

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR Financial Audit 13-7

Department of Defense Program to Support the Afghan
National Army's Technical Equipment Maintenance
Program: Audit of Costs Incurred by Afghan Integrated
Support Services



JULY
2013



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

July 11, 2013

The Honorable Charles T. Hagel
Secretary of Defense

Michael R. Hutchison
Deputy to the Commanding General
U.S. Army Contracting Command
Principal Assistant Responsible for Contracting - ACC- Rock Island

This letter transmits the results of our audit of costs incurred by Afghan Integrated Support Services (AISS)¹ under a Department of Defense contract in support of the Afghan National Army's Technical Equipment Maintenance Program (A-TEMP).² The audit covered the period December 30, 2010, through December 31, 2012³, and was performed Mayer Hoffman McCann P.C. It covered \$31,986,190⁴ in expenditures.

The purpose of the contract was to provide maintenance services to the Afghan National Army for military vehicles and equipment; train local national employees in vehicle maintenance operations; and enhance the management, administration, and leadership skills of local national staff.

The specific objectives of this financial audit were to

- render an opinion on the fair presentation of AISS's Fund Accountability Statement;⁵
- determine and report on whether AISS has taken corrective action on recommendations from prior audits or assessments;
- identify and report on significant deficiencies, including any material weaknesses, in AISS's financial internal controls; and
- identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations.

SIGAR contracted Mayer Hoffman McCann, an independent audit firm, to perform the audit. SIGAR is required by auditing standards to provide oversight of the audit work performed. Accordingly, SIGAR reviewed Mayer Hoffman McCann's audit results and found them to be in accordance with generally accepted government auditing standards.

Mayer Hoffman McCann issued a disclaimer of opinion on the fair presentation of the Fund Accountability Statement because AISS refused to provide required management representations indicating that it had made available all information relevant to the audit. Mayer Hoffman McCann identified one recommendation from a

¹ AISS is a joint venture established between ANHAM FZCO (a Dubai free zone entity) and AECOM Government Services, Inc. (a Delaware Corporation).

² DOD contract number W52P1J-11-C-0015 provided equipment maintenance to the Afghan National Army.

³ The original contract was for 1 year with the option of four 1-year extensions and a final period of performance to end December 29, 2015.

⁴ The contract cost \$251,561,495, consisting of \$96,382,357 in reimbursable costs and \$155,179,138 in fixed costs.

⁵ The Fund Accountability Statement is a special purpose financial statement that includes all revenues received, costs incurred, and any remaining balance for a given award during a given period.

prior review for which adequate corrective action has not been implemented.⁶ In addition, Mayer Hoffman McCann reported four internal control deficiencies and five instances of noncompliance, which prompted the auditors to question a total of \$2,869,307 in costs. The \$2,869,307 in questioned costs included \$217,643 in ineligible costs⁷ and \$2,651,664 in unsupported costs.⁸ See table 1 below.

Table 1 - Summary of Questioned Costs

Category	Questioned Costs Total	Ineligible	Unsupported
Spare Parts	\$17,618		\$17,618
Defense Base Act Insurance	\$272,120		\$272,120
Construction of Warehouse Facility	\$2,579,569	\$217,643	2,361,926
Totals	\$2,869,307	\$217,643	\$2,651,664

Given the results of the audit, SIGAR recommends that the Contracting Officer:

1. Determine the allowability of and recover, as appropriate, \$2,869,307 in questioned costs (\$217,643 ineligible and \$2,651,664 unsupported) identified in the report.
2. Advise AISS to address the four internal control findings identified in the report.
3. Advise AISS to address the five compliance findings identified in the report.

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-001)

⁶ In December 2011, the U.S. Defense Contract Management Agency issued a Corrective Action Response for AISS to implement an effective inventory system. This report finds that AISS has not taken adequate action (Finding 2013-6).

⁷ Ineligible costs are costs that the auditor has determined to be unallowable. These costs are recommended for exclusion from the Fund Accountability Statement and review by DOD to make a final determination regarding allowability.

⁸ Unsupported costs are those costs for which adequate or sufficient documentation necessary for the auditor to determine the propriety of costs was not made available.

AFGHAN INTEGRATED SUPPORT SERVICES

Financial Audit of Costs Incurred by under
Contract No. W52P1J-11-C-0015

For the Period December 30, 2010 through December 31, 2012

AFGHAN INTEGRATED SUPPORT SERVICES

Financial Audit of Costs Incurred under
Contract No. W52P1J-11-C-0015

For the Period December 30, 2010 through December 31, 2012

Table of Contents

	<u>Page</u>
Summary:	
Background	1
Objectives, Scope and Methodology	1
Summary of Results	4
Review of Prior Audit Recommendation	7
Independent Auditor's Report on Fund Accountability Statement	9
Fund Accountability Statement	12
Notes to Fund Accountability Statement	13
Independent Auditor's Report on Internal Control	18
Independent Auditor's Report on Compliance	21
Findings and Responses	23
Appendix A: AISS Response to Findings	37

AFGHAN INTEGRATED SUPPORT SERVICES

Financial Audit of Costs Incurred under
Contract No. W52P1J-11-C-0015

For the Period December 30, 2010 through December 31, 2012

SUMMARY

Background

The Office of Special Inspector General for Afghanistan Reconstruction (SIGAR) contracted with Mayer Hoffman McCann P.C. (MHM) to perform a Financial Audit of Costs Incurred of Contract No. W52P1J-11-C-0015 (Contract), between Afghan Integrated Support Services (AISS) and the U.S. Department of Defense (DoD). This Contract contains both reimbursable and fixed cost components. The original contract was awarded on December 30, 2010 in the amount of \$29,857,827. The period of performance was for a base year, and four one-year options with the final period of performance to end December 29, 2015. This Contract has been amended 32 times, and the Contract value has been increased to \$251,561,495, consisting of \$96,382,357 in reimbursable costs and \$155,179,138 in fixed costs.

Afghan Integrated Support Services (AISS) is a joint venture established between ANHAM FZCO (a Dubai free zone entity) (ANHAM) and AECOM Government Services, Inc. (a Delaware Corporation) (AECOM) through a Joint Venture Agreement (Agreement) dated September 28, 2010. AISS was awarded a maintenance and capacity-building contract by the U.S. Army to support the Afghan National Army's Technical Equipment Maintenance Program (A-TEMP). A-TEMP supports the ongoing efforts of the U.S. Army in Afghanistan in standing up the Afghan National Army. AISS is to provide maintenance services to the Afghanistan National Army military vehicles and equipment; develop and train local nationals in vehicle maintenance operations; and enhance the skills of local nationals in areas of management, administration and leadership. The mission is to be performed at eight equipment maintenance sites, and associated training is to be conducted by advisory maintenance teams within 23 Afghan battalions throughout Afghanistan.

Objectives, Scope and Methodology

Objectives

The objectives of the audit include the following:

- *Internal Controls* – Evaluate and obtain a sufficient understanding of AISS' internal controls related to the award; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether AISS 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.

AFGHAN INTEGRATED SUPPORT SERVICES

Financial Audit of Costs Incurred under
Contract No. W52P1J-11-C-0015

For the Period December 30, 2010 through December 31, 2012

SUMMARY

- *Corrective Action on Prior Audit Recommendations* – Determine and report on whether AISS has taken adequate corrective action on prior external audit report recommendations or other external assessment recommendations.
- *The Fund Accountability Statement (FAS)* – Express an opinion on whether the FAS presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government and fund balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.

Scope

The scope of this audit included all costs related to the spare parts, Defense Base Act (DBA) insurance and construction of the Central Warehouse Facility (CWF) that were incurred during the period December 30, 2010 to December 31, 2012 under Contract No. W52P1J-11-C-0015 between AISS and the DoD. In addition, the scope included the fixed cost component of the subject contract only in an effort to ensure that fixed costs were not also included in reimbursable costs.

Methodology

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

Entrance Conference

An entrance conference was held via conference call on December 18, 2012 with representatives of AECOM, ANHAM, SIGAR and DoD in attendance.

