

SIGAR

Special Inspector General for Afghanistan Reconstruction

SIGAR 15-32 Financial Audit

Department of the Army's Freedom of Maneuver Project: Audit of Costs Incurred by A-T Solutions, Inc.

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



FEBRUARY
2015

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On September 28, 2012, the Army Contracting Command awarded an \$18.3 million contract to A-T Solutions, Inc. (A-T Solutions) to implement the Freedom of Maneuver (FOM) program. The purpose of the program was to remedy gaps in counter-improvised explosive device training provided to the Afghan National Security Forces. The FOM program was intended to improve the Afghans' ability to defeat improvised explosive devices by researching and spreading the use of enhanced methods and concepts, ranging from using handheld sensors to employing new procedures and tactics.

SIGAR's financial audit, performed by Davis and Associates Certified Public Accountants, PLLC (Davis) reviewed \$16,472,668 in expenditures charged to the contract from September 28, 2012, through November 27, 2013. The audit objectives were to (1) identify and report on significant deficiencies or material weaknesses in A-T Solutions' internal controls related to the award; (2) identify and report on instances of material noncompliance with the terms of the award and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether A-T Solutions has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of A-T Solutions' Special Purpose Financial Statement. See Davis' 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 Davis did not comply, in all material respects, with U.S. generally accepted government auditing standards.

February 2015

Department of the Army's Freedom of Maneuver Project: Audit of Costs Incurred by A-T Solutions, Inc.

SIGAR 15-32-FA

WHAT THE AUDIT FOUND

Davis and Associates Certified Public Accountants, PLLC (Davis) identified no significant deficiencies or material weaknesses, and one instance of noncompliance with the terms and conditions of the contract. The Performance Work Statement for this contract did not require A-T Solutions' employees to be armed; A-T Solutions stated that its employees were armed for their personal protection. Clause 952.225-0001 of the *Joint Contracting Command-Iraq/Afghanistan Acquisition Instruction*, Arming Requirements and Procedures for Personal Security Services Contractors and for Requests for Personal Protection, governs requests by contractors to carry weapons for personal protection. Department of Defense (DOD) contractors, who are armed in Afghanistan, must abide by these requirements. However, A-T Solutions did not follow all of the requirements stipulated in this DOD regulation because it was unaware that it was subject to them. For example, A-T Solutions did not obtain the appropriate approval or file the required documentation, including the monthly arming status reports, with the contracting officer's representative.

Davis identified \$3,473 in total questioned costs, all of it consisting of ineligible costs—costs prohibited by the contract, applicable laws, or regulations. Davis did not identify any unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
Travel	\$3,473	\$0	\$3,473
Total	\$3,473	\$0	\$3,473

Davis did not identify any prior reviews or assessments that could have a material effect on the Special Purpose Financial Statement.

Davis issued a disclaimer of opinion on A-T Solution's Special Purpose Financial Statement because A-T Solutions did not provide a management representation letter. Management representations are required to ensure the completeness and accuracy of the information provided during audit fieldwork. Without management's representation, Davis was unable to determine if all information had been made available to its auditors.

WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the Army Contracting Command:

- 1. Determine the allowability of and recover, as appropriate, \$3,473 in questioned costs identified in the report.**
- 2. Advise A-T Solutions to address the report's one noncompliance finding.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

February 9, 2015

The Honorable Chuck Hagel
Secretary of Defense

General Lloyd J. Austin III
Commander, U.S. Central Command

General John F. Campbell.
Commander, U.S. Forces-Afghanistan and
Commander, Resolute Support

General Dennis L. Via
Commanding General, U.S. Army Materiel Command

Major General Theodore C. Harrison
Commanding General, U.S. Army Contracting Command

We contracted with Davis and Associates Certified Public Accountants, PLLC (Davis) to audit the costs incurred by A-T Solutions, Inc. (A-T Solutions) under an Army Contracting Command contract to implement the Freedom of Maneuver program.¹ Davis' audit covered \$16,472,668 in expenditures charged to the contract from September 28, 2012, through November 27, 2013. Our contract required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Based on the results of the audit, SIGAR recommends that the Army Contracting Command:

- 1. Determine the allowability of and recover, as appropriate, \$3,473 in questioned costs identified in the report.**
- 2. Advise A-T Solutions to address the report's one noncompliance finding.**

The results of Davis' audit are further detailed in the attached report.

We reviewed Davis' 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 A-T Solutions' Special Purpose Financial Statement. We also express no opinion on the effectiveness of A-T Solutions' internal control or compliance with the contract, laws, and regulations. Davis is responsible for the attached auditor's report and the conclusions expressed in the report. However, our review disclosed no instances where Davis 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-040)

¹ Army Contracting Command awarded contract number W911QX-12-C-0174 to A-T Solutions to implement the Freedom of Maneuver program, which sought to provide the Afghan National Security Forces with a comprehensive information management methodology to counter the improvised explosive devices threat.

DAVIS AND ASSOCIATES CERTIFIED PUBLIC ACCOUNTANTS, PLLC

FINANCIAL AUDIT

OF

COSTS INCURRED UNDER CONTRACT No. W911QX-12-C-0174
BY A-T SOLUTIONS, INC. IN PERFORMANCE OF THE FREEDOM OF
MANEUVER PROJECT IN AFGHANISTAN

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December 16, 2014

TRANSMITTAL LETTER

To: Mr. Charles Botwright
Office of Special Inspector General for Afghanistan Reconstruction

From: Davis and Associates Certified Public Accountants, PLLC

Subject: Financial Audit of Costs Incurred under Contract No. W911QX-12-C-0174 by A-T Solutions, Inc. (A-T) in performance of the Freedom of Maneuver (FoM) Project in Afghanistan

This letter transmits the final audit report of the subject effort. We issued a disclaimer of opinion on the fairness of the presentation of the Special Purpose Financial Statement. Our audit disclosed \$3,473 of ineligible costs that were required to be questioned in the Special Purpose Financial Statement.

Davis & Associates

Davis and Associates Certified Public Accountants, PLLC
6161 Fuller Court
Alexandria, Virginia 22310

EXECUTIVE SUMMARY

Background

This audit covered contract number W911QX-12-C-0174. On September 28, 2012, the U.S. Department of the Army (Army) signed an \$18,287,886 cost-plus-fixed-fee contract with A-T Solutions, Inc. (A-T Solutions) to implement the Freedom of Maneuver (FoM) program. FoM sought to redress identified gaps in Afghanistan security forces training relative to countering improvised explosive devices. The program's objectives were to research and demonstrate a comprehensive information management methodology that includes both material and nonmaterial solutions to counter the improvised explosive devices threat. A-T Solutions was also tasked with "transitioning" the solution to the responsible Afghan organizations that have the responsibility of countering insurgent groups.

