

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 15-22 Financial Audit

Department of State's Afghanistan Justice
Sector Support Program: Audit of Costs Incurred
by Pacific Architects and Engineers, Inc.



DECEMBER
2014

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On March 31, 2005, the Department of State awarded a \$9.9 million task order to Pacific Architects and Engineers, Inc. (PAE) to implement the Afghanistan Justice Sector Support Program (JSSP). The program's purpose was to build the capacity of Afghanistan's criminal justice sector institutions by improving the professional staff's ability to deliver fair and effective justice services to the country's citizens. JSSP's activities included mentoring justice officials, developing legal training, and restructuring criminal justice institutions. The award's initial period of performance had an estimated completion date of March 30, 2006, but due to 27 modifications, program funding increased to more than \$100.7 million and the period of performance was extended through May 30, 2010.

SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe Horwath), reviewed \$65.1 million in expenditures charged to the task order from March 31, 2005 through May 30, 2010. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in PAE's internal controls related to the awards; (2) identify and report on instances of material noncompliance with the terms of the awards and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether PAE had taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of PAE's Special Purpose Financial Statement. See Crowe Horwath'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, we oversaw the audit and reviewed its results. Our review disclosed no instances where Crowe Horwath did not comply, in all material respects, with U.S. generally accepted government auditing standards.

December 2014

Department of State's Afghanistan Justice Sector Support Program: Audit of Costs Incurred by Pacific Architects and Engineers, Inc.

SIGAR 15-22-FA

WHAT THE AUDIT FOUND

Crowe Horwath LLP (Crowe Horwath) identified eight material weaknesses and significant deficiencies in internal controls, and three instances of material noncompliance with laws, regulations, or the terms and conditions of the task order. For example, Crowe Horwath found instances in which Pacific Architects and Engineers, Inc. (PAE) was missing employee billing records—such as timesheets, labor records, and summary reports—and had unreconciled differences in its payroll records. Crowe Horwath also noted missing qualification documentation for five Justice Sector Support Program (JSSP) employees.

As a result of these internal control deficiencies and instances of noncompliance, Crowe Horwath identified \$506,866 in total questioned costs, consisting entirely of unsupported costs—costs not supported with adequate documentation or that did not have required prior approval. Crowe Horwath did not identify any ineligible costs—costs prohibited by the awards, applicable laws, or regulations. The auditor also determined that the U.S. government lost \$176 in interest because PAE drew more funds than required to meet its immediate cash needs.

Category	Ineligible	Unsupported	Total Questioned Costs
Cost Reimbursement	\$0	\$15,001	\$15,001
Labor	\$0	\$491,865	\$491,865
Totals	\$0	\$506,866	\$506,866

Crowe Horwath did not identify any prior reviews or assessments that pertained to PAE's implementation of JSSP or were material to the Special Purpose Financial Statement.

Crowe Horwath issued an unmodified opinion on PAE's Special Purpose Financial Statement, noting that it presents fairly, in all material respects, revenues received, costs incurred, and the balance for the period audited.

WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the Department of State Contracting Officer:

1. **Determine the allowability of and recover, as appropriate, \$506,866 in questioned costs identified in the report.**
2. **Collect \$176 from PAE in interest payable to the department.**
3. **Advise PAE to address the report's eight internal control findings.**
4. **Advise PAE to address the report's three noncompliance findings.**



SIGAR

**Office of the Special Inspector General
for Afghanistan Reconstruction**

December 1, 2014

The Honorable John F. Kerry
Secretary of State

The Honorable James B. Cunningham
U.S. Ambassador to Afghanistan

We contracted with Crowe Horwath LLP (Crowe Horwath) to audit the costs incurred by Pacific Architects and Engineers, Inc. (PAE) under a Department of State task order.¹ Crowe Horwath's audit covered \$65.1 million in expenditures charged to the task order from March 31, 2005 through May 30, 2010. Our contract required the audit to 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 Department of State Contracting Officer:

- 1. Determine the allowability of and recover, as appropriate, \$506,866 in questioned costs identified in the report.**
- 2. Collect \$176 from PAE in interest payable to the department.**
- 3. Advise PAE to address the report's eight internal control findings.**
- 4. Advise PAE to address the report's three noncompliance findings.**

The results of Crowe Horwath's audit are further detailed in the attached report. We reviewed Crowe Horwath'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 awards, laws, and regulations. Crowe Horwath is responsible for the attached auditor's report and the conclusions expressed in the report. However, our review disclosed no instances where Crowe Horwath 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-033)

¹ State awarded task order SAQMPD05F2737 to PAE to implement the Afghanistan Justice Sector Support Program. The program was intended to build the capacity of Afghanistan's criminal justice sector institutions by improving the ability of the country's professional staff to deliver fair and effective justice services to citizens.



Pacific Architects and Engineers, Inc. (PAE)
Special Purpose Financial Statement
Afghanistan Justice Sector Support Program (JSSP)
For the Period March 31, 2005, through May 30, 2010
(With Independent Auditor's Report Thereon)

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Transmittal Letter

October 10, 2014

To the President and Management of Pacific Architects and Engineers, Inc.
1320 N. Courthouse Rd.
Arlington, Virginia 22201

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

We appreciate the opportunity to provide to you our report regarding the procedures that we have completed during the course of our audit of Pacific Architects and Engineers, Inc.'s ("PAE") contract task order with the United States Department of State ("DOS") that funded the Afghanistan Justice Sector Support Program (JSSP).

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

When preparing our report, we considered comments, feedback, and interpretations of PAE, the Office of the Special Inspector General for Afghanistan Reconstruction, and DOS provided both in writing and orally throughout the audit planning and fieldwork phases. Management's final written responses are incorporated into the final report and are followed by auditor's responses, if necessary.

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

Sincerely,

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

John C. Weber, CPA, Partner
Crowe Horwath LLP



www.crowehorwath.com

Summary

Background

Pacific Architects and Engineers, Inc. (PAE)'s entered into a cost reimbursement contract (Number SLMAQM04 C0033) and a task order (Number SAQMPD05F2737) against that contract with the United States Department of State ("DOS") to implement the Afghanistan Justice Sector Support Program (JSSP), pursuant to Presidential Decision Directive 71 (PDD-71), on training civilian police for international peacekeeping missions. The goal of PDD 71 is to strengthen criminal justice systems in support of peace operations and other complex security operations overseas. The mission of JSSP is to build the capacity of Afghan criminal justice sector institutions through improving the ability of their professional staff to deliver fair and effective justice services to citizens. JSSP advisors train and mentor justice officials; restructure criminal justice institutions; develop legal education and training; and improve court administration and facilities. The award's initial period of performance began on March 31, 2005, and had an estimated completion date of March 31, 2006. Twenty-six modifications were issued against the task order. Through these subsequent modifications, the period of performance was extended through May 30, 2010.

Though the project's period of performance ended on May 30, 2010, contract pricing and rate negotiations for project staff continued through 2012 culminating with Modification #26, effective July 17, 2012, which increased the total JSSP funding to \$100,728,422. Over the course of the project, which spanned from March 31, 2005, through May 30, 2010, PAE incurred costs totaling \$65,096,265 for cost reimbursement and fixed unit labor contract line item numbers (CLINs). During that same period, a budget of \$77,302,071.23 in Federal funds was approved for those CLINs.

Throughout the project's period of performance PAE collaborated with Afghan government institutions, subcontractors and DOS to execute the scope of work identified in the contract. As reported by PAE, results of the JSSP (unaudited by Crowe) included, but were not limited to the following:

- Afghan staff leading train-the-trainer programs for Afghan attorneys and justice sector training students
- Conducted a grand total of over 300 JSSP courses training over 13,500 students
- Support to GIRoA justice sector reform per Afghanistan's National Justice Sector Strategy (NJSS), National Justice Program (NJP) Components, National Priority Program 5 (NPP5)
- Advisor assistance to Ministry of Interior (MOI), Attorney General's Office (AGO), the Ministry of Justice (MOJ), the Supreme Court (SCt), and the Ministry of Women's Affairs (MOWA).
- Consolidated legal and justice sector training for judges, prosecutors, defenders. Police and Criminal Investigation Division (CID) investigators supports system-wide integration of learning objectives; this allows all parties involved to see and learn each other's jobs and concerns.
- Rule of law training to all 34 provinces; Provincial Justice Conference (PJC) conducted in Paktika Province. Conducted PJC for over 180 judges, prosecutors, defenders, lawyers, police and CID investigators; topics included judicial, prosecutorial police and human rights issues to name a few.
- Collaboration with GIRoA and donors from the International Community.
- Focused training on critical thinking and case studies to deliver practical and sustainable skills that translate into immediate application for students.