Planning

During our planning phase, we performed the following:

- Obtained an understanding of AISS;
- Reviewed the Contract and modifications to AISS;
- Selected samples based on our approved sampling techniques;
- Prepared the FAS on behalf of AISS using their financial records; and
- Scheduled work in Afghanistan

AFGHAN INTEGRATED SUPPORT SERVICES

Financial Audit of Costs Incurred under
Contract No. W52P1J-11-C-0015

For the Period December 30, 2010 through December 31, 2012

SUMMARY

Internal Control Related to the FAS

AISS refused to prepare the FAS and did not complete our requested internal control questionnaires, as the Board of Directors of AISS were of the opinion that the FAS and the internal control questionnaires were not within the scope of the audit. We reviewed AISS' internal controls related to the expenses incurred and the revenue recorded through interviews with management and key personnel, a review of policies and procedures, identifying key controls within significant transaction cycles, and testing those key controls.

Compliance with the Contract Requirements and Applicable Laws and Regulations

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

Corrective Action on Prior Audit Recommendations

We requested all prior audit reports and recommendations provided in order to evaluate the status of the prior audit recommendations by reviewing evidence of any corrective actions taken. See the Review of Prior Audit Recommendations subsection of this Summary for a status of applicable prior findings.

Fund Accountability Statement

In preparing the FAS on behalf of AISS, we performed the following:

- Obtained the costs for the FAS from the Contract and general ledger;
- Obtained revenue and receipt of funds from the accounting records; and
- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the contract, and reasonable.

Exit Conference

An exit conference was held on April 22, 2013. Attendees included AISS, SIGAR and DoD. During the exit conference, we discussed the preliminary results of the audit and established a timeline for providing any final documentation for consideration and reporting.

AFGHAN INTEGRATED SUPPORT SERVICES

Financial Audit of Costs Incurred under
Contract No. W52P1J-11-C-0015

For the Period December 30, 2010 through December 31, 2012

SUMMARY

Summary of Results

Our audit of the costs incurred by AISS under the Contract with DoD identified the following matters:

Auditor's Opinion on FAS

We issued a qualified opinion on the fairness of the presentation of the FAS. This opinion was based upon the identification of certain questioned costs totaling \$2,869,307, which represents a material misstatement of the FAS. The ultimate determination of whether the identified questioned costs are to be accepted or disallowed rests with DoD.

Scope Limitation

During our audit, we identified several fixed cost items that were billed to DoD as reimbursable costs. In order to determine the magnitude of potential double billings, we requested the detailed financial records underlying the fixed costs portion of the Contract. AISS refused to provide access to these records indicating it was outside the scope of the audit.

Questioned Costs

There are two categories of questioned costs, ineligible and unsupported. Ineligible costs are those costs that are deemed to not be allowable in accordance with the terms of the contract or applicable laws and regulations. Unsupported costs are those costs for which no or inadequate supporting documentation was provided for our review. A summary of questioned costs is as follows.

Ineligible Costs

- Lease of land in the amount of \$212,504 and subcontract labor in the amount of \$5,139 were recorded and billed to DoD as reimbursable costs as part of the CWF costs. However, these costs were approved under the fixed cost portion of the Contract and should not also be reimbursed to AISS as that would constitute double payment on the part of DoD. Total questioned cost is \$217,643. See Finding 2013-1 in the Findings and Responses section of this report.

Unsupported Costs

- AISS subcontracted the construction of the CWF to one of its affiliate partners. The subcontract was on a fixed fee basis. However, a competitive bidding process was not performed. The total

AFGHAN INTEGRATED SUPPORT SERVICES

Financial Audit of Costs Incurred under
Contract No. W52P1J-11-C-0015

For the Period December 30, 2010 through December 31, 2012

SUMMARY

CWF construction cost incurred was \$2,361,926. See Finding 2013-2 in the Findings and Responses section of this report.

- Expenses incurred for micro-purchasing spare parts (items with an individual cost up to \$3,000) were not consistently supported with adequate documentation in accordance with established procurement policies and Federal regulations. The total cost of insufficiently supported spare parts was \$17,618. See Finding 2013-3 in the Findings and Responses section of this report.
- Expenses incurred for DBA insurance premiums were insufficiently supported, which resulted in questioned amounts totaling \$272,120. See Finding 2013-4 in the Findings and Responses section of this report.

Total questioned costs as a result of our audit are as follows:

Ineligible costs	\$ 217,643
Unsupported costs	<u>2,651,664</u>
Total questioned costs	<u>\$2,869,307</u>

Internal Control Findings

Internal control findings are classified into three categories, deficiency, significant deficiency, and material weakness. 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 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. 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 FAS will not be prevented, or detected and corrected on a timely basis.

A summary of the internal control findings noted as a result of the audit are as follows:

Material Weakness

The following material weaknesses were identified.

Finding Number	Internal Control Finding – Material Weakness	Auditee's Concurrence
2013-1	Lease of land in the amount of \$212,504 and subcontract labor in the amount of \$5,139 were recorded and billed to	Disagree

AFGHAN INTEGRATED SUPPORT SERVICES

Financial Audit of Costs Incurred under
Contract No. W52P1J-11-C-0015

For the Period December 30, 2010 through December 31, 2012

SUMMARY

Finding Number	Internal Control Finding – Material Weakness	Auditee's Concurrence
	DoD as reimbursable CWF costs. However, these costs were previously approved under the fixed cost portion of the Contract.	

The complete management response from AISS to each of the internal control findings can be found in the Findings and Responses section of this report.

Significant Deficiency

The following significant deficiencies were identified.

Finding Number	Internal Control Finding – Significant Deficiency	Auditee's Concurrence
2013-3	Lack of adherence to procurement procedures for micro-purchasing of spare parts resulted in insufficient documentation provided such as invoices, required employee signatures, approval signatures, and the Micro Purchase Fund Summary did not agree to the Cash Disbursement Voucher. Total questioned spare parts are \$17,618.	Disagree
2013-4	Expenses incurred for DBA insurance premiums were insufficiently supported, which resulted in questioned amount of \$272,120.	Disagree
2013-6	AISS does not have an adequate tracking system for its spare parts inventory.	Disagree

The complete management response from AISS to each of the internal control findings can be found in the Findings and Responses section of this report.

Deficiencies

No deficiencies were reported.

AFGHAN INTEGRATED SUPPORT SERVICES

Financial Audit of Costs Incurred under
Contract No. W52P1J-11-C-0015

For the Period December 30, 2010 through December 31, 2012

SUMMARY

Compliance Findings

As part of obtaining reasonable assurance about whether the FAS is free from material misstatement, we performed tests of its compliance with certain provisions of the Contract and other laws and regulations, noncompliance with which could have a direct and material effect on the accuracy of the FAS. The results of our tests disclosed the following compliance findings.

Finding Number	Compliance Finding	Auditee's Concurrence
2013-1	Lease of land in the amount of \$212,504 and subcontract labor in the amount of \$5,139 were recorded and billed to DoD as reimbursable CWF costs. However, these costs were previously approved under the fixed cost portion of the Contract.	Disagree
2013-2	The subcontract to build the CWF was not procured using a competitive bidding process. Total questioned cost is \$2,361,926.	Disagree
2013-4	Expenses incurred for DBA insurance premiums were insufficiently supported, which resulted questioned amount of \$272,120.	Disagree
2013-5	The CWF was not built in accordance with the approved floor plan and a revised cost proposal was never approved.	Disagree
2013-6	AISS does not have an adequate tracking system for its spare parts inventory.	Disagree

The complete management response from AISS to each of the compliance findings can be found in the Findings and Responses section of this report.

Review of Prior Findings and Recommendations

We reviewed the corrective actions taken to address findings and recommendations from previous engagements that could have a material effect on the FAS. AISS did not disclose the existence of any prior audits to us. However, we obtained from the U.S. Defense Contract Management Agency (DCMA), a report on results from periodic reviews performed by DCMA in December 2011 on the Contract. There was one Corrective Action Response (CAR) that relates to an observation identified in

AFGHAN INTEGRATED SUPPORT SERVICES

Financial Audit of Costs Incurred under
Contract No. W52P1J-11-C-0015

For the Period December 30, 2010 through December 31, 2012

SUMMARY

the report. Based upon our review, adequate corrective action has not been implemented to resolve this observation. See Finding 2013-6 in the Findings and Responses section of this report.

- Inventory System

Observation:

Inventory was not accurate. Two out of three parts had the wrong quantity on the inventory. AISS did not perform an inventory count of 10% of its total inventory on a monthly basis as required by DoD and the A-TEMP Contracting Officer Representative (COR) had not been provided a copy of the documentation in support of the total inventory.

