incremental funding to the Task Order. \$2,329,122.00 of this funding will be placed on new CLIN/SLIN 200102 (ACRN AB), and \$52,500.00 will be placed on new CLIN/SLIN 200103 (ACRN AC).
2	12/20/2016	The purpose of this modification is to revise Section 10.1 of the Performance Work Statement for the Task Order to require I <sup>3</sup> to utilize on-base billeting services of HKIA. All billeting in the Kabul region will now be provided by Resolute support due to force protection policies. Reference COL Traugutt memorandum dated 12/16/2016 and I <sup>3</sup> 's formal concurrence dated 12/20/2016. The amount of obligated funds and the value of the Task Order did not change.
3	1/28/2017	The purpose of this modification is to update the PWS with nomenclature of various Afghanistan-based commands; CTSC-A and NTM-A have been formally replaced with Resolute Support and that change has been made throughout the PWS. This MOD also includes adding RS SOP 00331, title "Theater Force Protection" as a reference, as that is the basis for the COL's memo in the previous MOD 02. Lastly, this No-Cost modification was needed to modify section G of the task order to clearly indicate that the funds from SLIN 200101 (AA), related to pseudo FMS case J8-P-GAB have legally expired as of 9/30/2016. Any work accomplished on this Task Order on or after 10/1/2016 must only utilize funds from SLINS 200102 and 200103 (AB, AC). Those funds are related to pseudo FMS case V3-P-GAD and have an expiration date of 9/30/2017. The amount of obligated funds and the value of the Task Order did not change.
4	4/27/2017	The purpose of this modification is to extend the Period of Performance end date from 4/30/2017 to 11/21/2017, and increase the Task Order ceiling in accordance with the proposal from I <sup>3</sup> dated 4/7/2017. The total amount of obligated funds increased by \$2,404,000.00, from \$3,346,092.28 to \$5,750,092.28. \$2,351,000.00 of these new funds are allocated to CLIN/SLIN 200104, and \$53,000.00 of these funds are allocated to CLIN/SLIN 200105. The total value of the Task Order increased by \$2,481,632.60, from \$3,438,894.72 to \$5,920,527.32.

The second contract (no. N0003918C0004) was awarded on November 15, 2017, in the amount of \$3,893,894.00, with a period of performance from November 15, 2017, through September 30, 2018, and was modified twice, realigning \$35,140.13 in funding and the contract ceiling from CLIN 0002 to CLIN 0001.

The following modifications resulted in revisions to the Performance Work Statement and contractual requirements. There were no modifications to the period of performance or overall increase in funding:

N0003918C0004

Modification No.	Effective Date	Modification Summary
1	5/3/2018	The purpose of this modification is to incorporate a revised Performance Work Statement, dated 3/28/2018, and revised Contract Data Requirements Lists, dated 4/25/2018. The amount of obligated funds, the value of the Task Order, and the period of performance did not change.
2	11/6/2019	The purpose of this modification is to realign \$35,140.13 in funding and ceiling from CLIN 0002 to CLIN 0001 (ACRN AA). Only the cost ceiling was increased on CLIN 0001 and additional fee was not provided, as this is considered a cost overrun.

The primary objective of these contracts was to provide Afghan Automated Biometrics Identification System (AABIS) Maintenance, Operations and Sustainment in support of the

**Ideal Innovation Incorporated (I<sup>3</sup>)  
Financial and Closeout Audit of the Special Purpose Financial Statement  
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For the Period from July 16, 2015 through September 30, 2018**

Afghan National Biometrics Program in Afghanistan. This project included specialized training, systems administration, upgrades and sustainment to system software, and transition to the Government of the Islamic Republic of Afghanistan concurrent with the drawing down of U.S. Forces from Afghanistan.

Established in 1998, I<sup>3</sup> is a service-disabled veteran-owned, professional services company with headquarters in Arlington, Virginia. The company provides technology development, consulting, and program management services to U.S. Government agencies and international entities. The company specializes in solutions for defense and security-related problems involving advanced technology, information systems, and strategic analysis. It provides biometric services, such as facial identification full life cycle services, identity management, access control, automated biometric identification system development and support, and other products.