The early years of the program focused primarily on building police and prosecutor capacity, and in strengthening the Attorney General's Office. While the JSSP regional program was designed to focus on training, mentoring, and quick impact projects, it was soon expanded through the deployment of teams of

experienced prosecutors to work at the provincial level to improve police and prosecutor skills through a formal training program of academic instruction and practical exercises followed by in-service mentoring.

The JSSP evolved into a multi-pronged effort to develop and strengthen Afghan criminal justice sector institutions and justice professionals. The JSSP provided technical advice and direct assistance to Afghan legal professionals and built capacity within justice institutions. In addition to working with justice institutions, the JSSP worked on a variety of projects to promote citizen access to the justice system. PAE noted that some of the more significant accomplishments of PAE's JSSP performance included:

- Facilitated promulgation and execution of a comprehensive Memorandum of Understanding, by seven Afghan justice agencies, for nationwide criminal case management processes
- Developed a Case Management System (CMS) to organize approximately 15,000 active criminal cases in Afghanistan's formal justice system.
- Established an Anti-Corruption Unit with 11 vetted prosecutors
- Helped establish the Independent Afghan Bar Association
- Established a Planning Directorate within the Ministry of Justice (MOJ)
- Drafted an initial version of National Traditional Dispute Resolution (TDR) Policy
- Assisted the MOJ *Taqnin* Department in developing an annual work plan
- Supported the *Huquq* Department of the MOJ, tasked with enforcing legal rights and expanding legal awareness
- Trained over 760 justice officials at Provincial Justice Conferences in 11 provinces
- Conducted Provincial Justice Training sessions in nine provinces, training over 700 Afghan criminal justice professionals
- Established the Police/Prosecutor Coordination Program, a seven month class alternating classroom training and worksite mentoring
- Developed the Focused District Development Law program (FDD-L), part of a comprehensive program to train and reform the Afghan National Police (ANP)
- Provided Crime Scene Investigations training to 61 Prosecutors and 63 Police officers in partnership with the German Police Project Team

Work Performed

Crowe Horwath LLP ("Crowe") was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") to conduct a financial audit of PAE's JSSP for the period from March 31, 2005, through May 30, 2010.

Objectives Defined by SIGAR

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

Audit Objective 1 – Special Purpose Financial Statement

Express an opinion on whether the Special Purpose Financial Statement for Task Order Number SAQMPD05F2737 of Contract Number SLMAQM04 C0033 presents fairly, in all material respects, revenues received, costs incurred, and balance for the period audited in conformity with the terms of the award and accounting principles generally accepted in the United States of America or other comprehensive basis of accounting.

Audit Objective 2 – Internal Controls

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

Audit Objective 3 – Compliance

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

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations

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

Scope

The scope of the audit included the period March 31, 2005, through May 30, 2010, for the JSSP project. The audit was limited to those matters and procedures pertinent to the contract that have a direct and material effect on the Special Purpose Financial Statement ("SPFS") and evaluation of the presentation, content, and underlying records of the SPFS. The audit included reviewing the financial records that support the SPFS to determine if there were material misstatements and if the SPFS was presented in the format required by SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

- Allowable Costs;
- Allowable Activities;
- Cash Management;
- Equipment and Property Management;
- Period of Availability of Federal Funds;
- Procurement;
- Reporting; and
- Special Tests and Provisions

Methodology

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

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

With regard to Audit Objective 2 regarding internal control, Crowe requested and the auditee provided copies of policies and procedures and verbally communicated those procedures that do not exist in written format to provide Crowe with an understanding of the system of internal control established by PAE. The system of internal control is intended to provide reasonable assurance of achieving reliable

financial and performance reporting and compliance with applicable laws and regulations. Crowe corroborated internal controls identified by the auditee and conducted testing of select key controls to understand if they were implemented as designed.

Audit Objective 3 requires that tests be performed to obtain an understanding of the auditee's compliance with requirements applicable to the contract. Crowe identified – through review and evaluation of the contract task order executed by and between PAE and DOS, the Federal Acquisition Regulation (“FAR”), – the criteria against which to test the SPFS and supporting financial records and documentation. Using sampling techniques, Crowe selected expenditures, vouchers submitted to DOS for payment, procurements, property and equipment dispositions, subcontracts issued under the task order and corresponding costs incurred, and project reports for audit. Supporting documentation was provided by the auditee and subsequently evaluated to assess PAE's compliance. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in accordance with the contract restrictions, and if adjustments were made, as required and applicable.

Regarding Audit Objective 4, Crowe inquired of both PAE and DOS related to prior audits and reviews to obtain an understanding of the nature of audit reports and other assessments that were completed and the required corrective action. We reviewed the annual reports and 10Qs for PAE for the audit period and did not note any items that impacted the JSSP. There were no prior audits, assessments, or reviews conducted over PAE's implementation of the JSSP project. However, PAE provided Crowe with a voluntary disclosure that was made to the Department of State related to the JSSP program dated March 10, 2010. This disclosure reported certain actions and activities in Afghanistan for JSSP. Specifically, the disclosure reported a finding related to fuel purchases made for the JSSP. PAE also disclosed the corrective action taken and that the finding resulted in a \$75,279 credit to the program. Coupled with this voluntary disclosure, we received a plea from the Department of Justice dated May 23, 2014 related to one PAE employee found guilty of conspiracy to defraud the United States in connection with a contract to provide reconstruction-related services in Afghanistan. Both the voluntary disclosure and plea were assessed as part of our audit. We performed procedures and testing related to the items noted above to determine the impact if any to our audit of the Special Purpose Financial Statement.

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

Summary of Results

Upon completion of Crowe's procedures, Crowe identified eight findings because they met one or more of the following criteria: (1) significant deficiency in internal control, (2) material weakness in internal control, (3) noncompliance with rules, laws, regulations, or the terms and conditions of the contract; and/or (4) questioned costs resulted from an identified instance of noncompliance. Other matters that did not meet the criteria were communicated verbally to PAE.

Crowe also reported on both PAE's compliance with the applicable laws, rules, regulations, and the terms and conditions of the contract and the internal controls over compliance. Two material weaknesses in internal control (2014-3 and 2014-5), six significant deficiencies in internal control (2014-1, 2014-2, 2014-4, 2014-6, 2014-7, and 2014-8), and three instances of noncompliance required to be reported in accordance with *Government Auditing Standards (GAS)* (2014-3, 2014-7, and 2014-8) were reported. Four other instances of noncompliance were deemed immaterial. Nevertheless, they also were reported because they were related to a significant deficiency or a material weakness in internal control otherwise required to be reported under Generally Accepted Government Auditing Standards (GAGAS) (2014-1, 2014-2, 2014-4, and 2014-6). Where internal control and compliance findings pertained to the same matter, they were consolidated within a single finding. A total of \$506,866 in costs was questioned as presented in **TABLE A** contained herein.

In addition to the questioned costs noted in Table A, Crowe also noted that, due to PAE having drawn down more funds than required to meet immediate cash needs, the Government lost a calculated \$176 in interest. This matter is discussed in detail within finding 2014-01. PAE should remit the \$176 of calculated interest to DOS.

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to PAE's financial performance under the contract. Per communications with PAE and DOS, there were no such reviews or assessments conducted that pertained to PAE's implementation of the project and that are direct and material to the Special Purpose Financial Statement. Crowe, therefore, did not conduct follow-up on corrective action pertaining to any such reports.

Crowe issued an unmodified opinion on the SPFS.