Adequacy of Corrective Action:

DCMA records indicated that the corrective action was properly implemented and consequently the CAR was closed by DCMA. We conducted an onsite physical inspection of the inventory at the CWF and noted that spare parts were not properly tagged to distinguish whether they were procured under this Contract, donated by the U.S. government, or transferred from a prior contract. As such, AISS was unable to identify which specific parts and their quantities were procured under the Contract. Thus, the correction action taken is not adequate and this condition has been repeated. See finding 2013-6 in the Finding and Responses section of this report.



Mayer Hoffman McCann P.C.

An Independent CPA Firm

2301 Dupont Drive, Suite 200

Irvine, California 92612

949-474-2020 ph

949-263-5520 fx

www.mhm-pc.com

Board of Directors
Afghan Integrated Support Services
1200 Summit Avenue, Suite 320
Fort Worth, Texas 76102

INDEPENDENT AUDITORS' REPORT ON FUND ACCOUNTABILITY STATEMENT

Report on the Fund Accountability Statement

We were engaged to audit the accompanying Fund Accountability Statement of Afghan Integrated Support Services (AISS) under Contract No. W52P1J-11-C-0015 (Contract) with the United States Department of Defense (DoD) for the period December 30, 2010 through December 31, 2012, and the related notes to the Fund Accountability Statement.

Management's Responsibility for the Fund Accountability Statement

Management is responsible for the preparation and fair presentation of the Fund Accountability Statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Fund Accountability Statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the Fund Accountability Statement based on conducting the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, except as it relates to continuing education and peer review requirements as discussed in the following paragraph.

Government Auditing Standards require, among other things, that auditors performing audits in accordance with *Government Auditing Standards* obtain 24 hours of continuing professional education every 2 years, and the audit organization have an external peer review performed by reviewers independent of the organization at least once every three years. We subcontracted a portion of the audit to an independent chartered public accounting firm with an office located in

Kabul, Afghanistan. The work performed by our subcontractor consisted of testing the spare parts inventory stock held in the Central Warehouse Facility (CWF) and inspecting the CWF constructed in Kabul under the Contract. Our subcontractor was not involved in the planning, directing or reporting aspects of the audit. Our subcontractor did not meet the continuing professional education requirements or peer review requirements as outlined in *Government Auditing Standards*, as the firm is located and licensed outside of the United States of America. The results of the audit were not affected as we directed the procedures performed and reviewed the work completed by our subcontractor.

Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Management of AISS did not provide us with certain representations that we requested to represent that it has responsibility for the presentation of the Fund Accountability Statement and that it has provided us with all relevant information, among other matters, upon which we would base our opinion. Since AISS did not provide us with the requested representations, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the fairness of the presentation of the Fund Accountability Statement.

Disclaimer Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Fund Accountability Statement.

Emphasis of Matter

During our audit, we identified several fixed cost items, including lease of land in the amount of \$212,504 and subcontract labor in the amount of \$5,139, totaling \$217,643 that were billed to the DoD as reimbursable costs. We requested the detailed financial records underlying the fixed costs portion of the Contract to ensure that costs claimed as reimbursable were also not claimed as fixed costs. AISS refused to provide access to these records indicating it was outside the scope of the audit. Total fixed costs per the Contract for the period December 30, 2010 through December 31, 2012 were \$155,179,138.

We also identified several transactions totaling \$2,651,664 that were questionable based upon our review of the underlying support for the specified transactions. The ultimate determination of whether the identified questioned costs are to be accepted or disallowed rests with the DoD.

Board of Directors
Afghan Integrated Support Services
1200 Summit Avenue, Suite 320
Fort Worth, Texas 76102

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated June 25, 2013 on our consideration of AISS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering AISS' internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Mayer Hoffman McCann P.C.".

Irvine, California
June 25, 2013

Financial Audit of Costs Incurred under
Contract No. W52P1J-11-C-0015

Fund Accountability Statement

For the Period December 30, 2010 through December 31, 2012

			Questioned Costs		
	Budget	Actual	Ineligible	Unsupported	Notes
Revenues:					
W52P1J-11-C-0015	<u>96,382,357</u>	<u>31,986,190</u>	<u>-</u>	<u>-</u>	(3), (4)
Total revenues	<u>96,382,357</u>	<u>31,986,190</u>	<u>-</u>	<u>-</u>	
Costs incurred:					
Spare parts	86,371,152	28,950,098	-	17,618	(5)
Defense Base Act insurance	7,733,770	356,528	-	272,120	(6)
Construction of Central Warehouse Facility	<u>2,277,435</u>	<u>2,579,569</u>	<u>217,643</u>	<u>2,361,926</u>	(7)
Total costs incurred	<u>96,382,357</u>	<u>31,886,195</u>	<u>217,643</u>	<u>2,651,664</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ 99,995</u>	<u>\$ (217,643)</u>	<u>\$ (2,651,664)</u>	(8)

See Notes to Fund Accountability Statement

AFGHAN INTEGRATED SUPPORT SERVICES

Financial Audit of Costs Incurred under
Cooperative Agreement No. W52P1J-11-C-0015

Notes to Fund Accountability Statement

For the Period December 30, 2010 through December 31, 2012

(1) Status and Operation

Afghan Integrated Support Services (AISS) is a joint venture established between ANHAM FZCO (a Dubai free zone entity) (ANHAM) and AECOM Government Services, Inc. (a Delaware Corporation) (AECOM) through a Joint Venture Agreement (Agreement) dated September 28, 2010. Both ANHAM and AECOM have a 50% ownership in AISS. The Agreement is subject to and interpreted in accordance with the laws of the State of New York. AISS will terminate upon the occurrence of any of the events per article XVI of the Agreement.

The principal place of business of AISS is Dubai, United Arab Emirates. The managing party of the AISS is AECOM, who is responsible for the management, operation and administration of the affairs of AISS, subject to the supervision of the management board, which consists of two representatives each from AECOM and ANHAM.

The objective of AISS was to submit a proposal to obtain a technical equipment maintenance program contract from the United States Government, and completing the work contemplated by the contract. AISS' main activities are the provision of vehicle and heavy equipment maintenance and certain training services within the country of Afghanistan.

On December 30, 2010, AISS was awarded Contract No. W52P1J-11-C-0015 (Contract) from the U.S. Department of Defense (DoD) in the initial amount of \$29,857,827. The period of performance was for a base year, and four one-year options with the final period of performance to end December 29, 2015. This Contract has been amended 32 times, and the Contract value has been increased to \$251,561,495. Under the terms of the Contract, AISS is to provide maintenance and capacity-building by the U.S. Army to support the Afghan National Army's Technical Equipment Maintenance Program (A-TEMP). A-TEMP supports the ongoing efforts of the U.S. Army in Afghanistan in standing up the Afghan National Army. AISS is to provide maintenance services to the Afghan National Army military vehicles and equipment; develop and train local nationals in vehicle maintenance operations; and enhance the skills of local nationals in areas of management, administration and leadership. The mission is to be performed at eight equipment maintenance sites, and associated training is to be conducted by advisory maintenance teams within 23 Afghan battalions throughout Afghanistan.

AFGHAN INTEGRATED SUPPORT SERVICES

Financial Audit of Costs Incurred under
Cooperative Agreement No. W52P1J-11-C-0015

Notes to Fund Accountability Statement

(Continued)

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The Fund Accountability Statement reflects the revenues received and expenses incurred under the Contract. It has been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

(b) Foreign Currency Conversion Method

All of the invoices were billed in U.S. Dollars. No currency conversion was required for this Contract.

(c) Questioned Costs

There are two categories of questioned costs, ineligible and unsupported. Ineligible costs are those costs that are deemed to not be allowable in accordance with the terms of the Agreement and applicable laws and regulations. Unsupported costs are those costs for which no or inadequate supporting documentation was provided for our review.

(3) Revenues

As of December 31, 2012, AISS has reported \$31,986,190 in revenue from DoD under the Contract. For the period December 30, 2010 through December 31, 2012, AISS has invoiced a total of \$27,297,433 to DoD, and has been reimbursed \$1,148,373. Under the accrual basis of accounting, additional revenues have been earned in the amount of \$4,688,757, for which invoices have not yet been prepared.

(4) Fixed Cost Component of the Contract

AISS refused to provide information regarding revenue and expenses associated with the fixed cost component of the Contract. As such, the FAS does not reflect actual revenue and expenses associated with the fixed cost.