Work Performed

The Special Inspector General for Afghanistan Reconstruction (SIGAR) engaged Davis and Associates Certified Public Accountants, PLLC to perform a financial audit of the costs incurred under Contract Number W911QX-12-C-0174, for the period September 28, 2012 through November 27, 2013. Congress created SIGAR to provide independent and objective oversight of Afghanistan reconstruction projects and activities. Under the authority of Section 1229 of the National Defense Authorization Act for Fiscal Year 2008 ([P.L. 110-181](#)), SIGAR conducts audits and investigations to: 1) promote efficiency and effectiveness of reconstruction programs and 2) detect and prevent waste, fraud, and abuse.

Below are the documents that were used for the performance of this audit:

- The contract number W911QX-12-C-0174 between the Army and A-T Solutions.
- Contracts and subcontracts with third parties.
- The written procedures approved by the US Army Contracting Command.
- Federal Acquisition Regulation (FAR), Part 31, Contract Cost Principles and Procedures.
- Defense Federal Acquisition Regulation Supplement (DFARS).
- United States Central Command (US CENTCOM) Clauses.
- All policies and procedures.

Except for the item noted in item noted in, *Basis for Disclaimer of Opinion, Independent Auditor's Report*, Page 13, we conducted our examination in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records examined are free of material misstatement. Our audit included:

- Obtaining an understanding of A-T Solutions' internal controls, assessing control risk and determining the extent of audit testing needed based on the control risk assessment;
- Examining, on a test basis, A-T Solutions' Special Purpose Financial Statement by budgeted line item under the contract, including the budgeted amounts by category and major items:
- Assessing the accounting principles used by A-T Solutions;
- Identifying the significant provisions of laws and regulations to design relevant compliance-related procedures for the audit;
- Evaluating the overall data and records presentation; and
- Inquiring of management as to whether or not any prior audit or compliance reviews had been performed with respect to the project under audit.

Objectives and Scope

Objectives

The objectives of our audit were to (1) *Special Purpose Financial Statement* - Express an opinion on whether A-T Solutions' Special Purpose Financial Statement for the award presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government and balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting; (2) *Internal Controls* - Evaluate and obtain a sufficient understanding of the audited entity's internal control related to the award; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses; (3) *Compliance* - Perform tests to determine whether the audited entity 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; and (4) *Corrective Action on Prior Findings and Recommendations* - Determine and report on whether the audited entity 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

We conducted our audit from June 5, 2014 through September 22, 2014. The audit covered Contract Number W911QX-12-C-0174. The Contractor was A-T Solutions. The period covered under this audit was September 28, 2012 through November 27, 2013. The total amount of unburdened direct costs for the period under audit was \$10,700,138; we selected \$2,794,548 of that population for substantive testing. Our testing of indirect costs was limited to applying the rates to verify the indirect costs using the correct final negotiated rate or provisional rate, as applicable for the given fiscal year, as approved by the U.S. Army Contracting Command.

Summary of Audit Results

Special Purpose Financial Statements

Our audit disclosed \$3,473 of questioned costs [Please refer to *Detailed Audit Findings*, Page 17]. We issued a disclaimer of opinion because A-T Solutions retracted its Management Representation Letter.

Table 1 - Summary of Findings and Questioned Costs

Finding Number	Description	Total Amount Questioned
Finding 1	Ineligible Costs – Travel	\$3,473.00
Finding 2	Non-Compliance – Arming License	\$0.00
Total Questioned Costs		\$3,473.00

Internal Controls

Our audit did not identify any deficiencies in Internal Control that we consider to be material weaknesses. However, due to the item noted in, *Basis for Disclaimer of Opinion, Independent Auditor's Report*, Page 12, matters may exist that were not detected during the audit.

Compliance with Laws and Regulations

Our audit detected an instance of material non-compliance that is required to be reported. However, due to the item noted in, *Basis for Disclaimer of Opinion, Independent Auditor's Report*, Page 12, other matters may exist that were not detected during the audit. [Please refer to *Independent Auditor's Report on Compliance*, Page 17]

Follow Up to Prior Audit Recommendations

Our audit did not identify any prior audit recommendations that could have a material effect on the special purpose financial statement.

Management Response to Findings

We presented our findings to A-T Solutions and requested a management response. A-T Solutions provided written responses, which included additional documentation. We reviewed the written responses, examined the additional documentation and adjusted our findings. The management comments are included in [Appendix A](#); our responses to these comments are included in [Appendix B](#).

Exhibit I
A-T Solutions, Inc.
Special Purpose Financial Statement
September 28, 2012 through November 27, 2013

	Actual for the Period	Questioned Costs		Notes
		Unsupported Costs	Ineligible Costs	
Revenue	\$ 16,472,668	\$	\$	3
Total Revenue	\$ 16,472,668	\$	\$	
Costs Incurred				
Labor	\$ 14,267,714	\$	\$	
Travel	\$ 511,601	\$	\$ 3,473	4, A
Other Direct Costs	\$ 1,388,251	\$	\$	4
Equipment	\$ 305,102	\$	\$	4
Total Program Amount	\$ 16,472,668	\$	\$ 3,473	
Outstanding Fund Balance	\$ -			5

Notes to the Special Purpose Financial Statement

Note 1 - Status and Operation

Founded in 2002, A-T Solutions, Inc. provides intelligence, technology, training, and mission support solutions to customers in the Defense, Law Enforcement, National Security and Intelligence Community. The Corporate Headquarters are located in Vienna, Virginia.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Special Purpose Financial Statement includes costs incurred under Contract number W911QX-12-C-0174, CLIN 0001, Freedom of Maneuver effort for the period September 28, 2012 through November 27, 2013. Because the Statement presents only a selected portion of the operations of A-T Solutions, it is not intended to and does not present the Balance Sheet, Statement of Net Income, or Cash Flows of A-T Solutions. The information in this Special Purpose Financial Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction and is specific to Contract number W911QX-12-C-0174, CLIN 0001. Therefore, some amounts presented in this Special Purpose Financial Statement may differ from amounts presented in, or used in the preparation of, A-T Solutions' Balance Sheet, Statement of Net Income, or Cash Flows.

Basis of Accounting

The Special Purpose Financial Statement has been prepared using the accrual basis of accounting.

Foreign Currency Conversion Method

The operational currency in Afghanistan is the Afghani. Presentation currency is the U.S. Dollar. Currency translations have been done on the following basis.

- Revenues – recorded in U.S. Dollars
- U.S. Expenditures – recorded in U.S. Dollars

- Afghanistan Expenditures – to the extent there were local expenditure (for example – travel related costs), our credit card company converted the local currency amounts to US Dollars at the time of posting purchase transactions to our account.