### **Work Performed**

CohnReznick LLP (CohnReznick) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of costs incurred by I<sup>3</sup> under the Department of Defense's (DOD) Afghan National Biometrics Program, Contract No. N65236-14-D-4989, Delivery Orders 0001 and 0004, for the period from July 16, 2015, through November 21, 2017; and Contract No. N0003918C0004, for the period from November 15, 2017, through September 30, 2018.

### **Audit Objectives as Defined by SIGAR**

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

#### *Audit Objective 1 – Special Purpose Financial Statement (SPFS)*

Express an opinion on whether I<sup>3</sup>'s SPFS for the contract presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government, and balances for the period audited in conformity with the terms of the contract and generally accepted accounting principles or other comprehensive basis of accounting.

#### *Audit Objective 2 – Internal Control*

Evaluate and obtain sufficient understanding of I<sup>3</sup>'s internal control related to the contract; assess control risk; and identify and report on significant deficiencies, including material internal control weaknesses.

**Ideal Innovation Incorporated (I<sup>3</sup>)  
Financial and Closeout Audit of the Special Purpose Financial Statement  
Contract Nos. N65236-14-D-4989 (Delivery Order 0001 and 0004) and N0003918C0004  
For the Period from July 16, 2015 through September 30, 2018**

*Audit Objective 3 – Compliance*

Perform tests to determine whether I<sup>3</sup> complied, in all material respects, with the contract requirements and applicable laws and regulations; and identify and report on instances of noncompliance with terms of the contract and applicable laws and regulations, including potential fraud or abuse that may have occurred.

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

Determine and report on whether I<sup>3</sup> 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.

**Audit Scope**

The scope of the audit covered I<sup>3</sup>'s incurred cost-plus-fixed-fee amounts under Contract No. N65236-14-D-4989, Delivery Order 0001, for the period from July 16, 2015, through July 15, 2016, and Delivery Order 0004, for the period from July 16, 2016, through November 21, 2017; and under Contract No. N0003918C0004, for the period from November 15, 2017, through September 30, 2018. The amounts subject to audit total \$10,553,260.84 for Delivery Orders 0001 and 0004 and \$3,870,442.33 for Contract No. N0003918C0004. We examined the SPFS and the underlying financial records to verify that the amounts reported in the SPFS were adequately supported, allowable, and in compliance with contract terms and conditions and applicable laws and regulations. No scope limitations or deviations from GAGAS were noted during performance of this audit. In addition, the following areas were determined to be direct and material, and as a result, were included within the audit program for detailed evaluation:

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

As part of our testing procedures, we confirmed that the expenditures incurred, and subsequently submitted for reimbursement, by I<sup>3</sup> did not exceed the contract ceilings by contract line item number (CLIN). See Special Purpose Financial Statement by CLIN table on p. 13 for additional information. In addition, our testing procedures included confirmation and verification that costs were properly recorded and reported based on the nature of the costs.

Testing of indirect costs was limited to determining whether, for the vouchers submitted for reimbursement to the Government, the correct rates were used and applied against the correct base for the amounts calculated in accordance with approved indirect cost rates.

**Ideal Innovation Incorporated (I<sup>3</sup>)  
Financial and Closeout Audit of the Special Purpose Financial Statement  
Contract Nos. N65236-14-D-4989 (Delivery Order 0001 and 0004) and N0003918C0004  
For the Period from July 16, 2015 through September 30, 2018**

The audit scope includes our consideration of I<sup>3</sup>'s internal control over financial reporting and compliance with certain provisions of laws and regulations, contracts, and other matters as they relate to the SPFS.

We also reviewed I<sup>3</sup>'s corrective action on prior audit findings and recommendations. The results of these evaluations were incorporated into our risk assessment procedures and were considered when determining the nature, extent, and timing of audit procedures.