AFGHAN INTEGRATED SUPPORT SERVICES

Financial Audit of Costs Incurred under
Cooperative Agreement No. W52P1J-11-C-0015

Notes to Fund Accountability Statement

(Continued)

(5) Spare Parts

AISS reported spare parts in the amount of \$28,950,098 for the period December 30, 2010 through December 31, 2012. Unsupported spare parts consisted of the following. See Finding 2013-3 in the Findings and Responses section of this report.

<u>Observation</u>	<u>Number of Errors</u>	<u>Questioned Cost</u>
Cash Disbursement Voucher is missing "received by" signatures	5	\$3,275
Cash Deposit Voucher is not legible	1	3,928
No employee signature on Lost/Missing Receipt Form	4	8,296
The total amount reported on the Micro Purchase Fund Summary does not agree to the Cash Disbursement Voucher	1	119
Cash Disbursement Vouchers are missing "received by" signatures and no employee signature on Lost/Missing Receipt Form	<u>2</u>	<u>2,000</u>
Total questioned costs related to spare parts	<u>13</u>	<u>\$17,618</u>

(6) Defense Base Act (DBA) Insurance

AISS reported DBA insurance premiums in the amount of \$356,528 for the period December 30, 2010 through December 31, 2012. This amount consisted of DBA insurance premiums incurred by AECOM for the policy years ended January 14, 2012 and January 14, 2013, and one of its subcontractors for the policy year ended May 1, 2011. Unsupported DBA insurance consisted of the following. See Finding 2013-4 in the Findings and Responses section of this report.

- AECOM recorded estimated DBA insurance premium for the policy year ended January 14, 2013 in the amount of \$96,249. A reconciliation was not performed until March 2013, and AISS did not provide supporting documentation for the payroll costs used in the calculation prior to the end of our audit. As such, we questioned the total amount recorded of \$96,249.
- AECOM incurred DBA insurance costs for the policy year ended January 14, 2012 in the amount of \$100,147. Of this amount, the following has been questioned:

AFGHAN INTEGRATED SUPPORT SERVICES

Financial Audit of Costs Incurred under
Cooperative Agreement No. W52P1J-11-C-0015

Notes to Fund Accountability Statement

(Continued)

(6) Defense Base Act (DBA) Insurance (Continued)

<u>Observation</u>	<u>Number of Employees</u>	<u>Questioned DBA Cost</u>
No support provided for time charged	2	\$ 460
No support provided for time charged and no supervisor approval on timesheets	1	2,696
No supervisor approval and no job code on timesheets	1	616
No supervisor approval on timesheets	1	5,041
Incorrect job codes on timesheets	11	<u>6,926</u>
Total questioned costs related to DBA premium for 2012	<u>16</u>	<u>\$15,739</u>

- AISS claimed DBA insurance for its subcontractor for the policy year ended May 1, 2011 in the amount of \$160,132. However, no supporting documentation was provided for the payroll costs used in the calculation of the DBA premium. As such, we questioned the total amount recorded of \$160,132.

The total DBA premiums questioned were as follows:

<u>Description</u>	<u>Questioned Cost</u>
AECOM – DBA policy for year ended January 14, 2013	\$ 96,249
AECOM – DBA policy for year ended January 14, 2012	15,739
Subcontractor – DBA policy for year ended May 1, 2011	<u>160,132</u>
Total questioned costs related to DBA insurance	<u>\$272,120</u>

(7) Construction of the Central Warehouse Facility (CWF)

AISS reported construction costs for the CWF in the amount of \$2,579,569 for the period December 30, 2010 through December 31, 2012. Questioned costs for the construction of the CWF consisted of the following:

AFGHAN INTEGRATED SUPPORT SERVICES

Financial Audit of Costs Incurred under
Cooperative Agreement No. W52P1J-11-C-0015

Notes to Fund Accountability Statement

(Continued)

(7) Construction of the Central Warehouse Facility (CWF)

- AISS subcontracted the construction of the CWF to one of its affiliate partners in Afghanistan. The subcontract was on a fixed fee basis. However, there were no competitive bids sought, nor was a justification for a sole source contract provided. As such we have questioned the total CWF construction costs paid under this subcontract in the amount of \$2,361,926. See Findings 2013-2 and 2013-5 in the Findings and Responses section of this report.
- Lease of land in the amount of \$212,504 and subcontract Labor in the amount of \$5,139, which were costs incurred under the fixed cost portion of the contract, were incorrectly recorded as a reimbursable cost of the CWF in line item number #8AA. Total questioned costs were \$217,643. See Findings 2013-1 in the Findings and Responses section of this report.

(8) Reconciliations

As of December 31, 2012, AISS reported an excess fund balance in the amount of \$99,995, which represented revenue earned but not yet billed in excess of costs incurred.

(9) Subsequent Event

In January 2013, the DoD rejected an invoice from AISS in the amount of \$2,277,164 for the construction of the CWF. AISS subsequently withdrew the invoice due to miscoding of the fixed cost component of the cost items that has been claimed as reimbursable costs.



Mayer Hoffman McCann P.C.

An Independent CPA Firm

2301 Dupont Drive, Suite 200

Irvine, California 92612

949-474-2020 ph

949-263-5520 fx

www.mhm-pc.com

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

Independent Auditors' Report

Board of Directors
Afghan Integrated Support Services
1200 Summit Ave, Suite 320
Fort Worth, Texas 76102

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 Fund Accountability Statement of Afghan Integrated Support Services (AISS) representing revenues received and costs incurred under Contract No. W52P1J-11-C-0015 (Contract) with the U.S. Department of Defense for the period December 30, 2010 through December 31, 2012, and the related notes to the Fund Accountability Statement, and have issued our report thereon dated June 25, 2013, except as it relates to continuing education and peer review requirements as discussed in the following paragraph.

Government Auditing Standards require, among other things, that auditors performing audits in accordance with *Government Auditing Standards* obtain 24 hours of continuing professional education every 2 years, and the audit organization have an external peer review performed by reviewers independent of the organization at least once every three years. We subcontracted a portion of the audit to an independent chartered public accounting firm with an office located in Kabul, Afghanistan. The work performed by our subcontractor consisted of testing the spare parts inventory stock held in the Central Warehouse Facility (CWF) and inspecting the CWF constructed in Kabul under the Contract. Our subcontractor was not involved in the planning, directing or reporting aspects of the audit. Our subcontractor did not meet the continuing professional education requirements or peer review requirements as outlined in *Government Auditing Standards*, as the firm is located and licensed outside of the United States of America. The results of the audit were not affected as we directed the procedures performed and reviewed the work completed by our subcontractor.

Internal Control over Financial Reporting

In planning and performing our audit of the Fund Accountability Statement, we considered AISS' internal control over financial reporting (internal control) to determine the audit procedures that were appropriate in the circumstances for the purpose of expressing our opinion on the Fund Accountability Statement, but not for the purpose of expressing an opinion on the effectiveness of AISS' internal control. Accordingly, we do not express an opinion on the effectiveness of AISS' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's Fund Accountability Statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Findings and Responses as Finding 2013-1 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Findings and Responses as Findings 2013-3, 2013-4 and 2013-6 to be significant deficiencies.

AISS' Response to Findings

AISS' response to the findings identified in our audit is described in the accompanying Findings and Responses, and included verbatim in Appendix A. AISS' response was not subjected to the auditing procedures applied in the audit of the Fund Accountability Statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the result of that testing, and not to provide an opinion on the effectiveness of AISS' internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose. This report is intended for the information of Afghan Integrated Support Services, United States Department of Defense, and the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged.

Board of Directors
Afghan Integrated Support Services
1200 Summit Ave, Suite 320
Fort Worth, Texas 76102

The restrictions of 18 USC 1905 should be considered before any information is released to the public.

Mayer Hobbs McCon P.C.

Irvine, California
June 25, 2013



Mayer Hoffman McCann P.C.

An Independent CPA Firm

2301 Dupont Drive, Suite 200

Irvine, California 92612

949-474-2020 ph

949-263-5520 fx

www.mhm-pc.com

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

Independent Auditors' Report

Board of Directors
Afghan Integrated Support Services
1200 Summit Ave, Suite 320
Fort Worth, Texas 76102

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 Fund Accountability Statement of the Afghan Integrated Support Services (AISS) representing revenues received and costs incurred under Contract No. W52P1J-11-C-0015 (Contract) with the United States Department of Defense for the period December 30, 2010 through December 31, 2012, and the related notes to the Fund Accountability Statement, and have issued our report thereon dated June 25, 2013, except as it relates to continuing education and peer review requirements as discussed in the following paragraph.