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

TABLE A: Summary of Findings and Questioned Costs

Finding Number	Matter	Questioned Costs	Cumulative Questioned Costs
2014-01	Cash Management Procedures	\$0	\$0
2014-02	Procurement Practices	12,251	12,251
2014-03	Allowable Costs: Inadequate Supporting Documentation	239,099	251,350
2014-04	Improper Maintenance of Equipment	2,750	254,100
2014-05	Special Purpose Financial Statement Review/Approval	0	254,100
2014-06	Conflict of Interest Clause Omitted in Subcontracts	0	254,100
2014-07	Federal Daily Rates (FDRs) Based on Individual Qualifications	252,766	506,866
2014-08	Substitutions to Key Personnel	0	506,866
Total Questioned Costs			\$506,866

Combining the \$506,866 of questioned costs reflected in Table A above and the calculated \$176 in interest due to PAE having drawn down more funds than required to meet immediate cash needs, it is recommended that total amount of \$507,042 be remitted to DOS.

Summary of Management Comments

Management agreed or partially agreed with findings reported in the Schedule of Findings and Questioned Costs (2014-01, 2014-02, 2014-03, 2014-04, 2014-05, 2014-06, and 2014-07). It was unclear whether management agreed with finding 2014-08 as management did not respond whether they agreed or disagreed with the finding. PAE limited their response to a description of the substitution of key personnel process. Management did not agree in whole with finding 2014-02 due to the questioned costs associated with the finding. Specifically, management disagreed that the cost between the lowest bid and the awarded bid should be questioned. Management agreed with the remaining elements of finding 2014-02. Management did not agree in whole with finding 2014-05, as they did not agree that the \$566K adjustment to the Statement was a result of "the lack of PAE's financial system to track program

information at a transaction level and generate reports related to program expenses by the program's budget categories". Management agreed with the remaining elements of finding 2014-05.

In those instances where PAE provided additional information and documentation or in which the auditor received additional sufficient appropriate audit evidence to modify or alter a finding between issuance of the draft report to management for comment and issuance of this final report, adjustments to the findings have been made.

Reference to Appendix

The auditor's reports are supplemented by one appendix. **Appendix A** includes the Views of Responsible Officials, which are management's responses to the findings presented within the report.

Independent Auditor's Report on the Special Purpose Financial Statement

To the President and Management of Pacific Architects and Engineers, Inc.
1320 N. Courthouse Rd.
Arlington, Virginia 22201

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

Report on the Special Purpose Financial Statement

We have audited the Special Purpose Financial Statement ("the Statement") of Pacific Architects and Engineers, Inc. ("PAE"), and related notes to the Statement, for the period March 31, 2005, through May 30, 2010, with respect to implementation of the Afghanistan Justice Sector Support Program (JSSP) funded by Task Order Number SAQMPD05F2737 of Contract Number SLMAQM04 C0033.

Management's Responsibility for the Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of the Statement in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") in Appendix V of Solicitation ID05130083 ("the Contract"). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a Statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

(Continued)

Opinion

In our opinion, the Statement referred to above presents fairly, in all material respects, revenues received, costs incurred, and balance for the indicated period in accordance with the requirements established by the Office of the Special Inspector General for Afghanistan Reconstruction in Appendix V of the Contract and on the basis of accounting described in Note 1.

Basis of Presentation

We draw attention to Note 1 to the Statement, which describes the basis of presentation. The Statement was prepared by PAE in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction in Appendix V of the Contract and presents those expenditures as permitted under the terms of contract number SLMAQM04 C0033, Task Order Number SAQMPPD05F2737, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the Contract referred to above. Our opinion is not modified with respect to this matter.

Restriction on Use

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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued reports dated October 10, 2014, on our consideration of PAE's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PAE's internal control over financial reporting and compliance.



Crowe Horwath LLP

October 10, 2014
Washington, D.C.

PAE
Special Purpose Financial Statement
Task Order Number SAQMPDO5F2737
For the Period March 31, 2005, through May 30, 2010

	<u>Questioned Costs</u>				<u>Notes</u>
	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	
Revenues:					
DOS Contract No. SLMAQM04 C033, Task Order No. SAQMPD052737	\$ 77,302,071	\$ 65,096,265	\$ -		3
Total Revenues	<u>77,302,071</u>	<u>65,096,265</u>			
Costs Incurred:					
Cost Category #1 - DBA Insurance	1,326,965	788,558			
Cost Category #2 - Travel	2,587,179	1,793,586			
Cost Category #3 - Training	845,633	720,037			
Cost Category #4 - Housing	977,016	640,087			
Cost Category #5 - Danger Pay	5,230,778	4,394,088			
Cost Category #6 - Post Differential	6,386,933	4,950,581			
Cost Category #7 - Cost Reimbursement	27,100,656	23,842,326		\$ 15,001	A, B
Cost Category #8 - Immunization	145,219	66,854			
Cost Category #9 - Labor	32,701,692	27,900,148		491,865	C, D
Total Costs Incurred	<u>77,302,071</u>	<u>65,096,265</u>		<u>506,866</u>	
Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (506,866)</u>	

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

PAE
Notes to the Special Purpose Financial Statement
For the Period March 31, 2005, through May 30, 2010

Note 1. Basis of Presentation

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Task Order Number SAQMPD05F2737 of the CIVPOL contract number SLMAQM04 C0033 for JSSP, for the period March 31, 2005 through May 30, 2010. The Special Purpose Financial Statement does not include Firm Fixed Price line items from the Task Order. Because the Statement presents only a selected portion of the operations of PAE, it is not intended to and does not present the financial position, changes in net assets, or cash flows of PAE. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal Contract. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, PAE's basic financial statements.

Note 2. Basis of Accounting

Expenditures reported on the Statement are reported in accordance with accounting principles generally accepted in the United States of America ("GAAP") and, therefore, are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 48, Part 31 of the Code of Federal Regulations, *Contract Cost Principles and Procedures*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Revenues

Revenues on the Statement represent the amount of funds to which PAE is entitled to receive from the U.S. Department of State (DOS) for eligible costs incurred under the contract during the period of performance. At the time the statement was prepared, there were \$2.1 million in unbilled amounts to DOS. This is due to a renegotiation of rates during the contract period of performance, which caused a delay in billings. The amounts have been expended and properly recorded as both revenue and expense on the Statement in accordance with GAAP, but have not yet been invoiced or received from the Department of State.

Note 4. Costs Incurred by Budget Category

The budget categories presented and associated amounts reflect the budget line items presented within the final, DOS Funding Modification No. 026 dated July 18, 2012. As noted in Note 3, \$2.1 million of costs incurred during the projects' period of performance remained unbilled as of the date of this report.

Note 5. Balance

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

Note 6. Utilization of Subcontractors

Subcontracts were used when the principal purpose of the instrument was the acquisition by purchase, lease, or barter of property or services for direct benefit or use of the services or items to fulfill the requirements of the contract.

(Continued)

PAE
Notes to the Special Purpose Financial Statement
For the Period March 31, 2005, through May 30, 2010

Note 7. Foreign Currency Conversion Method

For purposes of preparing the Statement, conversions from local currency to United States dollars were prepared in accordance with the PAE's Exchange Rate Policy. The Policy requires that the exchange rate used by the local bank when converting or otherwise transferring funds from the account held in United States dollars to the local currency be documented and utilized for purposes of recording transaction amounts.

Note 8. Currency

All amounts presented are shown in United States dollars.

Note 9. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the period of March 31, 2005 to May 30, 2010, the period of performance. Management has performed their analysis through October 10, 2014.

Notes to the Questioned Costs Presented on the Special Purpose Financial Statement¹

Note A. Procurement, Suspension and Debarment: Competitive Bidding

Finding 2014-02 identified \$12,251 in questioned costs that resulted from PAE not selecting the vendor that was most advantageous to the Government. No supporting documentation was provided to support the selection of the vendor that was not preferred.

Note B. Improper Maintenance of Equipment

Finding 2014-04 identified \$2,750 in questioned costs that resulted from PAE not providing documentation to support the approval for the disposal of equipment that was classified as lost or stolen in PAE's records.