### **Methodology**

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

#### *Audit Objective 1 – SPFS:*

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

#### *Audit Objective 2 – Internal Control:*

CohnReznick requested copies of I<sup>3</sup>'s relevant policies and procedures and reviewed those to gain an understanding of the internal control environment as designed. CohnReznick also made inquiries of I<sup>3</sup> management and conducted interviews with the finance and accounting personnel at I<sup>3</sup> to gain additional information about the design and operation of internal controls over financial reporting. CohnReznick performed tests of controls on a sample basis to determine whether controls were operating as designed.

#### *Audit Objective 3 – Compliance:*

CohnReznick obtained copies of I<sup>3</sup>'s contracts (Contract No. N65236-14-D-4989, Delivery Orders 0001 and 0004, and Contract No. N0003918C0004), and all modifications thereto. CohnReznick reviewed those contract documents, as well as applicable parts of FAR and DFARS, to gain an understanding of the compliance requirements. CohnReznick performed tests of compliance, in conjunction with our substantive and control tests described in Audit Objectives 1 and 2 above, to determine whether significant compliance requirements of the contract, laws, and regulations, including potential fraud or abuse that may have occurred, were being met.

**Ideal Innovation Incorporated (I<sup>3</sup>)  
Financial and Closeout Audit of the Special Purpose Financial Statement  
Contract Nos. N65236-14-D-4989 (Delivery Order 0001 and 0004) and N0003918C0004  
For the Period from July 16, 2015 through September 30, 2018**

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

CohnReznick inquired of I<sup>3</sup> management regarding all audits, reviews or other examinations, whether internal or external, that related directly to the project or were relevant to policies, procedures, and/or systems used by the project. CohnReznick considered the completeness of the list of reports provided by I<sup>3</sup> management, based on industry expertise and experience with similar contractors. We also inquired of NAVWAR and SIGAR as to whether there were any prior audits and reports, attestation engagements, financial reviews, and other studies that directly relate to the objectives of this audit. As a result of these procedures, four financial audit reports were identified, of which the status of corrective action is detailed in the Appendix A: Corrective Action on Prior Audit Findings and Recommendations.

**Summary of Audit Results**

Upon completion of the audit procedures, CohnReznick did not identify any questioned costs, internal control findings, or instances of noncompliance, including potential fraud or abuse that may have occurred.

*Audit Objective 1 – SPFS:*

CohnReznick issued an unmodified opinion on the SPFS and did not identify any questioned costs as a result of procedures performed. As discussed in the sections that follow, no deficiencies in internal control or instances of compliance were identified during the audit. We believe we have obtained sufficient and appropriate evidence to support our opinion on the SPFS.

*Audit Objective 2 – Internal Control:*

CohnReznick evaluated I<sup>3</sup>'s internal control over financial reporting and did not identify findings related to internal controls.

*Audit Objective 3 – Compliance:*

CohnReznick evaluated I<sup>3</sup>'s compliance with applicable contractual obligations, laws and regulations and did not identify instances of noncompliance, including potential fraud or abuse that may have occurred.

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

As a result of audit procedures performed, four prior financial statement audit reports were identified. No findings or recommendations were noted within the audit reports and, as such, no further procedures were performed. See Appendix A: Corrective Action on Prior Audit Findings and Recommendations for additional information.

INDEPENDENT AUDITORS' REPORT ON THE SPECIAL PURPOSE FINANCIAL  
STATEMENT

Board of Directors  
Ideal Innovations Incorporated (I<sup>3</sup>)  
11955 Freedom Drive  
Reston, VA, 20190

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

***Report on the Special Purpose Financial Statement***

We have audited the Special Purpose Financial Statement (SPFS) of Ideal Innovations Incorporated (I<sup>3</sup>) and the related notes thereto, with respect to the Department of Defense's (DOD) Afghan National Biometrics Program, Contract No. N65236-14-D-4989, Delivery Orders 0001 and 0004, for the period from July 16, 2015, through November 21, 2017; and Contract No. N0003918C0004, for the period from November 15, 2017, through September 30, 2018.