Government Auditing Standards require, among other things, that auditors performing audits in accordance with *Government Auditing Standards* obtain 24 hours of continuing professional education every 2 years, and the audit organization have an external peer review performed by reviewers independent of the organization at least once every three years. We subcontracted a portion of the audit to an independent chartered public accounting firm with an office located in Kabul, Afghanistan. The work performed by our subcontractor consisted of testing the spare parts inventory stock held in the Central Warehouse Facility (CWF) and inspecting the CWF constructed in Kabul under the Contract. Our subcontractor was not involved in the planning, directing or reporting aspects of the audit. Our subcontractor did not meet the continuing professional education requirements or peer review requirements as outlined in *Government Auditing Standards*, as the firm is located and licensed outside of the United States of America. The results of the audit were not affected as we directed the procedures performed and reviewed the work completed by our subcontractor.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether AISS' Fund Accountability Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned Contract, noncompliance with which could have a direct and material effect on the determination of Fund Accountability Statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Findings and Responses as Findings 2013-1, 2013-2 and 2013-4 through 2013-6.

AISS' Response to Findings

AISS' response to the finding identified in our audit is described in the accompanying Findings and Responses, and included verbatim in Appendix A. AISS' response was not subjected to the auditing procedures applied in the audit of the Fund Accountability 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 result 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. This report is intended for the information of Afghan Integrated Support Services, United States Department of Defense, and the Special Inspector General for Afghanistan Reconstruction. 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.



Irvine, California
June 25, 2013

AFGHAN INTEGRATED SUPPORT SERVICES

Financial Audit of Costs Incurred under
Contract No. W52P1J-11-C-0015

Findings and Responses

For the Period December 30, 2010 through December 31, 2012

2013-1: Fixed Costs Claimed as Reimbursable Costs

Condition:

Lease of land in the amount of \$212,504 and subcontract labor in the amount of \$5,139 were incorrectly recorded and claimed as reimbursable costs of the Central Warehouse Facility (CWF). These costs should have been included as part of the fixed costs. Subsequent to December 31, 2012, the U.S. Department of Defense (DoD) rejected the costs and AISS withdrew its invoice. Total costs recorded and claimed as reimbursable when they should have been included in the fixed costs were \$217,643.

Cause:

This condition occurred due to inadequate management oversight.

Criteria:

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

“...(d) A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements...”

Contract Number W52P1J-11-C-0015 between The U.S. Army Contracting Command, Rock Island Contracting Center (RICC) and Afghan Integrated Support Services (AISS), section I-116, 32.9, *Payment in Support of Emergency and Contingency Operations*, states, in part:

“... (5) Overpayments. If the Contractor becomes aware of a duplicate contract financing or invoice payment or that the Government has otherwise overpaid on a contract financing or invoice payment, the Contractor shall --

(i) Remit the overpayment amount to the payment office cited in the contract along with a description of the overpayment, including the --

(A) Circumstances of the overpayment (e.g., duplicate payment, erroneous payment, liquidation errors, date(s) of overpayment);...”

AFGHAN INTEGRATED SUPPORT SERVICES

Financial Audit of Costs Incurred under
Contract No. W52P1J-11-C-0015

Findings and Responses

(Continued)

2013-1: Fixed Costs Claimed as Reimbursable Costs (Continued)

Effect:

Recorded and claiming components of fixed cost as reimbursable costs result in a double counting of expenses and possible double payment by the United States Department of Defense (DoD) for the same goods or services. Additionally, inadequate management oversight allowed these costs to be claimed twice without being detected. This resulted in ineligible costs of \$217,643.

Recommendation:

- (1) We recommend that AISS remove \$217,643 from its Fund Accountability Statement for costs which were subsequently withdrawn by AISS.
- (2) We recommend that AISS review its invoices prior to submission to DoD to ensure that they do not include a reimbursement request for costs that are also included as fixed costs.

Management Response:

AISS disagrees with the ineligible costs of \$217,643. It indicates that the invoice provided was internally prepared, was never submitted to DoD and DoD never paid it. AISS further indicates that the cost was inaccurately booked by the AISS PMO and included on a preliminary draft invoice to the PMO for their review.

Rebuttal to Management Response:

We agree that the invoice was withdrawn. However, the costs are included in the Fund Accountability Statement and will remain questioned. We have revised our first recommendation to indicate that the costs need to be removed from the Fund Accountability Statement, but a return of the costs to DoD is not required as DoD has not paid for these costs.

AFGHAN INTEGRATED SUPPORT SERVICES

Financial Audit of Costs Incurred under
Contract No. W52P1J-11-C-0015

Findings and Responses

(Continued)

2013-2: Subcontract not Competitively Bid

Condition:

AISS subcontracted the construction of the CWF to one of its affiliate partners. The subcontract was on a fixed fee basis totaling \$2,361,926. However, the subcontract was not competitively bid and there was no justification provided for awarding the contract on a sole source basis. Total costs not competitively bid are as follows:

Construction of the CWF	\$2,579,569
Less lease of land that should have been recorded as a fixed cost (Finding 2013-1)	212,504
Less subcontract labor that should have been recorded as a fixed cost (Finding 2013-1)	<u>5,139</u>
Total questioned costs due to CWF not being competitively bid	<u>\$2,361,926</u>

Cause:

AISS indicated that the subcontractor was an approved subcontractor on the award and that competition was not warranted.

Criteria:

48 CFR 52.244-5, *Competition in Subcontracting*, states in part.

“...(a) The Contractor shall select subcontractors (including suppliers) on a competitive basis to the maximum practical extent consistent with the objectives and requirements of the contract...”

Additionally, 48 CFR 31.201-3, *Determining Reasonableness*, states, in part:

“...(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.”

AFGHAN INTEGRATED SUPPORT SERVICES

Financial Audit of Costs Incurred under
Contract No. W52P1J-11-C-0015

Findings and Responses

(Continued)

2013-2: Subcontract not Competitively Bid (Continued)

Effect:

As the construction contract was not competitively bid, AISS did not comply with the requirements of the Contract, and DoD may not have received the best pricing available.

Recommendation:

- (1) We recommend that AISS return \$2,361,926 to the DoD for costs not competitively bid, or provide DoD with adequate justification as to why the contracts were awarded on a sole source basis.
- (2) We recommend that AISS implement controls to ensure that all contracts are competitively bid. If a contract is not able to be competitively bid, then AISS should document its rationale for awarding a contract on a sole source basis.

Management Response:

AISS disagrees with the recommendation stating that this condition occurred due to insufficient time allowed by DoD for AISS to complete the lease and construction phases of the project. This forced AISS to award a firm fixed price sole source subcontract modification to a previously existing subcontract agreement.

Rebuttal to Management Response:

A sole source justification was never provided for our review. Additionally, if AISS was forced to procure on a sole source basis due to time constraints imposed by DoD, it should have communicated with DoD and obtained approval for a sole source procurement prior to awarding a subcontract. Our recommendation remains unchanged.

AFGHAN INTEGRATED SUPPORT SERVICES

Financial Audit of Costs Incurred under
Contract No. W52P1J-11-C-0015

Findings and Responses

(Continued)

2013-3: Need to Adhere to Procurement Policies

Condition:

We tested 63 micro-purchases of spare parts, which are items with an individual cost up to \$3,000, totaling \$217,224 and noted the following unsupported costs. While the micro-purchases of spare parts have been invoiced to DoD, AISS has not yet received payment.

<u>Observation</u>	<u>Number of Errors</u>	<u>Questioned Cost</u>
Cash Disbursement Voucher is missing "received by" signatures	5	\$3,275
Cash Deposit Voucher is not legible	1	3,928
No employee signature on Lost/Missing Receipt Form	4	8,296
The total amount reported on the Micro Purchase Fund Summary does not agree to the Cash Disbursement Voucher	1	119
Cash Disbursement Vouchers are missing "received by" signatures and no employee signature on Lost/Missing Receipt Form	<u>2</u>	<u>2,000</u>
Total questioned costs related to spare parts	<u>13</u>	<u>\$17,618</u>

Cause:

This condition occurred due to inadequate management oversight.