Note C. Allowable Costs: Labor Records

Finding 2014-03 identified \$239,099 in questioned costs that resulted from missing employee billing records (i.e., timesheets, labor records, summary reports, etc.) or unreconciled differences in the payroll records. Of this amount, \$226,216 was due to documentation not being provided to support payroll billings, \$7,659 was related to labor rates that did not agree with approved contract rates, and \$5,224 was due to billed amounts that could not be reconciled to PAE's financial records.

Note D. Qualifications for Personnel under Federal Daily Rates

Finding 2014-07 identified \$252,766 in questioned costs that resulted from missing qualifications for JSSP employees. Since qualifications could not be obtained to support using the aforementioned personnel on the JSSP project, we are questioning the costs that were billed to the JSSP program for these people.

¹ Notes to the Questioned Costs Presented on the Special Purpose Financial Statement were prepared by the auditor for informational purposes only and as such are not part of the audited Statement.

Independent Auditor's Report on Internal Control

To the President and Management of Pacific Architects and Engineers, Inc.
1320 N. Courthouse Rd.
Arlington, Virginia 22201

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Statement") of Pacific Architects and Engineers, Inc. ("PAE"), and related notes to the Statement, for the period March 30, 2005, through May 30, 2010, with respect to implementation of the Afghanistan Justice Sector Support Program (JSSP) funded by Task Order Number SAQMPD05F2737 of Contract Number SLMAQM04 C0033. We have issued our report thereon dated October 10, 2014.

Internal Control over Financial Reporting

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

In planning and performing our audit of the Statement for the period March 31, 2005, through May 30, 2010, we considered PAE's internal controls to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of PAE's internal control. Accordingly, we do not express an opinion on the effectiveness of PAE's internal control.

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

(Continued)

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies noted in Findings 2014-03, and 2014-05 in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies noted in Findings 2014-01, 2014-02 2014-04, 2014-06, 2014-07, and 2014-08 in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

PAE's Response to Findings

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

Restriction on Use

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


Crowe Horwath LLP

October 10, 2014
Washington, D.C.

Independent Auditor's Report on Compliance

To the President and Management of Pacific Architects and Engineers, Inc.
1320 N. Courthouse Rd.
Arlington, Virginia 22201

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Statement") of Pacific Architects and Engineers, Inc. ("PAE"), and related notes to the Statement, for the period March 30, 2005, through May 30, 2010, with respect to implementation of the Afghanistan Justice Sector Support Program (JSSP) funded by Task Order Number SAQMPD05F2737 of Contract Number SLMAQM04 C0033. We have issued our report thereon dated October 10, 2014.

Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the contract and task order is the responsibility of the management of PAE.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Findings 2014-03, 2014-07, and 2014-08 in the accompanying Schedule of Findings and Questioned Costs.

PAE's Response to Findings

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 compliance. Accordingly, this communication is not suitable for any other purpose.

(Continued)

Restriction on Use

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

Crowe Horwath LLP

Crowe Horwath LLP

October 10, 2014
Washington, D.C.

SECTION I: Schedule of Findings and Questioned Costs

Finding 2014-01 –Cash Management Procedures

Significant Deficiency in Internal Control and Non-Compliance

Condition: During our testing of PAE's cash management procedures for the JSSP, we noted the following items:

1. Of 16 invoices tested, seven (7) invoices were originally rejected by the Department of State for reasons including inadequate support or inclusion of ineligible costs. PAE submitted revised invoices with additional documentation and/or the removal of any ineligible items.
2. We selected 16 reimbursement requests (invoices to Department of State) to determine if PAE's Business Operations Manager reviewed each invoice prior to submission. One of the 16 invoices, Invoice number 04TZ10, was missing a documented approval. In addition, as noted in item number 1, 7 invoices in our sample were originally rejected by the Department of State.
3. 1 of 60 expenses tested was not paid within 30 days of invoicing the DOS. Specifically, JSSP program equipment in the amount of \$13,400 was invoiced to DOS on February 7, 2008. However, this amount was not paid to the vendor until December 2, 2008 or 298 days after being invoiced to DOS.

Nature of Charge	Amount	Days Between Submission and Payment (Less 30 Day Window)	Average Daily Interest Rate per U.S. Department of Treasury for Applicable Fiscal Year	Calculated Interest
Program Supplies	\$ 13,400	268	0.00044%	\$ 176

Criteria: The PAE CIVPOL Customer Invoicing Procedures, "Invoice Development" steps 4.1 – 6.1 (pages 21-22), are to have the Program Manager and the Business Operations Manager review invoices for allowability prior to submission to State. It is also a good business practice to have documented policies and procedures in place related to controls over cash management. Effective written procedures and internal controls that are properly communicated to employees can decrease likelihood of errors and non-compliance.

Further, Per FAR 52.216-7 Allowable Cost and Payment (b) Reimbursing costs. (1) For the purpose of reimbursing allowable costs..., the term "costs" includes only—

- (i) Those recorded costs that, at the time of the request for reimbursement, the Contractor has paid by cash, check, or other form of actual payment for items or services purchased directly for the contract;
- (ii) When the Contractor is not delinquent in paying costs of contract performance in the ordinary course of business, costs incurred, but not necessarily paid, for—
 - (A) Supplies and services purchased directly for the contract and associated financing payments to subcontractors, provided payments determined due will be made—
 - (1) In accordance with the terms and conditions of a subcontract or invoice; and
 - (2) Ordinarily within 30 days of the submission of the Contractor's payment request to the Government.

Effect: A lack of procedures and effective control over cash management increases the likelihood that errors could be reported in invoices to the Department of State including the inclusion of ineligible program costs thus potentially resulting overbillings of the DOS and an inefficient use of Federal funds.

Cause: PAE did not have a written policy in place for cash management procedures over the Justice Sector Support Program. As there were no documented procedures in place, program staff did not have comprehensive written guidance for invoicing DOS.

(Continued)

Questioned Costs: There are no questioned costs associated with this finding. The estimated amount to be remitted to DOS is \$176. Due to this amount pertaining to interest earned on advanced funds rather than costs incurred, the amount is not included on the Special Purpose Financial Statement.

Recommendation: We recommend that PAE design and implement a documented review process for each invoice submitted to a federal agency. This review should be performed by an individual who is familiar with the program rules and regulations and is not part of the invoice preparation process. This review should include: 1) a validation of costs for eligibility under the program rules and regulations, 2) an evaluation of the support documentation included for each cost to determine the adequacy of that documentation to support the eligibility of that cost, and 3) a physical sign-off or system approval to demonstrate and document that the review was completed. In addition, we recommend that PAE remit the \$176 of calculated interest to DOS or provide documentation supporting why the amount is not due to DOS.

Finding 2014-02 –Procurement Practices

Significant Deficiency in Internal Control and Non-Compliance

Condition: PAE could not produce documentation demonstrating approvals for JSSP purchases. Specifically, for 4 out of 10 procurement items selected for testing, we noted that:

- 2 out of 10 procurements (purchase orders) tested did not contain proper internal purchase approvals. The purchase requisition is to be approved by the in-country finance division and the deputy program manager, however, the purchase requisition form was not signed.
- 2 out of 10 subcontracts tested did not include documentation of proper approval, as the PRO-006 approval form was not included within the documentation to denote proper procurement function supervisor and manager approval.

We have summarized the procurements and sub-contracts in the table below.

Procurement Type	Nature of Procurement
Purchase Order	DBA Ins Jun06-Dec06
Purchase Order	AGO Garbage Fees Dec09
Subcontract	Static Security Force
Subcontract	SECURITY SERVICES (01 SEP 10)

Since the aforementioned items related to PAE's internal control processes and not to compliance with program rules and regulations, no questioned costs resulted from these exceptions. However, as discussed below, an instance of non-compliance over procurement was noted.

In addition, PAE was not able to provide support for selection of a vendor that was not considered most advantageous during the competitive bidding process for 1 of 10 procurements tested. Specifically, PAE received three bids for internet services for the JSSP program. The lowest bidder quoted an amount of \$132,834 and the bid summary form stated that the low bidder was the recommended vendor. However, PAE selected the 2nd lowest bidder with a quote of \$145,085. Documentation was not provided to support why the low bidder was not selected.

