

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 15-69 Financial Audit**

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



JULY  
2015

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On May 31, 2010, the Department of State issued a 1-year, \$24 million task order to Pacific Architects and Engineers, Inc. (PAE) to implement the Afghanistan Justice Sector Support Program II (JSSP II). The program's purpose was to provide technical assistance and training to strengthen the capacity of justice institutions and professionals to deliver fair and effective justice services to the citizens of Afghanistan. After subsequent modifications, program funding increased to more than \$144 million, and the period of performance was extended to September 24, 2013.

SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe Horwath), reviewed \$139,538,326 in expenditures charged to the task order from May 31, 2010, through September 24, 2013. The audit objectives were to (1) identify and report on significant deficiencies or material weaknesses in PAE's internal controls related to the task order; (2) identify and report on instances of material noncompliance with the terms of the task order and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether PAE has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of PAE's Special Purpose Financial Statement. See Crowe Horwath's report for the precise audit objectives.

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

July 2015

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

SIGAR 15-69-FA

### WHAT THE AUDIT FOUND

Crowe Horwath LLP (Crowe Horwath) identified one material weakness in internal controls and one instance of noncompliance with applicable regulations. Crowe Horwath found that Pacific Architects and Engineers, Inc. (PAE) did not comply with federal procurement policies concerning property management. Specifically, PAE was unable to provide a complete inventory of government property related to the task order. Crowe Horwath also found discrepancies between inventories taken in August 2012 and September 2013, and determined that PAE did not perform a reconciliation to resolve the differences.

As a result of the internal control deficiency and the instance of noncompliance, Crowe Horwath identified \$6,458 in total questioned costs, consisting entirely of unsupported costs—costs not supported with adequate documentation or that did not have required prior approval. Crowe Horwath did not identify any ineligible costs—costs prohibited by the task order, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Other Direct Costs	\$0	\$6,458	\$6,458
<b>Totals</b>	<b>\$0</b>	<b>\$6,458</b>	<b>\$6,458</b>

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

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

### WHAT SIGAR RECOMMENDS

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

- Determine the allowability of and recover, as appropriate, \$6,458 in questioned costs identified in the report.**
- Advise PAE to address the report's one internal control finding.**
- Advise PAE to address the report's one noncompliance finding.**



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

July 6, 2015

The Honorable John F. Kerry  
Secretary of State

The Honorable P. Michael McKinley  
U.S. Ambassador to Afghanistan

We contracted with Crowe Horwath LLP (Crowe Horwath) to audit the costs incurred by Pacific Architects and Engineers, Inc. (PAE) under a Department of State task order to implement the Afghanistan Justice Sector Support Program II (JSSP II).<sup>1</sup> Crowe Horwath's audit covered \$139,538,326 in expenditures charged to the task order from May 31, 2010, through September 24, 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 responsible contracting officer at the Department of State:

- 1. Determine the allowability of and recover, as appropriate, \$6,458 in questioned costs identified in the report.**
- 2. Advise PAE to address the report's one internal control finding.**
- 3. Advise PAE to address the report's one noncompliance finding.**

The results of Crowe Horwath's audit are further detailed in the attached report. We reviewed Crowe Horwath's report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on PAE's Special Purpose Financial Statement. We also express no opinion on the effectiveness of PAE's internal control or compliance with the task order, laws, and regulations. Crowe Horwath is responsible for the attached auditor's report and the conclusions expressed in the report. However, our review disclosed no instances where Crowe Horwath did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

We will be following up with your agency to obtain information on the corrective actions taken in response to our recommendations.

John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction

(F-060)

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<sup>1</sup> The Department of State awarded task order number SAQMMA-10F-185555 to PAE to implement the JSSP, which was intended to develop and strengthen the capacity of institutions and professionals within the Afghan criminal justice sector by providing technical advice and support. In December 2014, SIGAR reported on JSSP task order number SAQMPD05F2737 (see SIGAR Financial Audit 15-22-FA, *Department of State's Afghanistan Justice Sector Support Program: Audit of Costs Incurred by Pacific Architects and Engineers, Inc.*, December 1, 2014 ).