***Management's Responsibility for the SPFS***

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

***Auditors' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the SPFS. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the SPFS, whether due to fraud or error. In

making those risk assessments, we considered the internal controls relevant to I<sup>3</sup>'s preparation and fair presentation of the SPFS in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of I<sup>3</sup>'s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the SPFS.

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

### ***Unmodified Opinion***

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

### ***Basis of Presentation***

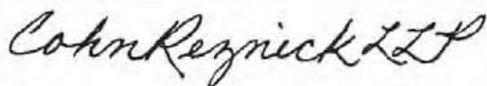
We draw attention to Note 2 to the SPFS, which describes the basis of presentation. As described in Note 2 to the SPFS, the SPFS is prepared by I<sup>3</sup> on the basis of the requirements provided by SIGAR, which is a basis of presentation other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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

In accordance with *Government Auditing Standards*, we have also issued our reports dated March 20, 2020, on our consideration of I<sup>3</sup>'s internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations, contracts, and other matters as it relates to the SPFS. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering I<sup>3</sup>'s internal control over financial reporting and compliance.

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

This report is intended solely for the information and use of I<sup>3</sup>, DOD, and SIGAR, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.



CohnReznick LLP  
Bethesda, Maryland  
March 20, 2020

**Ideal Innovations Incorporated (I<sup>3</sup>)**  
**Special Purpose Financial Statement**  
**Under Contract Nos. N65236-14-D-4989 (Delivery Order 0001 and 0004) and N0003918C0004**  
**For the Period of July 16, 2015 through September 30, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>		<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>	
<b>Revenues</b>					
N65236-14-D-4989 (0001)	\$ 4,973,367	\$ 4,841,659	\$ -	\$ -	5
N65236-14-D-4989 (0004)	5,920,527	5,711,601	-	-	5
N003918C0004	3,893,894	3,870,442	-	-	5
<b>Total Revenue</b>	<b>\$ [REDACTED]</b>	<b>\$ [REDACTED]</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Costs Incurred</b>					
Labor	\$ [REDACTED]	\$ [REDACTED]	\$ -	\$ -	
Travel	[REDACTED]	[REDACTED]	-	-	
Subcontractors	[REDACTED]	[REDACTED]	-	-	
Material and Equipment	[REDACTED]	[REDACTED]	-	-	
Other Direct Costs	[REDACTED]	[REDACTED]	-	-	
Hazard & Hardship (H&H)	[REDACTED]	[REDACTED]	-	-	
Non-Billable Costs	-	-	-	-	
Indirect Costs	[REDACTED]	[REDACTED]	-	-	
<b>Total Costs Incurred</b>	<b>\$ 13,897,787</b>	<b>\$ 13,557,005</b>	<b>\$ -</b>	<b>\$ -</b>	6
Fixed Fee	[REDACTED]	[REDACTED]	\$ -	\$ -	
<b>Total Costs Incurred and Fixed Fee</b>	<b>\$ [REDACTED]</b>	<b>\$ [REDACTED]</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Outstanding Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>			7

**Special Purpose Financial Statement by CLIN**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Notes</u>
<b>N65236-14-D-4989 (Delivery Order 0001)</b>				
CLIN 1001 - All Costs	\$ 4,658,892	\$ 4,527,184	\$ (131,708)	
CLIN 1001 - Fee	[REDACTED]	[REDACTED]	-	
<b>Total Costs</b>	<b>\$ [REDACTED]</b>	<b>\$ [REDACTED]</b>	<b>\$ (131,708)</b>	6
<b>N65236-14-D-4989 (Delivery Order 0004)</b>				
CLIN 2001 - All Costs	\$ 5,546,161	\$ 5,352,711	\$ (193,450)	
CLIN 2001 - Fee	[REDACTED]	[REDACTED]	(15,476)	
<b>Total Costs</b>	<b>\$ [REDACTED]</b>	<b>\$ [REDACTED]</b>	<b>\$ (208,926)</b>	6
<b>N003918C0004</b>				
CLIN 0001 - All Costs	\$ 2,746,980	\$ 2,746,980	\$ -	
CLIN 0001 - Fee	[REDACTED]	[REDACTED]	-	
CLIN 0002 - All Costs	731,254	731,254	-	
CLIN 0003 - All Costs	104,500	84,100	(20,401)	
CLIN 0004 - All Costs	110,000	106,949	(3,051)	
<b>Total Costs</b>	<b>\$ [REDACTED]</b>	<b>\$ [REDACTED]</b>	<b>\$ [REDACTED]</b>	6

Please refer to Appendix B for the Special Purpose Financial Statements by contract.