Criteria: Related to the 4 procurements/contracts that did not contain proper internal approvals, Section 1.8 of PAE's procurement manual states, "All Purchase Orders and Subcontracts shall be reviewed and approved by a properly delegated Procurement Function individual using the Summary and Approval Form, PAE PRO-006, which is then maintained in the procurement file." Further, section 2.3 states, "A properly completed and approved Purchase Requisition is required to begin the procurement process."

Related to the contract that was awarded to a vendor that was not the low bidder, FAR 52.214–10 states, "(a) The Government will evaluate bids in response to the solicitation without discussions and will award a contract to the responsible bidder whose bid, conforming to the solicitation, will be most advantageous to the Government considering only price and the price-related factors specified elsewhere in the solicitation.

Furthermore, pursuant the Federal Cost Principles applicable to commercial entities in 48 CFR Subpart 31.201-2(a)(1), "a cost is allowable only when the cost complies with all of the following requirements: (1) Reasonableness..."

48 CFR Subpart 31.201-3(b) "What is reasonable depends upon a variety of considerations and circumstances, including... (4) Any significant deviations from the contractor's established practices."

In addition, per 48 CFR Subpart 31.201-3(a), *Determining Reasonableness*, "A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct

(Continued)

of competitive business. Reasonableness of specific costs must be examined with particular care in connection with firms or their separate divisions that may not be subject to effective competitive restraints. No presumption of reasonableness shall be attached to the incurrence of costs by a contractor. If an initial review of the facts results in a challenge of a specific cost by the contracting officer or the contracting officer's representative, the burden of proof shall be upon the contractor to establish that such cost is reasonable."

Effect: PAE may have acquired items that could be considered unnecessary for project execution or that may have been available from other sources such that the use of Federal Funds would be unnecessary. By procuring items that were not approved, the possibility that unnecessary or inefficient purchase were undetected and/or that federally funded items were misappropriated was increased. In addition, without review and approval of procurements, there is possibility that transactions with related parties may be conducted. Further, by selecting a vendor that may not be the most advantageous, procurements may not have occurred at the lowest cost or with the most efficient vendor available due to improper competitive procedures performed.

Questioned Cost: Since documentation was not provided to support the selection of the internet vendor referenced above, we are questioning \$12,251, which is the difference between the selected vendors' bid and the lowest bid received.

Cause: PAE had an inadequate filing system for storing and maintaining documentation related to the program during the record retention period so that the documentation was readily available for audit purposes. PAE stated the files were in off-site storage and could not be located for this audit.

Recommendation: We recommend that PAE implement a system of control to have all purchases reviewed prior to the purchase being made. This review should be performed by an individual that understands the program rules and regulations and should be documented. . In addition, PAE should enhance its current competitive procurement process to use bid/quote tabulation forms and scoring sheets to clearly track each bid/quote received and document how each vendor is scored and the rationale for choosing the selected vendor including specific reasons if that vendor was not the low cost vendor. Furthermore, PAE should develop and implement a record retention policy for procurement approvals and bid/quote scoring documentation including requiring documentation to be maintained for the applicable record retention period of the program and be stored in an area so that it is readily available for audit purposes. Further, we recommend that PAE remit the \$12,251 of questioned costs to DOS.

Finding 2014-03 – Allowable Costs: Inadequate Supporting Documentation

Material Weakness in Internal Control and Material Non-Compliance

Condition: PAE did not provide adequate documentation to support program costs. Therefore, it could not be determined if the costs were allowable under the program rules and regulations. For 7 of the 60 items selected for testing totaling \$218,399 no support was provided and as such these charges could not be tested for allowability. In addition to the 7 items noted above, 17 items had specific exceptions as noted in the table below,

Description	# of Exceptions	Comment	Amount
Missing Employee Timesheets	2	Employee Timesheets are used to determine the reasonableness of hours charged to the program. Without employee timesheets, the hours charged at the federal direct rate could not be verified.	\$ 7,817
Support for variance between timesheet data vs. hours/days invoiced to Department of State	6	Timesheet activity included with the payroll charge documentation did not reconcile to the data reported within PAE's expense records or to the invoice to DOS.	5,224
Approved Labor Rate Support	9	No support was provided to determine that the rates billed reconciled to the rates approved under the contract and contract modifications.	7,659
Total			\$ 20,700

In total, \$239,099 (\$20,700 plus \$218,399) of costs were not properly supported because of missing documentation or un-reconciled differences.

Criteria: 48 CFR 31.201-2(d) states, " A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. "

Title 22, Part 226.21(b), *Standards for financial management systems* of the Code of Federal Regulations requires recipients' "financial management systems to include:

- (1) Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program;
- (2) Records that identify adequately the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to all Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest;...
- (7) Accounting records, including cost accounting records that are supported by source documentation."

FAR 4.7 describes the contractor retention records policy:

- a) Except as stated in 4.703(b), contractors shall make available records, which includes books, documents, accounting procedures and practices, and other data, regardless of type and regardless of whether such items are in written form, in the form of computer data, or in any other form, and

(Continued)

other supporting evidence to satisfy contract negotiation, administration, and audit requirements of the contracting agencies and the Comptroller General for -

(1) 3 years after final payment or, for certain records;

(2) The period specified in 4.705 through 4.705-3, whichever of these periods expires first.

The shortest record retention period listed in sections 4.705 – 4.705-3 of the FAR is two years from the final payment. Due to the final payment not yet completed during the time of the audit, all records should have been retained.

Further, FAR 4.703 states,

- (c) Nothing in this section shall be construed to preclude a contractor from duplicating or storing original records in electronic form unless they contain significant information not shown on the record copy.
- (d) If the information described in paragraph (a) of this section is maintained on a computer, contractors shall retain the computer data on a reliable medium for the time periods prescribed. Contractors may transfer computer data in machine readable form from one reliable computer medium to another. Contractors' computer data retention and transfer procedures shall maintain the integrity, reliability, and security of the original computer data. Contractors shall also retain an audit trail describing the data transfer. For the record retention time periods prescribed, contractors shall not destroy, discard, delete, or write over such computer data.

Effect: PAE potentially overcharged DOS in the amount of \$239,099 for labor charges that were not adequately supported or did not reconcile to financial records. In addition, additional labor costs may have been charged to the program without adequate support, and therefore the risk that the Federal Government may have paid for work that was not performed is enhanced.

Questioned Costs: \$239,099

Cause: PAE had an inadequate filing system for storing and maintaining documentation related to the program during the record retention period so that the documentation was readily available for audit purposes. PAE stated the files were in off-site storage and could not be located for this audit.

Recommendation: We recommend PAE locate the support to confirm these costs are allowable and provide the documentation to Department of State. If the documentation is not located, we recommend PAE refund the \$239,099 in unsupported costs to Department of State. In addition, we recommend that PAE implement a record retention process that would make documentation to support the allowability of costs readily available for audit purposes for a period of three years after the final program report is submitted or final payment is made in accordance with federal regulations.

Finding 2014-04 – Improper Maintenance of Equipment

Significant Deficiency in Internal Control and Non-Compliance

Condition: PAE did not provide required documentation (i.e. Standard Form 1428) for the disposition of three equipment items summarized in the table below. These items were noted as missing or lost by PAE.

Item #	Make/Model	Description	Price
00117	Zenega	Satellite Receiver	\$1,500
00046	DELL Optiplex210L	DELL Optiplex210L	1,000
00002	Zenega	Zenega	250
Total			\$2,750

In addition, 4 of 13 inventory items tested did not have complete inventory records. Specifically, we noted the following:

Item Description	Property Tag or ID#	Comments
Volt Reg.	AFG-1-1097	Missing Acquisition Cost
Printer/ LaserJet (Color)	AFG-1-1119	Missing Acquisition Cost
Satellite	None	Missing Unique Identifier
Zenega Satellite Receiver	None	Missing Unique Identifier

Criteria: Upon the project completion, PAE may transfer the equipment to a subsequent project, transfer the equipment to another organization as directed by Department of State, or return the equipment to the Department of State. For items lost or destroyed, PAE is required to complete required documentation as indicated below and provide that documentation to the Department of State.