Note 3 - Revenues

Revenue on cost-plus-fixed-fee type contracts is recognized on the basis of reimbursable contract costs incurred during the period increased by the applicable fringe, overhead, and general and administrative expenses plus a percentage of the fixed fee.

Note 4 – Major Cost Categories

Below are the major categories of costs expended under the contract.

Labor

A-T Solutions operates under a Total Time Accounting method of recording hours worked. Labor cost for salaried employees is therefore based on an effective hourly rate, derived from the employee's semimonthly salary divided by the number of hours in the time reporting period, multiplied by the hours recorded in the time reporting period. Labor cost for hourly employees is based on the employee's hourly rate multiplied by the hours recorded in the time reporting period, plus applicable pay differentials. Labor costs reflected here include applicable indirect cost burdens. Salaries for all staff are based on the employee's current actual salary and are fully supported by personnel records.

Travel

This category contains those costs associated with travel chargeable to the contract and is typically associated with expense reports for costs related to airfare, lodging, per diem, and other travel related expenses. The costs reflected here include applicable indirect cost burdens.

Other Direct Costs

Other Direct Costs (ODCs) are those direct costs not defined in other categories that directly support the performance of the contract. The costs reflected here include applicable indirect cost burdens.

Equipment

Equipment costs are those costs related to equipment acquired to support the performance of the contract. The costs reflected here include applicable indirect cost burdens.

Note 5 – Reconciliation

The fund balance represents the difference between costs incurred, including applicable indirect cost burdens plus fee billed to date and contract funding. In accordance with FAR 52.216-7 Allowable Cost and Payment, A-T Solutions may only bill indirect costs at the provisional rates established by DCAA until those rates are audited and final indirect rates are determined. To date, indirect costs for fiscal years 2012 and 2013 have not been audited, nor determined. Therefore, we have not yet billed all costs incurred plus applicable indirect costs and fee.

Revenue	\$	<u>17,923,769</u>
Cost plus fee*	\$	<u>17,923,769</u>
Variance	\$	<u>-</u>
Total Contract Funding	\$	18,287,886
Billed to Date	\$	<u>17,531,436</u>
Remaining Unbilled Cost and Fee*	\$	<u>392,333</u>
Funds Available	\$	<u>756,450</u>

*Special purpose financial statements presented exclusive of fee.

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

Note A – Other Direct Costs – Ineligible Costs

Ineligible costs that are explicitly questioned because they are unreasonable; prohibited by the audited contract or applicable laws and regulations; or not award related.

Audit Finding 1: Ineligible Travel Costs – questioned \$3,473. A-T Solutions incurred unallowable travel expenses and charged these expenses as direct costs to be reimbursed by the Army. [Please refer to *Detailed Audit Finding 1*, Page 17]

Independent Auditor's Report on the Special Purpose Financial Statement

To the President, A-T Solutions, Inc.
1934 Old Gallows Rd., Suite 500
Vienna, VA 22182

Report on the Financial Statements

We have audited the Special Purpose Financial Statement of A-T Solutions, Inc. ("A-T Solutions") in the performance of the Freedom of Maneuver (FoM) project under Contract number W911QX-12-C-0174 for the period September 28, 2012 through November 27, 2013, hereinafter referred to as the financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Except as described in the basis for disclaimer of opinion paragraph, we conducted our audit of the Special Purpose Financial Statement in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Special Purpose Financial Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Special Purpose Financial Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. However, because of the matter described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Management issued its signed Management Representation letter dated August 25, 2014. On November 18, 2014, Management retracted its representations. Management representations are required to ensure the completeness and accuracy of the information provided during audit fieldwork. Without management's representation, we are unable to determine if all information has been made available to us.

Disclaimer of Opinion

Because of the significance of the matter described in the basis for disclaimer of opinion paragraph, we do not express an opinion on whether the Special Purpose Financial Statement referred to above presents fairly, in all material respects, program revenues, costs incurred and reimbursed by the U.S. Department of the Army for the period September 28, 2012

through November 27, 2013 in accordance with the terms of the contract or in conformity with the basis of accounting described in Notes to the Special Purpose Financial Statement, Page 8.

Other Reports Required by Government Auditing Standards

In accordance with U.S. Government Auditing Standards, we have also issued our reports, dated November 26, 2014, on our consideration of A-T Solutions' internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with U.S. Government Auditing Standards and should be read in conjunction with this Independent's Auditor's Report in considering the results of our audit.

Restriction on Use

This report is intended for the information of A-T Solutions, the U.S. Department of the Army and SIGAR. Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.

Davis & Associates

Alexandria, Virginia
November 26, 2014

Independent Auditor's Report on Internal Control

To the President, A-T Solutions, Inc.
1934 Old Gallows Rd., Suite 500
Vienna, VA 22182

We have audited the Special Purpose Financial Statement of A-T Solutions, Inc. ("A-T Solutions") in the performance of the Freedom of Maneuver (FoM) project under Contract number W911QX-12-C-0174 for the period September 28, 2012 through November 27, 2013, hereinafter referred to as the financial statements, and have issued our report, dated November 26, 2014, which contained a disclaimer of opinion

Management Responsibility

Management is responsible for establishing and maintaining internal control. 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 financial statements in conformity with the basis of accounting described in Note 1.

Auditor Responsibility

Except as described in the basis for disclaimer of opinion paragraph in the Independent Auditor's Report on the Special Purpose Financial Statement, we conducted our audit in accordance with U.S. *Government Auditing Standards* issued by the Comptroller General of the United States. In planning and performing our audit, we considered the entity's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected and 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.

Internal Control over Financial Reporting

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 significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

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

corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Purpose of this Report

The purpose of this report is to describe the scope of our testing of internal control and report on significant deficiencies including material internal control weaknesses identified by the audit. The report does not 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 A-T Solutions, the U.S. Department of the Army and SIGAR. Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.

Davis & Associates

Alexandria, Virginia
November 26, 2014

Independent Auditor's Report on Compliance

To the President, A-T Solutions, Inc.
1934 Old Gallows Rd., Suite 500
Vienna, VA 22182

We have audited the Special Purpose Financial Statement of A-T Solutions, Inc. ("A-T Solutions") in the performance of the Freedom of Maneuver (FoM) project under Contract number W911QX-12-C-0174 for the period September 28, 2012 through November 27, 2013, hereinafter the financial statements, and have issued our report dated, November 26, 2014, which contained a disclaimer of opinion.

Except as described in the basis for disclaimer of opinion paragraph in the Independent Auditor's Report on the Special Purpose Financial Statement, we conducted our audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special purpose financial statement is free of material misstatement resulting from violations of agreement terms and laws and regulations that have a direct and material effect on the determination of the special purpose financial statement amounts.