**Pacific Architects and Engineers Corporation**  
**Special Purpose Financial Statement**  
**Justice Sector Support Program**  
**For the Period May 31, 2010, through September 24, 2013**  
**(With Independent Auditor's Report Thereon)**

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**Crowe Horwath LLP**

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## Transmittal Letter

May 18, 2015

To the President and Management of Pacific Architects and Engineers, Inc.  
1320 N. Courthouse Road, Suite 800  
Arlington, Virginia 22201

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

We appreciate the opportunity to provide to you our report regarding the procedures that we have conducted during the course of our audit of Pacific Architects and Engineers Corporation ("PAE") contract SAQMMA10F1855 the Justice Sector Support Program ("JSSP") with the United States Department of State ("DOS") International Narcotics and Law Enforcement Affairs (INL).

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

When preparing our report, we considered comments, feedback, and interpretations provided by PAE, the Office of the Special Inspector General for Afghanistan Reconstruction, and DOS both in writing and orally throughout the audit planning, fieldwork, and reporting phases. Management's final written response to audit findings is incorporated into the final report as **Appendix A**.

Thank you for providing us the opportunity to work with you and to conduct the financial audit of PAE's Justice Sector Support Project.

Sincerely,

Melinda DeCorte, CPA, Partner  
Crowe Horwath LLP



[www.crowehorwath.com](http://www.crowehorwath.com)

## Summary

### Background

Pacific Architects and Engineers Corporation entered into a contract with the United States Department of State ("DOS") to implement the Justice Sector Support Program ("JSSP"). The JSSP is a multi-pronged effort to develop and strengthen the capacity of the Afghan criminal justice sector institutions and justice professionals. PAE is DOS's prime contractor responsible for implementing JSSP. Through capacity building, technical advice and direct assistance, JSSP helps the justice institutions and the justice professionals perform their respective roles in delivering fair and effective justice services to the citizens of Afghanistan.

The SLMAQM04C0033 contract and Task Order SAQMMA-10F-185555 incorporated an initial ceiling price of \$24,000,000 and a period of performance beginning May 31, 2010. Through subsequent modifications to the contract, a ceiling price of \$144,163,444 was in place on September 24, 2013, our audit cutoff date. PAE worked with DOS and various contractors to deliver the requested project scope.

### Work Performed

Crowe Horwath LLP ("Crowe") was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") to conduct a financial audit of PAE's JSSP Special Purpose Financial Statement ("SPFS") for the period May 31, 2010, through September 24, 2013.

### Objectives Defined by SIGAR

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

#### *Audit Objective 1 – Special Purpose Financial Statement*

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

#### *Audit Objective 2 – Internal Controls*

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

#### *Audit Objective 3 – Compliance*

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

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

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

**Scope**

The scope of the audit included the period May 31, 2010, through September 24, 2013, for the JSSP. The audit was limited to those matters and procedures pertinent to the contract that could have a direct and material effect on the SPFS and evaluation of the presentation, content, and underlying records of the SPFS. The audit included reviewing the financial records that support the SPFS to determine if there were material misstatements and if the SPFS was presented in the format required by SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

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

**Methodology**

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

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

For purposes of meeting Audit Objective 2 regarding internal control, Crowe requested that the auditee provide copies of policies and procedures and verbally communicate those procedures that do not exist in written format to provide Crowe with an understanding of the system of internal control established by PAE. The system of internal control is intended to provide reasonable assurance of achieving reliable financial and performance reporting and compliance with applicable laws and regulations. Crowe corroborated internal controls identified by the auditee and conducted testing of select key controls to understand if they were implemented as designed.



Audit Objective 3 requires that tests be performed to obtain an understanding of the auditee's compliance with requirements applicable to the contract. Crowe identified – through review and evaluation of the contract executed by and between PAE and DOS, the Federal Acquisition Regulations (“FAR”), and applicable circulars issued by the United States Office of Management and Budget (“OMB”) – the criteria against which to test the SPFS and supporting financial records and documentation to determine compliance and to assess the allowability of costs. Using sampling techniques, Crowe reviewed expenditures, vouchers submitted to DOS, procurements, cash disbursements, and project reports for audit. Supporting documentation was requested from the auditee to access compliance. Testing indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in accordance with the interim indirect cost rate associated restrictions and limitations and whether costs were treated consistently as direct or indirect charges.