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

**Ideal Innovation Incorporated (I<sup>3</sup>)**  
**Notes to the Special Purpose Financial Statement**  
**July 16, 2015 through September 30, 2018**

**NOTE 1 – BACKGROUND**

Established in 1998, I<sup>3</sup> is a service-disabled veteran-owned, professional services company with headquarters in Arlington, Virginia. The company maintains several offices throughout the D.C. Metro area, in addition to offices in West Virginia, Florida and Washington State. I<sup>3</sup> provides forensic and biometric products and services, consulting, and program management services to U.S. Government agencies and international entities. The company specializes in solutions for defense and security-related problems involving advanced technology, information systems, and strategic analysis. It provides biometric services, such as facial identification full life cycle services, identity management, access control, automated biometric identification system development and support, and other products.

**NOTE 2 – BASIS OF PRESENTATION**

The accompanying Special Purpose Financial Statement (SPFS) includes costs incurred under the Afghan National Biometrics Program, Contract No. N65236-14-D-4989, Delivery Orders 0001 and 0004, for the period from July 16, 2015, through November 21, 2017; and under Contract No. N0003918C0004, for the period from November 15, 2017, through September 30, 2018. Because the SPFS presents only a selected portion of the operations of I<sup>3</sup>, it is not intended to and does not present the financial position, changes in financial position, or cash flows of I<sup>3</sup>. The information in this SPFS is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) and is specific to the aforementioned project.

**NOTE 3 – BASIS OF ACCOUNTING**

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

**NOTE 4 – FOREIGN CURRENCY CONVERSION METHOD**

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

**NOTE 5 – REVENUES**

Revenues on the SPFS represent the amount of funds to which I<sup>3</sup> is entitled to receive from the United States Department of Defense for allowable and eligible costs incurred during the period of performance and the related fixed fees.

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

**Ideal Innovation Incorporated (I<sup>3</sup>)**  
**Notes to the Special Purpose Financial Statement**  
**July 16, 2015 through September 30, 2018**

**NOTE 6 – COSTS INCURRED BY CATEGORY**

The categories presented, and associated amounts reflect the actual costs incurred during the audited period of July 16, 2015, through November 21, 2017, for Contract No. N65236-14-D-4989, Delivery Orders 0001 and 0004; and November 15, 2017, through September 30, 2018, for Contract No. N0003918C0004. I<sup>3</sup> was not funded by cost element, but rather by contract line item number (CLIN). The budget shown in the SPFS is the budget created by I<sup>3</sup> to track expenditures. For costs incurred, the costs categories listed are those of I<sup>3</sup> project financial reports. For actual costs billed, the categories from the budgets stem from the original Request for Proposal (RFP) budget categories and format issued by the government. The two were not always perfectly aligned. For example, the Material and Equipment cost category and Other Direct Costs (ODC) cost category were used interchangeably in the government pricing model format. Although the SPFS presents large budget to actual variances in these cost categories, it is the result of RFP pricing model format and not an issue with the types of costs recorded in these categories. CohnReznick's testing procedures included confirmation and verification that I<sup>3</sup> did not exceed the contract ceilings by CLIN.

**NOTE 7 – OUTSTANDING FUND BALANCE**

The Outstanding Fund Balance presented on the SPFS represents the difference between revenues received and the costs incurred plus fixed fee. As of September 30, 2018, there was no outstanding fund balance under the contracts.

**NOTE 8 – CURRENCY**

All amounts presented are shown in United States dollars.