Compliance with agreement terms and laws and regulations applicable to A-T Solutions is the responsibility of A-T Solutions' management. As part of obtaining reasonable assurance about whether the special purpose financial statement is free of material misstatement, we performed tests of A-T Solutions' compliance with certain provisions of agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

In performing our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. The results of our tests disclosed one instance of noncompliance that are required to be reported here under Government Auditing Standards and which are described in Finding 2.

A-T Solutions' responses to the findings identified in our report are attached as Appendix A to this report. We did not audit these responses and, accordingly, we express no opinion on them.

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

Davis & Associates
Alexandria, Virginia
November 26, 2014

DETAILED AUDIT FINDINGS

Finding Number: 1

Audit Area: Special Purpose Financial Statements – Ineligible Travel Costs Incurred

Criteria

FAR 31.201-2 Determining Allowability.

- (a) *A cost is allowable only when the cost complies with all of the following requirements:*
- (1) *Reasonableness.*
 - (2) *Allocability.*
 - (3) *Standards promulgated by the CAS Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the circumstances.*
 - (4) *Terms of the contract.*
 - (5) *Any limitations set forth in this subpart.*

FAR 31.201-3 Determining reasonableness.

- (a) *A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business. Reasonableness of specific costs must be examined with particular care in connection with firms or their separate divisions that may not be subject to effective competitive restraints. No presumption of reasonableness shall be attached to the incurrence of costs by a contractor. If an initial review of the facts results in a challenge of a specific cost by the contracting officer or the contracting officer's representative, the burden of proof shall be upon the contractor to establish that such cost is reasonable.*
- (b) *What is reasonable depends upon a variety of considerations and circumstances, including—*
- (1) *Whether it is the type of cost generally recognized as ordinary and necessary for the conduct of the contractor's business or the contract performance;*
 - (2) *Generally accepted sound business practices, arm's-length bargaining, and Federal and State laws and regulations;*
 - (3) *The contractor's responsibilities to the Government, other customers, the owners of the business, employees, and the public at large; and*
 - (4) *Any significant deviations from the contractor's established practices.*

FAR 31.205-46 Travel Costs.

- (b) *Airfare costs in excess of the lowest priced airfare available to the contractor during normal business hours are unallowable except when such accommodations require circuitous routing, require travel during unreasonable hours, excessively prolong travel, result in increased cost that would offset transportation savings, are not reasonably adequate for the physical or medical needs of the traveler, or are not reasonably available to meet mission requirements. However, in order for airfare costs in excess of the above airfare to be allowable, the applicable condition(s) set forth above must be documented and justified.*

Condition

For the Fiscal Year 2012, a total of \$344,895 in costs incurred by the A-T Solutions was selected to be reviewed. Upon reviewing supporting documentation for these costs, the Auditor found a total of \$2,376 in costs that were incurred for upgrades to "Economy Plus" class on international flights. Since there was no justification for exceptions available that meets FAR requirements for upgrading these flights to Economy Plus, we determined that the additional costs were not necessary for these trips and considered unallowable.

For the Fiscal Year 2013, a total \$2,449,653 in costs incurred by A-T Solutions was selected to be reviewed. Upon reviewing supporting documentation for these costs, the Auditor found a total of \$1,097 in travel costs that were incurred as a result of staying in Dubai for more than one night. Per correspondence with A-T Solutions, the amount of time spent in Dubai is based on flight availability; usually only one night. The costs for stays in Dubai were not associated with flight availability and therefore we determined that the additional costs were not necessary for these trips and considered unallowable.

Questioned Costs

\$3,473

	Description	Amount Questioned	Notes
1-1	Airfare / UAE Dubai	\$328	Paid \$328 for two "Economy Plus" upgrades
1-2	M&IE / Oct 15 2012 / Nov 2 2	\$338	Paid \$338 for two "Economy Plus" upgrades
1-3	Airfare / UAE	\$338	Paid \$338 for two "Economy Plus" upgrades
1-4	Airfare / UAE	\$338	Paid \$338 for two "Economy Plus" upgrades
1-5	Airfare / Dubai	\$338	Paid \$338 for two "Economy Plus" upgrades
1-6	Other / Oct 23 2012 / Economy	\$358	Paid \$358 for two "Economy Plus" Upgrades
1-7	Other / Oct 24 2012 / Economy	\$338	Paid \$338 for two "Economy Plus" upgrades
1-8	M&IE - Jul 11 2013 / Jul 20	\$304	Questioned is the amount in excess of G&A approved per diem rates of 2 travel days in Dubai on each end of the trip (4 total), plus 4 days of M&IE
1-9	M&IE - Jul 11 2013 / Jul 20	\$119	Questioned is the amount in excess of G&A approved per diem rates of 2 travel days in Dubai on each end of the trip
1-10	M&IE - Jul 7 2013 / Jul 25 2	\$135	Questioned is the amount in excess of G&A approved per diem rates of 2 travel days in Dubai on each end of the trip
1-11	Lodging - Hilton Dubai Creek	\$539	Allow 1 night in Dubai on each end of the trip.
Total Questioned Costs		\$3,473	

Cause

A-T Solutions accounted for unnecessary flight upgrades and overnight stays in Dubai as an allowable expense and charged these amounts to the project to be reimbursed as direct costs by the Army.

Impact or Risk

The inclusion of unallowable expenses results in excessive and unnecessary charges to the Army.

Recommendation

The program ledger should be reviewed each billing period to ensure that only allowable, reasonable, and necessary costs are charged to the contract. Questioned costs of \$3,473 should be reimbursed to the Army.

Risk Level

Low

Finding Number: 2

Audit Area: Significant Deficiency and Non-Compliance – Arming Requirements

Criteria

Pursuant to 952.225-0001 *Arming Requirements and Procedures for Personal Security Services Contractors and for Requests for Personal Protection (Dec 2011)*, Department of Defense (DoD) Contractors who are armed in Afghanistan, must abide by certain requirements. These requirements include maintaining the following documentation:

Required Contractor Documentation. Contractors and their subcontractors at all tiers that require arming approval shall provide to the arming approval authority via the Contracting Officer's Representative (COR) consistent documentation (signed and dated by the employee and employer as applicable) for each of their employees who will seek authorization to be armed under the contract as follows:

(1) *Weapons Qualification/Familiarization.* All employees must meet the weapons qualification requirements on the requested weapon(s) established by any DoD or other U.S. government agency, Law of Armed Conflict (LOAC); Rules for the Use of Force (RUF), as defined in the U.S. CENTCOM Policy, dated 23 December 2005; and distinction between the above-prescribed RUF and the Rules of Engagement (ROE), which are applicable only to military forces.