To determine whether there was audit, monitoring, assessment, or other reports completed and that required corrective action as per Audit Objective 4, Crowe inquired of both PAE and DOS regarding the existence of such reports. No reports were identified and, therefore, no follow-up was necessary.

## Summary of Results

Upon completion of Crowe's procedures, Crowe identified one finding because it met one or more of the following criteria: (1) significant deficiency in internal control, (2) material weakness in internal control, (3) deficiency that resulted in questioned costs, and/or (4) noncompliance with rules, laws, regulations, or the terms and conditions of the contract.

Crowe also reported on both PAE's compliance with the applicable laws, rules, regulations, and the terms and conditions of the contract and the internal controls over compliance. One material weakness in internal control and one instances of noncompliance were reported. Since the internal control and compliance findings pertained to the same matter, they were consolidated within a single finding. There are \$6,458 in questioned costs are associated with the finding.

Crowe conducted searches of publicly available information to locate prior audits, reviews, and evaluations pertinent to PAE's financial performance under the contract. In addition, Crowe inquired of both DOS and PAE regarding whether or not such work had been performed. Based on the results of Crowe's searches and, per communications with PAE and DOS there were no audits or other reviews or assessments conducted in relation to the JSSP.

Crowe issued an unmodified opinion on the SPFS.

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

**TABLE A: Summary of Findings and Questioned Costs**

Finding Number	Matter	Questioned Costs	Cumulative Questioned Costs
2015-01	Allowable Costs: Equipment Management	\$6,458	\$6,458
<b>Total Questioned Costs</b>			<b>\$6,458</b>



**Summary of Management Comments**

PAE disagrees, in part, with finding 2015-01. PAE agreed with the portion of the finding related to FAR52.245-1(f) (b) (iii) (a) regarding informational categories to be maintained as part of property accountability. PAE disagreed with the number of inventory items noted in the August 2012 inventory. We reviewed the support provided by PAE in regard to the inventory count and have modified the finding based on the information provided. The report also noted 27 items for which disposal information was not provided. PAE provided additional information as part of their management response and the finding was modified to reflect consideration of the additional disposition information provided. The finding also contained an issue related to purchase orders for items in inventory. Based on information provided by PAE with management's response we have removed the portion of the finding.

Crowe has responded to PAE's' management comments and that response is included at **Appendix B**.

**References to the Appendix**

**Appendix A** contains the Views of Responsible Officials, which are management's responses to the findings presented within the report.

**Appendix B** contains Crowes response to the Management Comments in regard to the findings noted in the report.

## INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

To the President and Management of Pacific Architects and Engineers, Inc.  
1320 N. Courthouse Road, Suite 800  
Arlington, Virginia 22201

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Financial Statement") of Pacific Architects and Engineers Corporation, ("PAE"), and related notes to the Statement, for the period May 31, 2010, through September 24, 2013, with respect to the Justice Sector Support Program funded by contract SAQMMA10F1855.

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

Management is responsible for the preparation and fair presentation of the Financial Statement in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") in Appendix IV of Solicitation ID11140014 ("the Contract"). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a Financial Statement that is free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Statement.

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***Opinion***

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

***Basis of Presentation***

We draw attention to Note 1 to the Statement, which describes the basis of presentation. The Financial Statement was prepared by PAE, in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction in Appendix IV of the Solicitation and presents those expenditures as permitted under the terms of contract number SAQMMA10F1855, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the Contract referred to above. Our opinion is not modified with respect to this matter.

***Restriction on Use***

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

***Report on Other Legal and Regulatory Requirements***

In accordance with *Government Auditing Standards*, we have also issued reports dated May 12, 2015 on our consideration of PAE's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PAE's internal control over financial reporting and compliance.

Crowe Horwath LLP

May 12, 2015  
Washington, D.C.