Criteria:

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

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

AFGHAN INTEGRATED SUPPORT SERVICES

Financial Audit of Costs Incurred under
Contract No. W52P1J-11-C-0015

Findings and Responses

(Continued)

2013-3: Need to Adhere to Procurement Policies (Continued)

Effect:

Lack of or insufficient documentation to support the costs incurred results AISS' inability to prove that proper spare parts were approved for purchase, ordered, received and that contract funds were used as intended. Total questioned costs due to a lack of adherence to procurement policies is \$17,618.

Recommendation:

- (1) We recommend that AISS either return \$17,618 to DoD for insufficiently supported purchases of spare parts, or provide DoD with adequate supporting documentation.
- (2) We recommend that AISS establish procedures to ensure that all accounting and procurement policies pertaining to the maintenance of supporting documentation for spare parts are followed per the terms of the Contract and related Federal regulations.

Management Response:

AISS disagrees with the questioned costs of \$17,618 stating that while AISS has included these costs on an invoice to DoD, the invoice has not yet been paid. AISS further states that corrected Cash Disbursement Vouchers were created in Fort Worth, Texas and will not contain the "Received by" information. It has established procedures to ensure that all accounting and procurement policies are followed.

Rebuttal to Management Response:

The documentation originally provided for our review that gave rise to the questioned costs were either not completed, illegible or missing supporting information. Without complete and legible information available to review, the allowability of the costs is questionable. Our recommendation remains unchanged.

AFGHAN INTEGRATED SUPPORT SERVICES

Financial Audit of Costs Incurred under
Contract No. W52P1J-11-C-0015

Findings and Responses

(Continued)

2013-4: Defense Base Act (DBA) Insurance Premium not Adequately Supported

Condition:

AISS reported DBA insurance premiums in the amount of \$356,528 for the period December 30, 2010 through December 31, 2012. This amount consisted of DBA insurance premiums incurred by AECOM for the policy years ended January 14, 2012 and January 14, 2013, and for one of its subcontractors for the policy year ended May 1, 2011. Unsupported DBA insurance consisted of the following.

- AECOM recorded estimated DBA insurance premium for the policy year ended January 14, 2013 in the amount of \$96,249. A reconciliation was not performed until March 2013, and AISS did not provide supporting documentation for the payroll costs used in the calculation prior to the end of our audit. As such, we questioned the total amount recorded of \$96,249.
- AECOM incurred DBA insurance costs for the policy year ended January 14, 2012 in the amount of \$100,147. Of this amount, the following has been questioned:

<u>Observation</u>	<u>Number of Employees</u>	<u>Questioned DBA Cost</u>
No support provided for time charged	2	\$ 460
No support provided for time charged and no supervisor approval on timesheets	1	2,696
No supervisor approval and no job code on timesheets	1	616
No supervisor approval on timesheets	1	5,041
Incorrect job codes on timesheets	11	6,926
Total questioned costs related to DBA premium for 2012	16	\$15,739

- AISS claimed DBA insurance for its subcontractor for the policy year ended May 1, 2011 in the amount of \$160,132. However, no supporting documentation was provided for the payroll costs used in the calculation of the DBA premium. As such, we questioned the total amount recorded of \$160,132.

AFGHAN INTEGRATED SUPPORT SERVICES

Financial Audit of Costs Incurred under
Contract No. W52P1J-11-C-0015

Findings and Responses

(Continued)

2013-4: Defense Base Act (DBA) Insurance Premium not Adequately Supported (Continued)

The total DBA premiums questioned were as follows:

<u>Description</u>	<u>Questioned Cost</u>
AECOM – DBA policy for year ended January 14, 2013	\$ 96,249
AECOM – DBA policy for year ended January 14, 2012	15,739
Subcontractor – DBA policy for year ended May 1, 2011	<u>160,132</u>
Total questioned costs related to DBA insurance	<u>\$272,120</u>

Cause:

This condition occurred due to AISS' inability to provide the requested documentation to support the DBA insurance costs claimed.

Criteria:

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

“...(d) A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements...”

Additionally, 48 CFR 52.215-2, *Audit and Records – Negotiation*, states, in part:

“...(b) *Examination of costs.* If this is a cost-reimbursement, incentive, time-and-materials, labor-hour, or price redeterminable contract, or any combination of these, the Contractor shall maintain and the Contracting Officer, or an authorized representative of the Contracting Officer, shall have the right to examine and audit all records and other evidence sufficient to reflect properly all costs claimed to have been incurred or anticipated to be incurred directly or indirectly in performance of this contract...”

AFGHAN INTEGRATED SUPPORT SERVICES

Financial Audit of Costs Incurred under
Contract No. W52P1J-11-C-0015

Findings and Responses

(Continued)

2013-4: Defense Base Act (DBA) Insurance Premium not Adequately Supported (Continued)

Effect:

Without supporting documentation, AISS cannot demonstrate whether they paid an appropriate amount for insurance premiums. Consequently, AISS may have overpaid or under-insured employees working in a war zone. Lack of supporting documentation resulted in questioned costs of \$272,120.

Recommendation:

- (1) We recommend that AISS either return \$272,120 to the DoD for unsupported DBA insurance premiums or provide adequate supporting documentation to the DoD.
- (2) We recommend that AISS establish procedures to ensure that all accounting and procurement policies are followed per the terms of the Contract and related Federal regulations, and that if premiums are charged based upon estimates, that reconciliations occur timely after the end of the premium year and premiums and/or invoices to DoD be adjusted accordingly.

Management Response:

AISS disagrees with the questioned costs of \$272,120 for the following reasons:

- For \$96,249 of the questioned costs, AISS provided an updated general ledger for our review on April 26, 2013.
- For \$15,739 of the questioned costs, AISS provided alternate documentation as support.
- For \$160,132 of the questioned costs, AISS provided a final premium worksheet and indicated that its subcontractor can provide records to support the labor costs.

Rebuttal to Management Response:

On April 26, 2013, AISS did provide an updated general ledger and labor files for the policy year ended January 14, 2013, but this reconciliation did not contain the supporting timesheets, employment agreements, and job descriptions etc. to support the labor cost claimed. Additionally, the payroll documentation provided for the policy year ended January 14, 2012, did not follow AISS payroll processing procedures, such as supervisor approval, including the job code for the project and no time sheets, etc. Finally, no documentation was provided to support the subcontractor's final premium worksheet. Our recommendation remains unchanged.

AFGHAN INTEGRATED SUPPORT SERVICES

Financial Audit of Costs Incurred under
Contract No. W52P1J-11-C-0015

Findings and Responses

(Continued)

2013-5: CWF not Built in Accordance with Approved Floor Plan and Cost Proposal

Condition:

During our physical inspection of the Central Warehouse Facility (CWF), we noted that the CWF was not built in accordance with the approved floor plan and the original cost proposal. Rather, the CWF was built based on an amended floor plan and revised cost proposal that were never submitted to DoD for approval.

Cause:

AISS indicated that DoD never requested to review or approve the original plans or the amended plans.

Criteria:

48 CFR 52.236-21, *Specifications and Drawings for Construction*, states, in part:

“(e) If this contract requires shop drawings¹ the Contractor shall coordinate all such drawings, and review them for accuracy, completeness, and compliance with contract requirements and shall indicate its approval thereon as evidence of such coordination and review. Shop drawings submitted to the Contracting Officer without evidence of the Contractor’s approval may be returned for resubmission. The Contracting Officer will indicate an approval or disapproval of the shop drawings and if not approved as submitted shall indicate the Government’s reasons there for. Any work done before such approval shall be at the Contractor’s risk. Approval by the Contracting Officer shall not relieve the Contractor from responsibility for any errors or omissions in such drawings, nor from responsibility for complying with the requirements of this contract, except with respect to variations described and approved in accordance with (f) of this clause.

Additionally, 48 CFR 50.103-3. *Contract adjustment*, states in part:

“(a) *Contractor requests.* A contractor seeking a contract adjustment shall submit a request in duplicate to the contracting officer or an authorized representative. The request, normally a letter, shall state as a minimum—

¹ Shop drawings means drawings, submitted to the Government by the Contractor, subcontractor, or any lower tier subcontractor pursuant to a construction contract, showing in detail (1) the proposed fabrication and assembly of structural elements and (2) the installation (i.e., form, fit, and attachment details) of materials or equipment. It includes drawings, diagrams, layouts, schematics, descriptive literature, illustrations, schedules, performance and test data, and similar materials furnished by the contractor to explain in detail specific portions of the work required by the contract. The Government may duplicate, use, and disclose in any manner and for any purpose shop drawings delivered under this contract.