(2) *Completed DD Form 2760 (or equivalent documentation) for each armed employee, indicating that the employee is not otherwise prohibited under U.S. law from possessing the required weapon or ammunition.*

(3) *Written acknowledgement by the individual of the fulfillment of training responsibilities and the conditions for the authorization to carry firearms. This document includes the acknowledgement of the distinctions between the ROE applicable to military forces and RUF that control the use of weapons by DoD civilians, DoD contractors and Personal Security Contractors (PSCs).*

(4) *Written acknowledgement signed by both the armed employee and by a representative of the employing company that use of weapons could subject both the individual and company to U.S. and host nation prosecution and civil liability.*

(5) *A copy of the contract between the contractor's company and the U.S. Government that verifies the individual's employment and addresses the need to be armed.*

(6) *One (1) copy of a business license from the Iraqi or Afghani Ministry of Trade or Interior.*

(7) *One (1) copy of a license to operate as a PSC (or a temporary operating license) from the Ministry of Interior.*

Penalties for Non-Compliance. Failure of contractor or subcontractor employee(s) to comply with the laws, regulations, orders, and rules (including those specified herein) governing the use of force, training, arming authorization, and incident reporting requirements may result in the revocation of weapons authorization for such employee(s). Where appropriate, such failure may also result in the total revocation of weapons authorization for the contractor (or subcontractor) and sanctions under the contract, including termination.

Condition

The Performance Work Statement (PWS) for this contract did not require A-T Solutions' employees to be armed. A-T Solutions confirmed this fact and stated that their employees were armed for their personal protection. Section 952.225-0001 *Arming Requirements and Procedures for Personal Security Services Contractors and for Requests for Personal Protection*, governs requests by contractors to carry weapons for personal protection. However, A-T Solutions did not follow all of the requirements stipulated in this DoD regulation. Consequently, A-T Solutions did not obtain the appropriate approval or file the required documentation (including the monthly arming status reports) with their COR.

Questioned Costs

None

Cause

A-T Solutions was unaware that they were required to comply with the DoD regulation related to arming of its employees.

Impact or Risk

Failure to properly comply with all requirements under 952.225-0001 *Arming Requirements and Procedures for Personal Security Services Contractors and for Requests for Personal Protection* (Dec 2011) creates a significant risk of non-compliance with host country requirements. Additionally, US CENTCOM leaders may not be aware of the nature, extent, and potential risks and capabilities associated with the A-T Solutions' employees located in their Area of Responsibility.

Recommendation

A-T Solutions should formally notify the Contracting Officer and the COR that they are not in compliance with the arming requirements of their contract and work through the contracting office to rectify the situation.

Risk Level

High

APPENDIX A – A-T SOLUTIONS MANAGEMENT RESPONSE

December 16, 2014

Ms. Audrey R. Davis
Davis and Associates Certified Public Accountants, PLLC
10480 Little Patuxent Parkway
Suite 400
Columbia, Maryland 21044

Dear Ms. Davis,

This letter is provided in response to your Draft Audit Report, dated November 26, 2014 and received by us on December 2, 2014, in connection with your audit of costs incurred by A-T Solutions, Inc. in the performance of Contract Number W911QX-12-C-0174, CLIN 0001 for the period September 28, 2012 through November 27, 2013.

Regarding the retraction of my previously provided Management Representation Letter

I provided a Management Representation Letter dated August 25, 2014 in connection with the above-noted audit which letter confirmed certain representations based on the audit findings which were later discussed as part of the formal exit conference on September 23, 2014. As a result of post audit/exit conference findings we became aware of after the exit conference, specifically on November 12, 2014, and which were not previously disclosed or discussed, specifically newly added finding number three entitled "Special Purpose Financial Statements - Ineligible Other Direct Costs" related to arming of employees, I retracted the representation letter. In that letter, dated and sent to you via e-mail on November 18, 2014, I advised that I would reissue a Management Representation Letter after discussion of the new findings so that the representation letter can adequately cover all of the audit findings. However, the request for a discussion/review of the new finding was not addressed in your e-mail response on the same day. Rather, you stated under "Next Steps": "We will proceed to update the report to reflect our disclaimer of opinion and resubmit to SIGAR. Once SIGAR has completed its review – the draft will be provided to A-T Solutions. At that point you will be able to provide your response."

Regarding the Special Purpose Financial Statement and related Notes

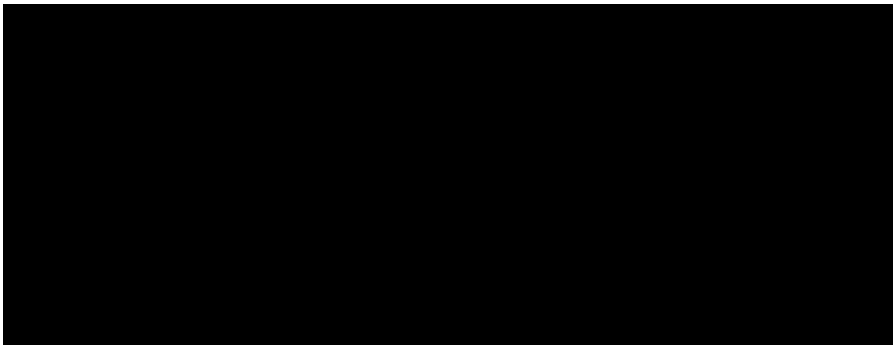
I would like to update the Special Purpose Financial Statement.

At the entrance conference on June 5, 2014 we learned that this Financial Audit of Costs Incurred would include audit of our Special Purpose Financial Statement (SPFS) for the subject contract. Being unfamiliar with this term, we asked for an explanation of the statement and how it relates to an audit of costs incurred. We were told it was simply a special format for reporting the costs incurred and we would receive a template and assistance with its completion during the audit.

On August 13, 2014 we received the SPFS template (see below) via e-mail. At the same time we received a Management Representation Letter in a different e-mail and responded with a request for a call to review status of audit as well as the documents which were received.

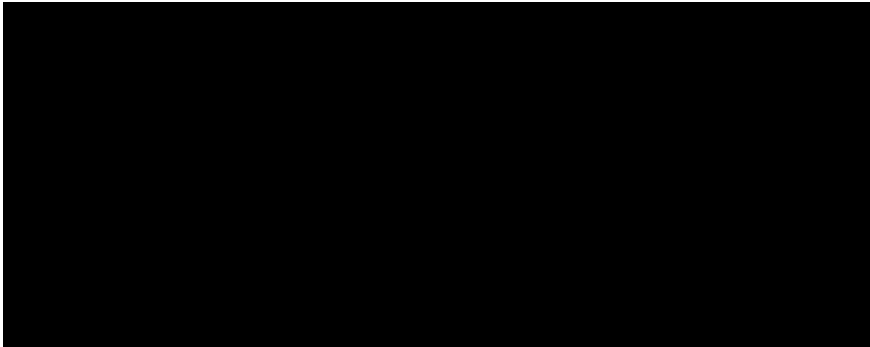
	A	B	C
1	Auditee:	A-T Solutions	
2	Project:	Contract Number W911QX-12-C-0174	
3	Special Purpose Financial Statement		
4	For the Period September 28, 2012 through November 27, 2013		
5			
			Actual Costs Incurred September 28, 2012 through November 27, 2013
6	CATEGORY	Total Contract Budget	
7	A. SALARIES	\$ -	\$ -
8	B. FRINGE BENEFITS	\$ -	\$ -
9	C. TRAVEL	\$ -	\$ -
10	D. SUBCONTRACTORS	\$ -	\$ -
11	E. OTHER DIRECT COSTS	\$ -	\$ -
12	F. Total Indirect Costs	\$ -	\$ -
13	TOTAL PROGRAM AMOUNT	\$ -	\$ -