Per FAR part 52.245-1(j)(2)(i), "The Contractor shall use Standard Form 1428, Inventory Disposal Schedule, to identify:

- (A) Government-furnished property that is no longer required for performance of this contract, provided the terms of another Government contract do not require the Government to furnish that property for performance of this contract;
- (B) Contractor-acquired property, to which the Government has obtained title under paragraph (e) of this clause, which is no longer required for performance of that contract; and
- (C) Termination inventory.

In addition, Title 22, Part 226.21(b), *Standards for financial management systems* of the Code of Federal Regulations requires recipients' financial management systems to provide for:

- (3) Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes;

Further, per FAR part 52.245-1(f)(b)(iii)(a) records of government property, "The Contractor shall create and maintain records of all Government property accountable to the contract, including Government-furnished and Contractor-acquired property.

- (A) Property records shall enable a complete, current, auditable record of all transactions and shall, unless otherwise approved by the Property Administrator, contain the following:
 - (1) The name, part number and description, National Stock Number (if needed for additional item identification tracking and/or disposition), and other data elements as necessary and required in accordance with the terms and conditions of the contract.
 - (2) Quantity received (or fabricated), issued, and balance-on-hand.
 - (3) Unit acquisition cost.

(Continued)

- (4) Unique-item identifier or equivalent (if available and necessary for individual item tracking).
- (5) Unit of measure.
- (6) Accountable contract number or equivalent code designation.
- (7) Location.
- (8) Disposition.
- (9) Posting reference and date of transaction.
- (10) Date placed in service (if required in accordance with the terms and conditions of the contract)."

Effect: By not properly complying with disposal procedures and completing the proper forms, equipment items may be improperly disposed of at a cost to the Federal Government. In addition, without complete property records, the risk that equipment items could be misplaced or lost is enhanced.

Questioned Cost: \$2,750 related to the three items noted as missing or lost by PAE in which documentation (i.e. Standard Form 1428) was not provided to support the disposal of the equipment.

Cause: PAE had an inadequate filing system for storing and maintaining documentation related to the program during the record retention period so that the documentation was readily available for audit purposes. PAE stated the files were in off-site storage and could not be located for this audit. In addition, PAE did not have an adequate process to ensure that all required information related to equipment was properly documented. PAE stated the missing information within the property records was due to an employee oversight.

Recommendation: We recommend PAE develop procedures in order to ensure forms for equipment disposal are properly completed for equipment/property disposals, as required by DOS. In addition, we recommend PAE to develop procedures to ensure that all required components are tracked and maintained. Further, we recommend that PAE remit the \$2,750 of questioned costs to DOS or provide documentation to support the disposition of the equipment items noted as missing or lost.

Finding 2014-05 –Special Purpose Financial Statement Adjustment

Material Weakness in Internal Control

Condition: During completion of our testing and reconciliation of PAE receipts to DOS payments, a \$566k adjustment was noted to the SPFS and financial records, affecting both revenues and expenses. The adjustment was not identified until Crowe brought the variance between the initial SPFS & DOS reports to PAE's attention. The adjustment was made by PAE and is reflected in the SPFS included in this report.

Criteria: Note 2 in the Notes to the Special Purpose Financial Statement states that the SPFS was prepared in accordance with Accounting Principles Generally Accepted in the United States of America (GAAP). In accordance with GAAP, the SPFS for the award should present fairly, in all material respects, revenues earned and costs incurred.

Effect: Errors noted in reporting of the SPFS may have an effect on other financial reports that could result in adjustments.

Questioned Cost: none

Cause: The adjustment was identified during our reconciliation to DOS amounts. The adjustment was due to the lack of PAE's financial system to track program information at a transactional level and generate reports related to program expenses by the program's budget categories.

Recommendation: Crowe recommends PAE implement a procedure to require reviews of all financial reports prepared for federal programs. In addition, reviews should be documented in writing (e.g. sign-off). We also recommend PAE complete a reconciliation of amounts received from its records to the federal agencies' records prior to completion and submission of financial reports.

Finding 2014-06 – Conflict of Interest Clause Omitted in Subcontracts

Significant Deficiency in Internal Control and Non-Compliance

Condition: A conflict of interest clause was not included in 2 of 2 subcontracts tested. The contracts tested were both for security services provided within PAE's Kabul, Afghanistan locations.

Vendor	Amount	Nature of Contract
Global Strategies Group	\$ 5,779,211	Security Operative Fees, command element, 9 x mobile security teams & JSSP compound static security; Kabul, Afghanistan.
ArmorGroup	\$ 296,652	Provision for Static Guard Security, Kabul, Afghanistan.

Criteria: According to PAE's base CIVPOL contract with DOS, 8-LMAQM-04-C-0033, section H.4., the contractor must insert the substance of the below conflict of interest clause within all subcontracts:

H.4 ORGANIZATIONAL CONFLICT OF INTEREST - GENERAL (02/96)

- (a) The Contractor warrants that, to the best of its knowledge and belief, there are no relevant facts or circumstances which would give rise to an organizational conflict of interest, as defined in FAR Subpart 9.5, or that the Contractor has disclosed all such relevant information.
- (b) The Contractor agrees that if an actual or potential organizational conflict of interest is discovered after award, the Contractor will make a full disclosure in writing to the Contracting Officer. This disclosure shall include a description of actions, which the Contractor has taken or proposes to take to avoid or mitigate the actual or potential conflict.
- (c) If the Contractor was aware of a potential organizational conflict of interest prior to award or discovered an actual or potential conflict after award and did not disclose or misrepresented relevant information to the Contracting Officer, the Government may terminate the contract for default.

Effect: The risk that PAE entered into agreements with contractors that may have had a conflict with interest with PAE was enhanced by PAE not including the required conflict of interest clauses in their contracts.

Questioned Cost: none

Cause: PAE had an inadequate filing system for storing and maintaining documentation related to the program during the record retention period so that the documentation was readily available for audit purposes. PAE stated the files were in off-site storage and could not be located for this audit.

Recommendation: We recommend that PAE revise their subcontract procedures to include the required conflict of interest clauses as part of the contract and not as a separate attachment. In addition, we recommend that PAE implement a contract review process to ensure that all required terms and conditions from DOS including conflict of interest clauses are included within a subcontract prior to executing that subcontract. This review should be documented and retained for audit purposes.

Finding 2014-07 – Federal Daily Rates (FDRs) Based on Individual Qualifications

Significant Deficiency in Internal Control and Material Non-Compliance

Condition: Based upon the CLIN descriptions within the task order and other documentation, 10 selected individuals positions were identified and compared to the contract to determine specified requirements. Based on our testing, we noted that 5 of 10 individuals did not appear to meet the required qualifications as noted within the CIVPOL contract and JSSP Task order. Of these 5 individuals:

Position	Required Qualifications	Comments
C.6.2.26 Physician Assistant	<p>Certified as a Physician Assistant in the United States. Licensure must be current with all applicable education/recertification requirements completed.</p> <p>Ten (10) years of experience in the medical field with at least 4 years as a Physicians' Assistant.</p> <p>Experience on deployed contingency operations or similar medical experience.</p> <p>Experience as a Physician Assistant within the military is expected.</p>	No support provided for individual selected, could not determine if qualifications were met.
C.6.2.2 Civilian Police Training Officer - (Certified Trainer)	Certified/licensed police instructor	No documentation of certification/licensure or previous experience in this area.
C.6.2.24 Logistics Supervisor	<p>Bachelor's degree in an associated discipline. Two (2) years' experience in logistics or related field may be substituted for each year of the four (4) years college.</p> <p>Twelve (12) years' experience in supply chain management and/or government property administration.</p> <p>Prefer at least four (4) years management position in contingency logistics environment.</p> <p>Knowledge of the Federal Acquisition Regulation (FAR) and related federal and state legislation and regulations.</p>	Could not be determined per documentation received. Employee background/experience and education is within teaching special education students.
C.6.2.24 Logistics Supervisor	Two (2) years of experience in logistics related field. Must speak conversational English.	Employee does not appear to have any relevant logistics experience prior to employment with PAE.
Unknown	Unknown	Employee was paid through CLIN X044, which includes several different labor/employee categories. No documentation was provided to determine employee position, qualifications, or background information.