AFGHAN INTEGRATED SUPPORT SERVICES

Financial Audit of Costs Incurred under
Contract No. W52P1J-11-C-0015

Findings and Responses

(Continued)

2013-5: CWF not Built in Accordance with Approved Floor Plan and Cost Proposal (Continued)

- “(1) The precise adjustment requested;
- (2) The essential facts, summarized chronologically in narrative form;
- (3) The contractor’s conclusions based on these facts...”

Effect:

The CWF construction and associated cost may have deviated significantly from the original intent of the program without DoD’s knowledge or approval. In addition, it is not possible to ensure that the proper materials were used or that the construction was built in accordance with the approved warehouse blueprints if an amended floor plan was not available during the monitoring process.

Recommendation:

We recommend that AISS obtain retroactive approval from an appropriate DoD Contracting Officer for the new floor plan and cost proposal of the CWF, and develop a control to ensure that AISS obtains prior approval from the Contracting Officer on all future construction projects.

Management Response:

AISS disagrees with the recommendation and indicated that per communication with the DoD, the DoD would not tell AISS how or what to build. AISS indicated that there were some changes made to the plan, but the basic plan was followed.

Rebuttal to Management Response:

No documentation was provided during the audit to indicate that AISS attempted to obtain prior approval for the warehouse plans that were subsequently amended, nor were we provided the approval from DoD to proceed. Our recommendation remains unchanged.

AFGHAN INTEGRATED SUPPORT SERVICES

Financial Audit of Costs Incurred under
Contract No. W52P1J-11-C-0015

Findings and Responses

(Continued)

2013-6: Lack of an Adequate Tracking System for Spare Parts Inventory

Condition:

Spare parts in the warehouse were tagged with a computerized label. However, the identification code used does not identify the source of the spare part, i.e. whether it was purchased under the Contract, donated by the U.S. Government, or transferred from the prior contract.

AISS tracks its spare parts using WebManage, which allows for tracking an item from placing the purchase order through to the final issuance of the spare part. Also, this system is linked to COREIMSEE, a web-based system, to track equipment maintenance service as required by the Contract Performance Work Statement. Although AISS heavily relied on WebManage, an external audit or examination of the system was never performed. We were granted access to the system and downloaded a tracking report at a point in time, and had identified there were numerous duplicate spare parts items appearing in the report. AISS explained that these duplicates were due to system errors and were immediately deleted from the system portal when the issues were raised during audit fieldwork.

The accuracy of the reports generated through WebManage is important for reconciliation purposes to identify, if proper documentation is maintained for the inventory of spare parts held at any given time under this program.

A similar condition was previously reported in the December 2011 review performed by the U.S. Defense Contract Management Agency (DCMA).

Cause:

AISS did not have an external review performed of the WebManage system to ascertain if the system was operating effectively as it was not required under the Contract.

Criteria:

The Contract Performance Work Statement, states, in part:

“9. TRACKING MAINTENANCE. The contractor shall establish an automated system that interfaces with COREIMSEE, a web base system, to track equipment maintenance service, Forecast Delivery Date (FDD) status, condition and inventory of the fleet, and awaiting parts. The contractor shall select, from a commercially available source, a management information system to maintain the database. The computerized hardware and management systems shall be provided by the contractor in all ANA shops that have advisory mentor teams assigned. The contractor will be responsible for training the ANSF to use the contractor provided information management system. ...”

AFGHAN INTEGRATED SUPPORT SERVICES

Financial Audit of Costs Incurred under
Contract No. W52P1J-11-C-0015

Findings and Responses

(Continued)

2013-6: Lack of an Adequate Tracking System for Spare Parts Inventory (Continued)

Effect:

By not tracking the spare parts by source, AISS is not able to be accountable to each entity providing the spare parts (i.e. DoD through this Contract, and the U.S. Government) and hence may not be alerted to missing spare parts in a timely manner. In addition, if an external review is not performed on the WebManage system, AISS will not be aware as to whether there are any issues with the system in providing timely and accurate information.

Recommendation:

- (1) We recommend that AISS establish a system to identify the funding source of the spare parts.
- (2) We recommend that an external review be conducted on the WebManage system to ensure it is accumulating and tracking information correctly.

Management Response:

AISS disagrees with the recommendation and stated that tracking the source of the spare part would increase the workload on its procurement and receiving staff. It does not see the value of tracking the source of the inventory item, but indicates its system can do so, if required.

Rebuttal to Management Response:

Adequate tracking of the source is necessary to ensure all spare parts can be associated with the specific grant or contract under which they were procured, and minimize the likelihood of the cost being claimed under multiple funding sources. Our recommendation remains unchanged.

AFGHAN INTEGRATED SUPPORT SERVICES

Financial Audit of Costs Incurred under
Contract No. W52P1J-11-C-0015

AISS Response to Findings

For the Period December 30, 2010 through December 31, 2012

Included on the following pages are AISS' response to the findings identified in this report. In addition to the narrative response, AISS provided documentation that, in its opinion, supports its position on various findings. Due to the voluminous nature of this documentation, it has not been included within this report. The documentation has been provided to SIGAR under separate cover.

2013-1: Fixed Costs Claimed as Reimbursable Costs

Effect:

Recorded and claiming components of fixed cost as reimbursable costs result in a doublecounting of expenses and possible double payment by the United States Department of Defense (DoD) for the same goods or services. Additionally, inadequate management oversight allowed these costs to be claimed twice without being detected. This resulted in ineligible costsof \$217,643.

Recommendation:

- (1) We recommend that AISS return \$217,643 to DoD for costs claimed as reimbursable which were also included in the fixed costs component.
- (2) We recommend that AISS review its invoices prior to submission to DoD to ensure that they do not include a reimbursement request for costs that are also included as fixedcosts.

Management Response:

- (1) AISS does not concur with the \$217,643 questioned cost. AISS internally prepared a draft USG invoice that contained the \$212,540 for land lease and the \$5,139 for subcontractor labor. However, the prepared draft invoice was never submitted to the USG. Hence, the USG never paid for those costs and reimbursement of those costs is invalid.
- (2) AISS invoice review process –
This cost was inaccurately booked by the AISS PMO and consequently, included on a preliminary draft invoice to the PMO for their review. Had the draft invoice actually been raised to the customer, the Billing Group's internal review of this draft invoice would have caught the coding error and would have been revised at that time.

We are unsure how this draft invoice made it to CBIZ/SIGAR, but again - was never submitted to the USG.

2013-2: Subcontract not Competitively Bid

Effect:

As the construction contract was not competitively bid, AISS did not comply with the requirements of the Contract, and DoD may not have received the best pricing available.

Recommendation:

- (1) We recommend that AISS return \$2,361,926 to the DoD for costs not competitively bid, or provide DoD with adequate justification as to why the contracts were awarded on a sole source basis.
- (2) We recommend that AISS implement controls to ensure that all contracts are competitively bid. If a contract is not able to be competitively bid, then AISS should document its rationale for awarding a contract on a sole source basis.

Management Response:

AISS disagrees with the recommendation.

The USG refused to allow sufficient time to compete the lease and construction phases of this effort. Had the USG allow time AISS would have select subcontractors on a competitive basis, to the maximum practical extent consistent with the objectives and requirements of the contract. However, the USG's position forced AISS to award a firm fixed price sole source subcontract modification to AFGS and included the effort into their previously existing subcontract agreement. The sole source justification identified the effort being with a known provider, which was already vetted and on the program, having the staff and resources to perform the effort, and was willing to assume the additional responsibilities, at what we deemed to be a reasonable price.

2013-3: Need to Adhere to Procurement Policies

Effect:

Lack of or insufficient documentation to support the costs incurred results AISS' inability to prove that proper spare parts were approved for purchase, ordered, received and that contract funds were used as intended. Total questioned costs due to a lack of adherence to procurement policies is \$17,618.

Recommendation:

- (1) We recommend that AISS either return \$17,618 to DoD for insufficiently supported purchases of spare parts, or provide DoD with adequate supporting documentation.
- (2) We recommend that AISS establish procedures to ensure that all accounting and procurement policies pertaining to the maintenance of supporting documentation for spare parts are followed per the terms of the Contract and related Federal regulations.