When you and [REDACTED], A-T Solutions' Sr. Manager, Contract Compliance, discussed completing the SPFS template, you confirmed that we should report costs, aligned with the contract budget as provided during audit; i.e. by the same cost categories. Since the contract budget cost lines included applicable burdens, we provided the following on August 25, 2014:



On October 22, 2014 we received a request to provide the total contract budget by category; confirm that budget previously provided was the total amount funded through November 2013; confirm no fee had been taken to date as it was not showing under the actual budget; and advise how the fee was to be recognized under the contract.

On October 29, 2014 we responded with an updated SPFS (see below), including fee billed to date, and confirmed that the contract budget by category was the same as that provided previously, as well as was the total amount funded for this contract CLIN through November 2013.



We were not asked for a “Revenue” amount, or a reconciliation of revenues, costs, and funds.

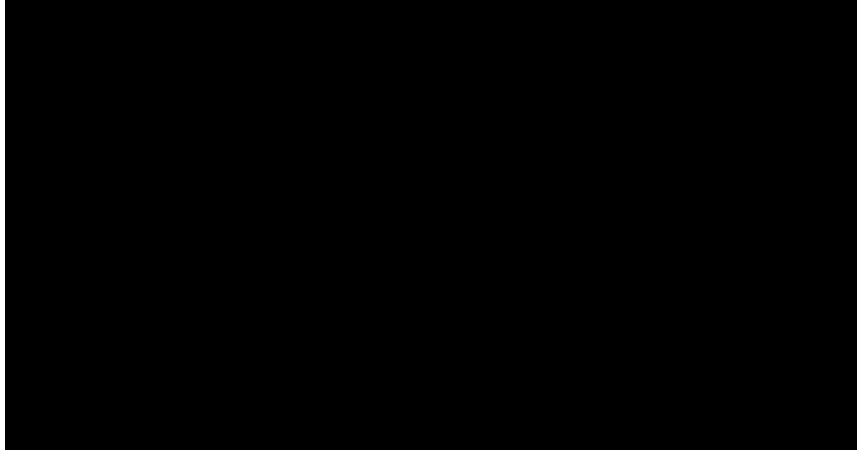
On October 31, 2014 we received an e-mail from [REDACTED] Senior Auditor with SIGAR identifying requested amendments to the SPFS and asking us if we had any concerns with the request. To ensure we understood the request, [REDACTED] called and spoke with [REDACTED]. During that call [REDACTED] discovered that we had not actually prepared the SPFS, nor had we written, or had an opportunity to review, the Notes to the SPFS. She expected the SPFS and the Notes to have been prepared and written by us.

On November 12, [REDACTED] sent us a copy of the SPFS and related Notes which were contained in the Draft Report. She asked us to “...confirm that this is free of material misstatements as indicated in the management representation letter (attached here for your convenience). If the SPFS is not free a [of] material misstatements, please adjust and provide the corrected SPFS (including the notes).”

Upon initial review of the SPFS and Notes, we found questioned costs different from those of which we were aware and to which we had previously responded (described further under **Regarding the Findings**, Specifically Finding Number 3, below), a “Revenue” amount we had not provided, no Fixed Fee line (although the amount of fee billed was provided as shown above), as well as inaccurate Notes.

After discussing the SPFS and its intent with regard to an audit of costs incurred, (revenue) billed and yet to be billed, and reconciliation of that to available funding (all information required to accurately prepare the Reconciliation which was Note 5 in the prepared Notes to the SPFS), on November 14, 2014 we provided a schedule of costs incurred, claimed, billed, and

unbilled, similar to that which we are familiar with in connection with other audits of costs incurred (see below).



Later that day we were informed by [REDACTED] that only the Notes would be accepted; changes to the SPFS would not be accepted.

On November 18, 2014 we provided revised Notes, as well as a revised SPFS to match those Notes, in the format originally presented in your draft. In the Draft Audit Report we received from you on December 2, 2014, you did not include the revised SPFS, therefore the “Revenue” stated on the SPFS included in the draft report does not reflect Note 3 – Revenues, which accurately defines revenue recognition of Cost Plus Fixed Fee type contracts.

Without this modification, the SPFS is in error.

Regarding the Findings

Finding Number 1 – Special Purpose Financial Statements – Ineligible Travel Costs Incurred

As we previously noted in our response to the findings presented to us prior to the formal exit conference in September, we agree with the condition and recommendation.

Finding Number 2 - Significant Deficiency and Non-Compliance – Arming Requirements

I am disappointed to find a completely changed and inaccurately stated Finding Number 2, which had been Finding Number 4 in the original findings presented prior to and at the formal exit conference in September. In the originally presented Finding Number 4, with the same title, your Condition stated that we did not comply with maintaining/providing two of the seven documents required in US CENTCOM Clause 952.225-0001 (b) *Arming Requirements and*

Procedures for Personal Security Services Contractors and for Requests for Personal Protection (Dec 2011); Required Contractor Documentation. The Condition was stated as: “A-T Solutions does not possess a valid business license from the Afghani Ministry of Trade/Interior or a license to operate as a PSC (or a temporary operating license) from the Ministry of Interior.” The Cause was stated as: “A-T Solutions was unaware that they were required to possess a valid business license from the Afghani Ministry of Trade/Interior and a license to operate as a PSC (or temporary operating license) from the Ministry of Interior as set forth under the clause.”

To which we responded (and was included with the findings presented in the exit conference): “We have further evaluated the arming requirements as raised in audit report (item number four) in connection with the audit of the Special Purpose Financial Statement of the costs incurred by A-T Solutions, Inc. in the performance of Contract Number W911QX-12-C-0174.

As noted in the audit, section 952.225-0001 *Arming Requirements and Procedures for Personal Security Services Contractors and for Requests for Personal Protection (Dec 2011)*, Department of Defense Contractors who are armed in Afghanistan must abide by certain requirements.

A-T Solutions does not operate as a Personal Security Services Contractor (PSC) and all armed A-T Solutions personnel in Afghanistan carry firearms only for their own personal protection. Weapons carried by A-T Solutions in Afghanistan are all company owned and are all only of the type, model and caliber authorized by the Department of Defense. Each A-T Solutions employee is individually authorized in writing to carry approved firearms by a Major General or Brigadier General of the U.S. Army.