(Continued)

- 2 individual qualification packets were not provided by PAE, testing could not be performed. Individual qualification packets are prepared by PAE for its employees to determine if the individual meets qualification requirements. The packets include a checklist, employee background check, resumes, reference checks, transcripts, etc.
- 3 did not include sufficient documentation to support qualification requirements or qualifications and background included in the documentation did not align with the required qualifications. The documentation included for these individuals did not provide support that the individual met the position requirements.

In addition, we noted that PAE did not provide support for an individual qualification packet for 2 out of 10 individuals paid under the task order using an FDR. As noted above, PAE prepares the packets for its employees to determine if employees meet the applicable position requirements as identified by the contract. In addition, the packets also include background checks, resumes, reference checks, etc.

Criteria: The master CIVPOL contract, in which the JSSP Task order is based upon, lists the CIVPOL individual positions and qualification requirements (section C.6 - "Personnel Categories and Descriptions"). The required qualifications per the CIVPOL contract for the individuals tested are included in the table above, within the "Condition" section of the finding.

Effect: Failure to hire individuals with the required qualifications may result in the tasks not being completed (correctly or on time) as well as inefficient work environment, which could increase project costs.

Questioned Cost: Qualifications were not provided to support using the aforementioned personnel on the JSSP project, therefore we are questioning the costs that were billed to the JSSP program for these people. Total questioned costs were calculated as \$252,766 as detailed below:

Position	Billed Amount
Physician Assistant	\$ 28,668
Unknown	19,110
Civilian Police Training Officer - (Certified Trainer)	54,502
Logistics Supervisor	114,558
Logistics Supervisor	35,928
Total	\$ 252,766

Cause: PAE had an inadequate filing system for storing and maintaining documentation related to the program during the record retention period so that the documentation was readily available for audit purposes. PAE stated the files were in off-site storage and could not be located for this audit. In addition, PAE used a general hiring checklist, but this checklist did not contain JSSP program specific qualification requirements.

Recommendation: We recommend PAE to develop procedures and checklists that are more descriptive over the hiring process to ensure only qualified individuals are hired. The checklists should include all of the required qualifications based upon each specific position, so PAE can ensure individuals meet said contract requirements prior to hiring. All documentation related to the hiring process should be retained for the record retention period specified in the agreement and made readily available for audit purposes. In addition, PAE should remit the \$252,766 of questioned costs to DOS or provide documentation to DOS supporting the qualifications of the personnel.

Finding 2014-08 – Substitutions to Key Personnel

Significant Deficiency in Internal Control and Material Non-Compliance

Condition: PAE was unable to provide documentation to support the substitution of key personnel. The contract between PAE and DOS listed key personnel for the JSSP. These key personnel positions are listed below.

- CIVPOL Program Manager
- Senior JSSP Technical Advisor
- Chief of Team

As indicated in the criteria section below, the contract specified requirements for substituting personnel identified as “key personnel”. During our testing of the key personnel contract requirements, the following was noted:

1. The person identified as the Chief of Team in the contract was not the person that PAE hired as Chief of Team for the project. The contract states that the person identified in the contract should be assigned to the project and that no substitutions should be made in the first 90 days of performance unless the substitution is necessitated by illness, death or termination of employment. PAE was unable to provide documentation to support the rationale and approval of this change in key personnel. Therefore, testing could not be performed to determine if the substitution was approved by DOS Contracting Officer and met one of the requirements listed in the contract for a change within the first 90 days. Further, since a resume was not provided for the Chief of Team, it could not be determined if the replacement met or exceeded the qualifications of the Chief of Team proposed in the contract.
2. PAE substituted the Chief of Team during the performance of the JSSP. PAE was not able to provide documentation to support approval from the Contracting Officer for this substitution or the qualifications of the replacement. Therefore, testing could not be performed to determine if the replacement met or exceeded the qualifications of the person being replaced.

Criteria: Section H.2 of PAE's CIVPOL base contract with DOS states,

"(b) The Contractor agrees that a partial basis for award of this contract is the list of key personnel proposed. Accordingly, the Contractor agrees to assign to this contract those key persons whose resumes were submitted with the proposal necessary to fulfill the requirements of the contract. No substitution shall be made without prior notification to and concurrence of the Contracting Officer. During the first ninety days of performance, the Contractor shall make no substitutions of key personnel unless the substitution is necessitated by illness, death, or termination of employment.

(c) All proposed substitutes shall meet or exceed the qualifications of the person to be replaced. The Contracting Officer shall be notified in writing of any proposed substitution at least forty-five days or ninety days if a security clearance is to be obtained, in advance of the proposed substitution. Such notification shall include: (1) an explanation of the circumstances necessitating the substitution; (2) a complete resume of the proposed substitute; and (3) any other information requested by the Contracting Officer to enable him to judge whether or not the Contractor is maintaining the same high quality of personnel that provided the partial basis for award.

Effect: DOS identified key personnel and provided specific procedures to substitute these key personnel for the JSSP to help ensure that these key people or their replacements have the proper skills and qualifications to run the program. Failure to obtain proper approvals from DOS for a substitution of one or more of these key personnel individuals is a contract violation, and increases the likelihood that unqualified individuals could serve in key project positions, which could negatively affect the program activity and achievements.

Questioned Cost: None

Cause: Documentation related to key personnel substitutions was not maintained after the end of the project period as substitutions were normally completed electronically, through e-mail. Due to employee turnover and e-mail security features in place, the e-mails were not properly retained.

Recommendation: We recommend that PAE follow contract procedures in substitutions of key personnel. Specifically, PAE should implement a key personnel change process. This process should utilize a personnel change form or other appropriate documentation to support the rationale for the change and provide the qualifications for the replacement. In addition, this documentation should be reviewed by PAE management for concurrence with the replacement and submitted to contracting officer of the funding agency (or other individual designated in the contract) for approval. Approvals for the key personnel change should be obtained prior to the replacement beginning work. Further, PAE should maintain all documentation related to key personnel substitutions in a location that allows the documentation to be maintained for the appropriate record retention period of the contract and so that it is readily available for audit purposes.

APPENDIX A: Views of Responsible Officials

10 October 2014

John C. Weber
Crowe Horwath LLP
1325 G Street NW, Suite 500
Washington D.C. 20005-3136

Subject: PAE Responses to JSSP1 SIGAR Audit Report

References: (1) Draft SIGAR Audit Report issued on 9 October 2014
(2) CIVPOL Contract No. SLMAQM04C0033
(3) JSSP1 Task Order No. SAQMPD05F2737

Mr. Weber,

PAE hereby submits the following management responses to each audit finding included in the Draft SIGAR audit report issued on 9 October 2014:

Finding 2014-01 – Cash Management Procedures

PAE agrees with the facts of this finding and resulting recommendations. In 2011, PAE implemented a documented review process in the form of the CIVPOL Invoicing Procedure, incorporating and exceeding the current recommendations specified by the auditor. PAE's written cash management policy ensures effectiveness of its cash management procedures and Customer Invoice Quality Control (QC). The QC checklist provides the process for developing the Customer Invoice and details the steps required by the Billing Accountant, Program Reviewer, and Finance Reviewer to use and complete the Customer Invoice. The checklist is a Microsoft Excel spreadsheet that includes six (6) worksheets, which are categorized by general, CLIN-specific, and comments pages. This document has been distributed to all pertinent employees.

Finding 2014-02 – Procurement Practices

PAE agrees with the facts of this finding and resulting recommendations, however PAE disagrees with the questioned costs based on information provided below pertaining to the internet vendor selection process.