**NOTE 9 – PROJECT STATUS**

The period of performance for Contract No. N65236-14-D-4989, Delivery Orders 0001 and 0004 was productively complete as of November 21, 2017. The period of performance for Contract No. N0003918C0004 was productively complete as of September 30, 2018.

**NOTE 10 – SUBSEQUENT EVENTS**

I<sup>3</sup> has evaluated subsequent events through March 20, 2020. There were no subsequent events identified that would impact the SPFS as of this date.

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

## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL

Board of Directors  
Ideal Innovations Incorporated (I<sup>3</sup>)  
950 N. Glebe Rd, Suite 800  
Arlington, VA 22203

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

We have audited, the Special Purpose Financial Statement (SPFS) and related notes to the SPFS, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, by Ideal Innovations Incorporated (I<sup>3</sup>), under the Department of Defense's (DOD) Afghan National Biometrics Program, Contract No. N65236-14-D-4989, Delivery Orders 0001 and 0004, for the period from July 16, 2015 through November 21, 2017; and under Contract No. N0003918C0004, for the period from November 15, 2017, through September 30, 2018. We have issued our report thereon dated March 20, 2020 with an unmodified opinion, confirming that the SPFS presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government, and balances for the period audited in conformity with the terms of the contract and generally accepted accounting principles or other comprehensive basis of accounting. .

***Internal Control over Financial Reporting***

In planning and performing our audit of the SPFS, we considered I<sup>3</sup>'s internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the SPFS, but not for the purpose of expressing an opinion on the effectiveness of I<sup>3</sup>'s internal control. Accordingly, we do not express an opinion on the effectiveness of I<sup>3</sup>'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 I<sup>3</sup>'s SPFS 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, material weaknesses may

exist that have not been identified. No such deficiencies were identified as a result of the audit procedures performed.

*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 I<sup>3</sup>'s internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering I<sup>3</sup>'s internal control. Accordingly, this communication is not suitable for any other purpose.

*Restriction on Use*

This report is intended for the information of I<sup>3</sup>, DOD, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

*CohnReznick LLP*

CohnReznick LLP  
Bethesda, Maryland  
March 20, 2020

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

Board of Directors  
Ideal Innovations Incorporated (I<sup>3</sup>)  
950 N. Glebe Rd, Suite 800  
Arlington, VA 22203

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

We have audited, the Special Purpose Financial Statement (SPFS) and related notes to the SPFS, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, by Ideal Innovations Incorporated (I<sup>3</sup>), under the Department of Defense's (DOD) Afghan National Biometrics Program, Contract No. N65236-14-D-4989, Delivery Orders 0001 and 0004, for the period from July 16, 2015 through November 21, 2017; and under Contract No. N0003918C0004, for the period from November 15, 2017, through September 30, 2018. We have issued our report thereon dated March 20, 2020, with an unmodified opinion confirming that the SPFS presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government, and balances for the period audited in conformity with the terms of the contract and generally accepted accounting principles or other comprehensive basis of accounting.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether I<sup>3</sup>'s SPFS is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, including potential fraud or abuse that may have occurred. However, providing an opinion on compliance with those provisions, including potential fraud or abuse that may have occurred, was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance, fraud, abuse, or other matters that are required to be under *Government Auditing Standards*.

***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 I<sup>3</sup>'s compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering I<sup>3</sup>'s compliance. Accordingly, this communication is not suitable for any other purpose.

*Restriction on Use*

This report is intended for the information of I<sup>3</sup>, DOD, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

*CohnReznick LLP*

CohnReznick LLP  
Bethesda, Maryland  
March 20, 2020

APPENDIX A: CORRECTIVE ACTION ON PRIOR AUDIT FINDINGS AND  
RECOMMENDATIONS

***Prior Financial Statement Audit Report 1***

The Binder Dijker Otte LLP (BDO, LLP) Audit Report *FY 2015 Ideal Innovations Incorporated Audit*, issued April 12, 2016. This financial statement audit reviewed activity by the Company as a whole for fiscal year (FY) 2015 and resulted in no findings, and an unqualified audit opinion.