A-T Solutions and each of its armed employees comply with the item numbers (1) – (5) of the arming requirements under 952.225.0001 including in regard to weapons qualification/familiarization requirements; Rules for the Use of Force; Rules of Engagement applicable to military forces; completion of DD Form 2760; acknowledgement of fulfillment of training responsibilities and conditions for authorization to carry firearms; written acknowledgement of prosecution and civil liability; and contractual requirements for the need to be armed.

Since A-T Solutions does not operate as a PSC item (7) (license to operate as a PSC) does not appear to apply. However, upon review we understand that item number (6) (business license from the Afghani Ministry of Trade or Interior) likely applies to A-T Solutions and we are therefore actively seeking a license from the Afghani Ministry of Interior. We are in discussions with local advisors to assist us in obtaining the host country license as quickly as reasonably

practical. We are not certain how long this process will take but we will advise you as soon as we obtain the license, and will provide you a status within thirty days. Once obtained, valid copies of these licenses will be provided to the Contracting Officer.”

In your discussion of this finding during the exit conference, you stated that we had in fact complied with the other five requirements based on evidence provided and reviewed during the audit.

In this draft audit report, however, your newly revised wording of the Condition regarding the finding states: “The Performance Work Statement (PWS) for this contract did not require A-T Solutions’ employees to be armed. A-T Solutions confirmed this fact and stated that their employees were armed for their personal protection. Section 952.225-0001 *Arming Requirements and Procedures for Personal Security Services Contractors and for Requests for Personal Protection*, governs requests by contractors to carry weapons for personal protection. However, A-T Solutions did not follow all of the requirements stipulated in this DoD regulation. Consequently, A-T Solutions did not obtain the appropriate approval or file the required documentation (including monthly arming status reports) with their COR.” The newly revised wording of the Cause states: “A-T Solutions was unaware that they were required to comply with the DoD regulation related to arming of its employees.”

We disagree with this revised finding and statement of condition and cause.

- We did state that our employees were armed for personal protection, rather than in the role of a personal security services contractor.
- We stated this was not a contract for personal security services.
- We did not state or confirm that this contract did not require our employees to be armed.
- Arming of our employees was required in the execution of this contract; in fact:
 - The cost of arming was included in the total cost proposed and awarded; proposal details were provided during the audit.
 - The Small Business Subcontracting Plan associated specifically with this contract, and incorporated in the contract award document at page 71, identifies weapons as one of the products to be procured for this contract within this subcontracting plan.
 - In a letter dated October 12, 2012 from Christi L. Winkler, Associate Division Chief- Contracting for the Department of the Army, U.S. Army Contracting Command – Aberdeen Proving Ground, item number 1 stated “The Freedom of Maneuver (FOM) contract, Contract number W911QX-12-C-0174, was awarded to A-T Solutions, Inc. on 28 September 2012. Through this contract, A-T Solutions will provide qualified

IED Subject Matter Experts in support of Task Force Paladin. Contract requirements include MTT travel throughout the AO and arming of personnel for personal protection.”

- Furthermore, we did comply with all the documentation requirements except for items (6) *One (1) copy of a business license from the Iraqi or Afghani Ministry of Trade or Interior* and (7) *One (1) copy of a license to operate as a PSC (or temporary operating license) from the Ministry of Interior.*

Since the time of our original response we have actively pursued a business license. In November 2014 we retained an Afghanistan based consulting, accounting and legal firm to assist us in obtaining the business license. We have appointed representatives for a branch office license, and are currently in the process of having the required documents including a power of attorney authorized and authenticated by the US embassy, Afghanistan embassy, and the department of defense. We are also processing the required documents through the Afghanistan Investment Support Agency (AISA), in conjunction with our consultant and anticipate having the business license issued in the next few weeks as required by the laws and regulations of Afghanistan and US authorities, including the CENTCOM regulations.

Finding Number 3 – Special Purpose Financial Statements – Ineligible Other Direct Costs

We disagree with this finding in principle, and therefore with the finding of related ineligible costs (the details of which have not been provided). The Condition states: “A-T Solutions incurred \$246,128 in costs related to arming its employees for self-defense. According to the Performance Work Statement (PWS) for this contract, A-T Solutions’ employees were not required to be armed. A-T Solutions confirmed this fact and stated that their employees were armed for their personal protection. Since these costs were neither necessary for contract performance nor allocable to the contract, they are not allowable costs. Therefore, the costs related to arming of employees for their personal protection are ineligible costs.”

As stated above, under Finding Number 2:

- We did state that our employees were armed for personal protection, rather than in the role of a personal security services contractor.
- We stated this was not a contract for personal security services.
- We did not state or confirm that this contract did not require our employees to be armed.
- Arming of our employees was required in the execution of this contract; in fact:
 - The cost of arming was included in the total cost proposed and awarded; proposal details were provided during the audit.

- The Small Business Subcontracting Plan associated specifically with this contract, and incorporated in the contract award document at page 71, identifies weapons as one of the products to be procured for this contract within this subcontracting plan.
- In a letter dated October 12, 2012 from Christi L. Winkler, Associate Division Chief- Contracting for the Department of the Army, U.S. Army Contracting Command – Aberdeen Proving Ground, item number 1 stated “The Freedom of Maneuver (FOM) contract, Contract number W911QX-12-C-0174, was awarded to A-T Solutions, Inc. on 28 September 2012. Through this contract, A-T Solutions will provide qualified IED Subject Matter Experts in support of Task Force Paladin. Contract requirements include MTT travel throughout the AO and arming of personnel for personal protection.”

We believe this report will be issued with material errors unless certain modifications as described herein are made.

Sincerely,



Deborah F. Ricci
Chief Financial Officer

APPENDIX B – AUDITOR FURTHER RESPONSE

AUDITOR FURTHER RESPONSE

I. Management Representation Letter Retraction

Auditor Response

The purpose of the management representation letter is to obtain management's representation that all requested documents have been provided and that all material information regarding the activity under audit have been prepared. It is not tied to the issuance of the audit findings. A-T Solution's decision to retract the management representation letter, previously issued on August 25, 2014, caused Davis and Associates to issue a disclaimer of opinion as required by auditing standards.

II. Special Purpose Financial Statement and Related Notes

Auditor Response

The contract between Davis and Associates and SIGAR states the following:

"The auditors may advise in preparing the Special Purpose Financial Statement (see example in Appendix V) from the books and records maintained by the audited entity, but the entity must accept the responsibility for the statement's accuracy before the audit commences."