Under the direction of the PAE Vice President of Global Supply Chain Management, the PAE Sr. Manager for GSCM Compliance recently conducted a review in which senior members of PAE's GSCM team assessed all file documentation requirements as well as the file checklist and file structure. As a result, dozens of policies and procedures were revised and all required forms were updated as well. PAE has in place at this time a revised and up-to-date File Documentation Policy and Procedure (PAE-762). A copy of that Policy is attached here to. PAE invested in in-house and outside expertise to revamp and over-haul its existing practices. For example, several job aids have been created for Buyers and Subcontracts Administrators (SCAs) to help them in determining the proper documentation to be included in their files.

Because PAE has historically done most of its work at remote locations throughout the globe, PAE has attempted to push much of the procurement responsibility out to buyers/SCAs in the field at the specific sites. Although advantageous to PAE because it allowed PAE to react more quickly to the needs of both PAE's customer and the corporation, and respond to the customer's need in a more efficient way, it also created a difficult situation in terms of record-keeping because original files were maintained at these same remote locations in conflict/post-conflict-based zones. For this audit, the request was for documentation that was originally maintained in Kabul at the initial JSSP compound back in 2006 through 2009. During that period, files were maintained as paper documents only, because of inadequate internet/computer access. Recognizing the risk associated with this type of process, PAE worked to identify a platform in which to electronically store these procurement files that can be centrally accessed from the field, our Dubai Procurement Hub and our Washington DC offices.

To address the finding on selection of a vendor who was not the low priced vendor, it should be noted that the vendor selected by PAE is still a viable vendor for Internet Services in Afghanistan while the low priced vendor is no longer a licensed Afghanistan vendor. Although the file was not documented accordingly, PAE believes that the second lowest priced vendor was selected because the low priced vendor was not technically reliable. As such, PAE has further revised its Source Selection and Technical Evaluation (PAE-739) policy and will be addressing this issue in both online training modules as well as during in person training sessions.

The training program for Buyers and SCAs is constantly upgraded to include increased in- person training as well as readily available on line training. The online training is available through the Vision platform and provides training on each of the Policies and Procedures in PAEs GSCM Policy and Procedure Manual. PAE reorganized their Global Supply Chain reporting structure where the field procurement personnel report directly back through GSCM rather than directly to the program personnel in the field. This has allowed GSCM to institute a number of changes including the aforementioned training policy, update of policies and procedures and a period audit plan. When and where possible, PAE's Sr. Manager for GSCM Compliance conducts periodic audits of program files to determine compliance with the policies and procedures and FAR requirements. Local GSCM team leads conduct spot audits of files from compliance.

Finding 2014-03 – Allowable Costs: Inadequate Supporting Documentation

PAE agrees with the facts of this finding and resulting recommendations.

It is important to note the austere, volatile operating environment in Afghanistan and the adverse impact it has on the U.S. Government and Contractor's ability to manage, monitor and oversee programs in Afghanistan (Reference *Message from the SIGAR dated July 18, 2014*). Document retention is one aspect of program management and monitoring that has proven to be particularly difficult given the circumstances, and was further impacted by the significant lapse of time between project performance and the date of this audit.

PAE reviews and publishes its records management policy on a yearly basis in order to confirm that it is compliant with all regulations. PAE-902 Records Management addresses the storage and retention of files and provides additional documentation regarding control mechanisms for tracking the storage and offsite storage/retrieval and as well document destruction.

Finding 2014-04 – Improper Maintenance of Equipment

PAE agrees with the facts of this finding and resulting recommendations.

PAE has a process in place for submitting Lost Damaged or Destroyed (LDD) requests for disposition and does so in accordance with FAR clause 52.245-1(j)(2)(i) using Standard Form 1428 and JSSP2 SOW required Annex 13 Property Disposal Letters. These forms are submitted together with photos of the items marked for disposition. These forms are then approved by INL and once approved, are kept in the secure network drive at JSSP headquarters in Kabul. These documents are also stored at PAE headquarters in Arlington VA on PAE's OpsCheck program portal.

The JSSP program currently uses a commercially available inventory program that has greatly increased inventory accountability and records retention. PAE is using these processes and tools with success on the JSSP program.

As part of the audit, PAE provided documentation which is representative of the current LDD records kept under the Program.

Finding 2014-05 –Special Purpose Financial Statement Review/Approval

PAE agrees with the facts of this finding and resulting recommendations, however PAE disagrees that the \$566K adjustment to the Special Purpose Financial Statement was a result of "...the lack of PAE's financial system to track program information at a transactional level and generate reports related to program expenses by the program's budget categories." On March 28, 2005, prior to the award of the subject task order, the Defense Contract Management Agency (DCMA) determined PAE's billing system and related internal controls and policies to be adequate based on the results of an audit conducted by the Defense Contract Audit Agency (DCAA) relating to PAE's *Overall Accounting System Controls*.

While the SPFS is not a contract deliverable, PAE has updated their practice of submitting a monthly Status of Funds report to the Contracting Officer and Contracting Officer Representative. The file is reviewed internally by business operations and the contracting manager before the contracting manager submits to the government. The Status of Funds file includes the total contract value, total contract funding, costs incurred and estimates for future costs.

Finding 2014-06 – Conflict of Interest Clause Omitted in Subcontracts

PAE agrees with the facts of this finding and resulting recommendations.

PAE regularly updates their policies and procedures for Global Supply Chain Management including the Organizational and Consultant Conflict of Interest Policy (PAE-747) as well as the policy on Determination of Terms and Conditions and Flow Down Provisions (PAE-751). Additionally, PAE has specifically incorporated a Conflict of Interest Clause into their Subcontract Template which reads as follows:

Conflict of Interest

To ensure the integrity of PAE's operations for the public, its Customers, and its shareholders, PAE requires the Subcontractor to avoid actual or potential conflicts between the interests of PAE and the interests of the Subcontractor or a third party. The Subcontractor is expected to disclose any actual or potential conflicts of interest for review by PAE.

The Subcontractor warrants that there is no conflict of interest with (1) other contractual commitments, including past and present commitments; (2) PAE personnel who could be considered stockholders, partners, owners, directors, creditors, related family members, or employee in any person, firm, or organization that is owned or associated by the Subcontractor; or (3) any Party or

Parties associated with the activities to be performed hereunder. The Subcontractor shall advise the PAE Subcontract Administrator if a conflict of interest arises with the Agreement. In addition, the Subcontractor shall abide by all Conflict of Interest Clauses as may be flowed with the Prime Contract Flow Downs in Section 1.

As with the changes noted previously under Finding 2014-02, the same training programs are being put in place with regards to the online training and in person training to address these policies and procedures. Likewise, a PAE GSCM Compliance position has been established to conduct periodic audit to establish on-going Policy and Procedure and FAR compliance as well as to provide training to managers to ensure they conduct their own spot checks and audits on buyers and Subcontracts Administrators. In addition, Subcontracts and Contracts meet to go over all flow downs and the applicability of those flow downs after Contract Award and prior to Contract Issuance.

Finding 2014-07 – Federal Daily Rates (FDRs) Based on Individual Qualifications

PAE agrees with the facts of this finding and resulting recommendations.

All candidates are fully vetted against the requirements of the position and each candidate is subjected to a thorough background check, including but not limited to, review of their educational background, employment history, credit and criminal history. References are checked and professional standards are verified. Documentation of this process is retained electronically.

Finding 2014-08 – Substitutions to Key Personnel

PAE has a process in place for submitting Key Personnel Requests (KPRs) for approval by INL through our contracting department. PAE also keeps these approvals in a secured network drive at PAE headquarters. The sample KPR form provided during the audit contains the position requirements checklist, DOS/INL approval area, and a copy of the candidate's resume. This acts as the recommended personnel change form. The approval of this request is always obtained before the candidate is hired or transferred to the position.

After PAE receives approvals from the program level INL representatives, PAE Contracts then forwards to the CO at AQM for final approval. Once received it is placed in a secure location on PAE servers. In order to avoid proposing candidates who do not have the proper requirements the form includes the checklist and resume.

PAE is using this format with success on the current JSSP program.

PAE appreciates the opportunity to respond to this draft audit report.

Sincerely,



Peter Capwell
Contracts Manager
PAE

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