Management Response:

- (1) AISS does not concur with the \$17,618 questioned cost related to spare parts. AISS has submitted an invoice to the USG. However, the USG has not accepted this invoice at this time, and hence AISS has not yet received payment. AISS will provide the adequate supporting documentation to the USG.

These correction Cash Disbursement Vouchers (CDVs) were created in Fort Worth and will not have Received By on the voucher. The correction CDVs were signed by the Controller, Director of Financial Operations or a Financial Operations team member. The initial CDVs submitted by AISS notated to see supporting documentation as the Received By signature. AISS' CDVs can be supported with proper documentation.

AISS has provided a legible copy of CDV: COR6006-Voucher#76132, \$3,928 (attached as CDV_COR6006_V76132.pdf).

- (2) AISS has established procedures to ensure that all accounting and procurement policies are followed.

<i>Observation</i>	<i>Questioned Costs</i>	<i>Concur</i>	<i>Do Not Concur</i>
Cash Disbursement Voucher is missing "received by" signatures	\$3,275	\$0	\$3,275
Cash Deposit Voucher is not legible	\$3,928	\$0	\$3,928
No employee signature on Lost/Missing Receipt Form	\$8,296	\$0	\$8,296
The total amount reported on the Micro Purchase Fund Summary does not agree to the Cash Disbursement Voucher	\$119	\$0	\$119

Cash Disbursement Vouchers are missing “received by” signatures and no employee signature on Lost/Missing Receipt Form	\$2,000	\$0	\$2,000
Total questioned costs related to spare parts	\$17,618	\$0	\$17,618

2013-4: Defense Base Act (DBA) Insurance Premium not Adequately Supported

Effect:

Without supporting documentation, AISS cannot demonstrate whether they paid an appropriate amount for insurance premiums. Consequently, AISS may have overpaid or under-insured employees working in a war zone. Lack of supporting documentation resulted in questioned costs of \$272,120.

Recommendation:

(1) We recommend that AISS either return \$272,120 to the DoD for unsupported DBA insurance premiums or provide adequate supporting documentation to the DoD.

(2) We recommend that AISS establish procedures to ensure that all accounting and procurement policies are followed per the terms of the Contract and related Federal regulations, and that if premiums are charged based upon estimates, that reconciliations occur timely after the end of the premium year and premiums and/or invoices to DoD be adjusted accordingly.

Management Response:

- (1) AISS does not concur with the \$96,249 questioned costs for the AISS DBA true-up for policy year ended January 14, 2013. The \$96,249 DBA true-up was based on \$8.6M of incurred labor. On April 26, AISS provided Andrea Jayasekara, CBIZ MHM, LLC; the updated general ledger labor files (see attached files AISS DBA Policy Jan 14 2012-13.pdf and 2ATMPF DBA Labor True Up.xlsx attached). The file reflects \$8.8M of incurred labor. The refined \$8.8M of labor will result in an additional premium being invoiced by Marsh to AISS, in excess of the original \$96,249. Once AISS pays the additional premium, it will be billed to the USG.

AISS does not concur with the \$15,739 timesheet questioned costs for DBA policy for the year ended January 14, 2012. AISS believes that alternative documents provide sufficient support to reflect labor was incurred in performance of this contract.

Observation	Questioned Costs	Concur	Do Not Concur	Comments
No support provided for time charged	\$460	\$0	\$460	(1) EE G04752 terminated 10/24/11, in the middle of a timesheet period. His last timesheet period labor ended 11/4/11, which aligns with the general ledger detail. (2) EE G04679 terminated 9/29/11 and was not paid for questioned timesheet periods; leave without pay hours reported administratively until change of status completed.
No support provided for time charged and no supervisor approval on timesheets	\$2,696	\$0	\$2,696	Alternative documents should provide sufficient support.

No supervisor approval and no job code on timesheets	\$616	\$0	\$616	Alternative documents should provide sufficient support.
No supervisor approval on timesheets	\$5,041	\$0	\$5,041	Alternative documents should provide sufficient support.
Incorrect job codes on timesheets	\$6,926	\$0	\$6,926	DBA is calculated on payroll dollars, regardless of how it was coded. These payroll dollars are part of the premium.
Total questioned costs related to DBA premium for 2012	\$15,739	\$0	\$15,739	

AISS does not concur with the \$160,132 questioned costs associated with AFGS' DBA true-up. AFGS is a subcontractor to AISS. AFGS provided the attached Final Premium Audit Worksheet and can provide labor records to support the final labor reported.

(2) AISS has established procedures to ensure timely reconciliation of final premium audits.

2013-5: CWF not Built in Accordance with Approved Floor Plan and Cost Proposal

- “(1) The precise adjustment requested;
- (2) The essential facts, summarized chronologically in narrative form;
- (3) The contractor’s conclusions based on these facts...”

Effect:

The CWF construction and associated cost may have deviated significantly from the original intent of the program without DoD’s knowledge or approval. In addition, it is not possible to ensure that the proper materials were used or that the construction was built in accordance with the approved warehouse blueprints if an amended floor plan was not available during the monitoring process.

Recommendation:

We recommend that AISS obtain retroactive approval from an appropriate DoD Contracting Officer for the new floor plan and cost proposal of the CWF, and develop a control to ensure that AISS obtains prior approval from the Contracting Officer on all future construction projects.

Management Response:

AISS disagrees with the recommendation. AISS did request USG concurrence with our plans. When we asked questions to the USG about the warehouse they very pointedly said they would not be telling us how or what to build. Cheryl Nielsen (PCO) issued the NTP against our Proposal. There were some changes but we followed the Basic plan.

The following are extracts from our questions and the USG’s response:

1. Once parts are authorized for procurement by AISS, there is no facility to receive, store and issue these parts from; is the Government going to issue another phased NTP that requires a warehouse facility?

ANSWER: No, the government will not be specifying how the contractor should store equipment. Inventory shall be stored in a manner that provides protection from environmental effects and, at the contractor’s discretion, is most efficient for facilitating the contractor’s supply chain management. Inventory shall be monitored, maintained, and protected at the contractor’s location.

2. Does the Government expect AISS to operate the Supply Chain Management operations from just a container yard without the use/construction of a warehouse facility?

ANSWER: The government will not be specifying how the contractor should conduct Supply Chain Management operations. Our expectation is for AISS to determine what is required to conduct operations in the most efficient and effective manner, to include a warehouse facility, if necessary.

2013-6: Lack of an Adequate Tracking System for Spare Parts Inventory

Effect:

By not tracking the spare parts by source, AISS is not able to be accountable to each entity providing the spare parts (i.e. DoD through this Contract, and the U.S. Government) and hence may not be alerted to missing spare parts in a timely manner. In addition, if an external review is not performed on the WebManage system, AISS will not be aware as to whether there are any issues with the system in providing timely and accurate information.

Recommendation:

- (1) We recommend that AISS establish a system to identify the funding source of the spare parts.
- (2) We recommend that an external review be conducted on the WebManage system to ensure it is accumulating and tracking information correctly.

Management Response:

AISS disagrees with the recommendation. The AISS Central Warehouse alone has 10,000 lines and nearly 1 million individual items. In order to track the source property, each part would have to be marked with its source. This will dramatically increase the workload on the procurement and receiving staff. It will make inventories, receiving, and shipping more complex and error-prone. Tracking by source would effectively triple or quadruple our bin locations which opens up numerous tracking problems and would be far more likely a root cause for loss of accountability.

Once received into WebManage, all parts immediately become GFE and are indistinguishable from each other. An oil filter received from the USG, a supplier, or RMA is utilized and counted in exactly the same manner. AISS does not see the added value of tracking the source of each part but WebManage does have this functionality if tracking by source becomes a contractual requirement in the future.

Additionally, the paragraph referenced/quoted from the PWS does not address tracking by source. It lays out the process exactly as what we are doing on the Program. The only time we have ever heard anything from the USG on special tracking it was for FMS items of which we have none.

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

Public Affairs

Public Affairs Officer

- Phone: 703-545-5974
- Email: sigar.pentagon.ccr.mbx.public-affairs@mail.mil
- Mail: SIGAR Public Affairs
2530 Crystal Drive
Arlington, VA 22202