In the Audit Entrance Conference held on June 5, 2014, the following was stated:

Davis and Associates will assist in the preparation of the Statements by providing A-T Solutions with the required format; however, A-T Solutions must take responsibility for these statements and must appoint someone with sufficient Skills, Knowledge and Experience (SKE) to oversee the Firm's work.

On August 12, 2014, A-T Solutions was provided with the template for the Special Purpose Financial Statements for completion. The template was developed based upon the broad categories that we noted during our fieldwork and in accordance with the format provided by SIGAR in *APPENDIX IV Special Purpose Financial Statement* to our Performance Work Statement. We provided the following instruction:

Can you please update the attached Schedule of Costs Incurred showing both budgeted and actual costs by the categories shown. Specifically, we need to understand which portion of the LOE labor is attributed to your personnel and which portion is from the subcontractor. Can you also please provide a written description of each cost category.

On August 25, 2014, A-T Solutions provided its Special Purpose Financial Statements with the following comment:

“Please find attached the completed Special Purpose Financial Statement and signed Management Representations Letter. In the letter, I edited slightly a few of the items, for clarity, as we had discussed on the phone previously. I also added specific references in items #13 and #16; and I completely replaced one item, #18, for a more accurate statement.”

The Special Purpose Financial Statement was included in the audit report. A line was added to include the amount of revenue associated with the total costs incurred. We did not include, nor request, a line for fee as the review of fee was not within the scope of the audit engagement. Based upon our discussions with SIGAR, the column for the budget was not included in the report as the review of the budget was not within the scope of the audit engagement.

Davis and Associates cannot address the requests/discussions between A-T Solutions and SIGAR on October 22, 2014 and October 31, 2014.

We however, do not agree with A-T Solutions’ assertion that the Special Purpose Financial Statements were not prepared by the entity. We provided a template to be completed, and included that completed template in the report. This is consistent with the discussion in the Entrance conference. The Notes to the Financial Statements were put in a standard format by Davis and Associates based upon the information obtained during the audit. SIGAR clarified that the Notes must be written and formatted by A-T Solutions. The inclusion of the columns for *Questioned* and *Ineligible* Costs are based upon the audit and are not provided by Management. Fee is not to be included in the statement as its review was outside of the scope of the engagement.

The Special Purpose Financial Statements are correct as shown in the report, contain the information provided by A-T Solutions and are consistent with the format required by SIGAR.

III. Audit Finding Number: 2
Audit Area: Deficiency and Non-Compliance – Arming Requirements

Auditor Further Response

Section 952.225-0001 *Arming Requirements and Procedures for Personal Security Services Contractors and for Requests for Personal Protection* applies to Personal Security Services Contractors and to Requests for

Personal Protection. At the time this finding was issued, A-T Solutions had complied with five (5) of the seven (7) documentation requirements set forth in the Section cited above. The entity had not provided the following documentation:

(6) One (1) copy of a business license from the Iraqi or Afghani Ministry of Trade or Interior.

(7) One (1) copy of a license to operate as a PSC (or a temporary operating license) from the Ministry of Interior.

In its response to this finding – A-T Solutions included the following:

“A-T Solutions does not operate as a Personal Security Services Contractor (PSC) and all armed AT Solutions personnel in Afghanistan carry firearms only for their own personal protection. Weapons carried by A-T Solutions in Afghanistan are all company owned and are all only of the type, model and caliber authorized by the Department of Defense. Each A-T Solutions employee is individually authorized in writing to carry approved firearms by a Major General or Brigadier General of the U.S. Army.

A-T Solutions and each of its armed employees comply with the item numbers (1) – (5) of the arming requirements under 952.225.0001 including in regard to weapons qualification/familiarization requirements; Rules for the Use of Force; Rules of Engagement applicable to military forces; completion of DD Form 2760; acknowledgement of fulfillment of training responsibilities and conditions for authorization to carry firearms; written acknowledgement of prosecution and civil liability; and contractual requirements for the need to be armed.”

A-T Solutions also indicated that it is in the process of obtaining the license issued by the Afghani Ministry of Trade or Interior as required under item 6 above. A-T Solutions maintained however that “*since A-T Solutions does not operate as a PSC item (7) (license to operate as a PSC) does not appear to apply*”. The title of the Section, “*Arming Requirements and Procedures for Personal Security Services Contractors and for Requests for Personal Protection*”, clearly demonstrates that it applies to all contractors who are armed in Afghanistan. Any personnel who are armed for their personal protection, as well as Personal Security Services Contractors who provide protection services to others for a fee, must abide by CENTCOM Section 952.225-001 in its entirety. Nothing in the arming authorizations received by A-T Solutions relieves the entity from compliance with CENTCOM Section 952.225-001.

A-T Solutions has exported firearms to Afghanistan for the personal protection of its personnel and therefore must comply with Section 952.225-0001 *Arming Requirements and Procedures for Personal Security Services Contractors and for Requests for Personal Protection* in its entirety and cannot choose to partially comply.

In conclusion, our finding will remain as we believe no satisfactory justification was provided.

IV. Audit Finding Number: 3
Audit Area: Special Purpose Financial Statements – Ineligible Other Direct Costs

Auditor Further Response

We added this finding based upon discussions in the Exit Conference, September 23, 2014, related to compliance with U.S. CENTCOM's Section 952.225-0001 *Arming Requirements and Procedures for Personal Security Services Contractors and for Requests for Personal Protection*. In the conference it was stated that A-T Solutions was not required to be armed under the contract and therefore did not have to comply with all of the Section's requirements. Please note the following from the Exit Conference:

A-T Solutions provided its rebuttal response to Finding Number 4, Audit Area: Significant Deficiency and Non-Compliance - Arming Requirements and expressed its contention that that:

- *It is not a Private Security Contractor*
- *The weapons are provided solely for the self-protection of its personnel*
- *The contract does not require A-T Solutions to be armed*

The determination as to whether the arming costs are allowable as direct charges was based upon our understanding that A-T Solutions was not required to be armed under the contract. If the Army Contracting Command has determined that A-T Solutions was required to be armed under the contract and that the costs can properly be classified as direct costs, these costs are considered allowable. This however, does not affect Audit Finding 2.

SIGAR's Mission

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

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

Obtaining Copies of SIGAR Reports and Testimonies

To obtain copies of SIGAR documents at no cost, go to SIGAR's Web site (www.sigar.mil). SIGAR posts all publically released reports, testimonies, and correspondence on its Web site.

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

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

- Web: www.sigar.mil/fraud
- Email: sigar.pentagon.inv.mbx.hotline@mail.mil
- Phone Afghanistan: +93 (0) 700-10-7300
- Phone DSN Afghanistan: 318-237-3912 ext. 7303
- Phone International: +1-866-329-8893
- Phone DSN International: 312-664-0378
- U.S. fax: +1-703-601-4065

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2530 Crystal Drive
Arlington, VA 22202