***Prior Financial Statement Audit Report 2***

The BDO, LLP Audit Report *FY 2016 Ideal Innovations Incorporated Audit*, issued April 11, 2017. This financial statement audit reviewed activity by the Company as a whole for FY 2016 and resulted in no findings, and an unqualified audit opinion.

***Prior Financial Statement Audit Report 3***

The BDO, LLP Audit Report *FY 2017 Ideal Innovations Incorporated Audit*, issued May 2, 2018. This financial statement audit reviewed activity by the Company as a whole for FY 2017 and resulted in no findings, and an unqualified audit opinion.

***Prior Financial Statement Audit Report 4***

The BDO, LLP Audit Report *FY 2018 Ideal Innovations Incorporated Audit*, issued April 8, 2019. This financial statement audit reviewed activity by the Company as a whole for FY 2018 and resulted in no findings, and an unqualified audit opinion.

APPENDIX B – SPECIAL PURPOSE FINANCIAL STATEMENTS BY CONTRACT

Contract No. N65236-14-D-4989 (Delivery Order 0001 and 0004)

<b>Ideal Innovations Incorporated</b> <b>Special Purpose Financial Statement</b> <b>Under Contract No. N65236-14-D-4989 (Delivery Order 0001 and 0004)</b> <b>For the Period of July 16, 2015 through November 21, 2017</b>					
	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
<i>Revenues</i>					
N65236-14-D-4989 (0001)	\$	█	█	\$ -	5
N65236-14-D-4989 (0004)		█	█	-	5
<b>Total Revenue</b>	<b>\$</b>	<b>█</b>	<b>█</b>	<b>\$ -</b>	
<i>Costs Incurred</i>					
Labor	\$	█	█	\$ -	
Travel		█	█	-	
Subcontractors		█	█	-	
Material and Equipment		█	█	-	
Other Direct Costs		█	█	-	
H&H		█	█	-	
Non-Billable Costs		-	-	-	
Indirect Costs		█	█	-	
<b>Total Costs Incurred</b>	<b>\$</b>	<b>10,205,053</b>	<b>\$ 9,879,895</b>	<b>\$ -</b>	<b>6</b>
Fixed Fee	\$	█	█	\$ -	
<b>Total Costs Incurred and Fixed Fee</b>	<b>\$</b>	<b>█</b>	<b>█</b>	<b>\$ -</b>	
<b>Outstanding Fund Balance</b>	<b>\$</b>	<b>-</b>	<b>\$ -</b>		<b>7</b>

APPENDIX B – SPECIAL PURPOSE FINANCIAL STATEMENTS BY CONTRACT

Contract No. N003918C0004

Ideal Innovations Incorporated Special Purpose Financial Statement Under Contract No. N003918C0004 For the Period of November 15, 2017 through September 30, 2018						
	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>	
<i>Revenues</i>						
N003918C0004	\$	█	█	\$ -	\$ -	5
<b>Total Revenue</b>	\$	█	█	\$ -	\$ -	
<i>Costs Incurred</i>						
Labor	\$	█	█	\$ -	\$ -	
Travel		█	█	-	-	
Subcontractors		█	█	-	-	
Material and Equipment		█	█	-	-	
Other Direct Costs		█	█	-	-	
H&H		-	-	-	-	
Non-Billable Costs		-	-	-	-	
Indirect Costs		█	█	-	-	
<b>Total Costs Incurred</b>	\$	3,692,734	\$ 3,677,110	\$ -	\$ -	6
Fixed Fee		█	█	\$ -	\$ -	
<b>Total Costs Incurred and Fixed Fee</b>	\$	█	█	\$ -	\$ -	
<b>Outstanding Fund Balance</b>	\$	-	-			7

## 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.

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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)
- Email: [sigar.pentagon.inv.mbx.hotline@mail.mil](mailto:sigar.pentagon.inv.mbx.hotline@mail.mil)
- 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
- U.S. fax: +1-703-601-4065

## Public Affairs

Public Affairs Officer

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