**Special Purpose Financial Statement**  
**SLMAQM04C0033 and Task Order SAQMMA-10F-1855**  
**5/31/2010 --9/24/2013**

			Questioned Costs		
	Budget	Actual	Ineligible	Unsupported	Notes
<i><b>Revenues</b></i>					
USAID	\$144,163,445	\$139,538,326			
Total Revenue	\$144,163,445	\$139,538,326			4
<i><b>Costs Incurred</b></i>					
001-LABOR -T&M	\$62,363,456	\$59,055,044			
002-DIFFERENTIALS -CRR	\$14,431,823	\$12,950,606			
003-OTHER DIRECT COSTS (ODCs) -CRR	\$6,675,141	\$3,732,692		\$6,458	A
004-COST REIMBURSEMENT -PLS	\$60,693,024	\$63,799,984			
<b>Total Costs Incurred</b>	<b>\$144,163,444</b>	<b>\$139,538,326</b>		<b>\$6,458</b>	
<b>Fund Balance</b>	- \$	-			6

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

**PAE**  
**Notes to the Special Purpose Financial Statement**  
**For the Period May 31, 2010 through September 24, 2013**

**Note 1. Basis of Presentation**

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under CIVPOL Contract, Task Order Number SAQMMA10F1855 for JSSP2, for the period 5/31/2010 – 9/24/2013. Because the Statement presents only a selected portion of the operations of PAE, it is not intended to and does not present the financial position, changes in net assets, or cash flows of PAE. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal Contract. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Note 2. Basis of Accounting**

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

**Note 3. Foreign Currency Conversion Method**

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

**Note 4. Revenues**

Revenues on the Statement represent the amount of funds to which PAE is entitled to receive from DOS INL for allowable, eligible costs incurred under the contract during the period of performance.

**Note 5. Costs Incurred by Budget Category**

The budget categories presented and associated amounts reflect the budget line items presented within the final, DOS INL Funding Modification No. 015 dated September 22, 2013.

**Note 6. Fund Balance**

The revenues recognized by PAE under the subject task order equal the total allowable costs incurred or to be incurred by the DOS.

**Note 7. Currency**

All amounts presented are shown in U.S. dollars.

**Note 8. Subsequent Events**

Management has performed an analysis of the activities and transactions subsequent to the May 31, 2010 through September 24, 2013, period of performance. Management has performed their analysis through May 12, 2015.

**Notes to the Questioned Costs Presented on the Special Purpose Financial Statement<sup>1</sup>****Note A. Allowable Costs: Equipment Management**

Finding 2015-01 identified \$6,458 in questioned costs that resulted from a lack of authorization for the disposal of certain equipment items.

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

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the President and Management of Pacific Architects and Engineers, Inc.  
1320 N. Courthouse Road, Suite 800  
Arlington, Virginia 22201

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement of Pacific Architects and Engineers Corporation ("PAE"), and related notes to the Statement, for the period May 31, 2010, through September 24, 2013, with respect to the Justice Sector Support Program funded by contract SAQMMA10F1855, and have issued our report thereon dated May 12, 2015.

### Internal Control over Financial Reporting

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

In planning and performing our audit of the Special Purpose Financial Statement for the period May 31, 2010, through September 24, 2013, we considered PAE's internal controls to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Special Purpose Financial Statement, but not for the purpose of expressing an opinion on the effectiveness of PAE's internal control. Accordingly, we do not express an opinion on the effectiveness of PAE's internal control.

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

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(Continued)



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. We consider the deficiencies noted in Finding 2015-01 in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

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

PAE's response to findings was not subject to the auditing procedures applied in the audit of the Special Purpose Financial Statement and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

### **Restriction on Use**

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

Crowe Horwath LLP

May 12, 2015  
Washington, D.C.

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the President and Management of Pacific Architects and Engineers, Inc.  
1320 N. Courthouse Road, Suite 800  
Arlington, Virginia 22201

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement of PAE and related notes to the Statement, for the period May 31, 2010, through September 24, 2013, with respect to the Justice Sector Safety Program funded by contract SAQMMA10F18550. We have issued our report thereon dated May 12, 2015.

### Management's Responsibility for Compliance

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

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Finding 2015-01 in the accompanying Schedule of Findings and Questioned Costs.

### PAE's Response to Findings

PAE's response to findings was not subjected to the auditing procedures applied in the audit of the special purpose financial statement and, accordingly, we express no opinion on it.

### Purpose of this Report

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

**Restriction on Use**

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

Crowe Horwath LLP

May 12, 2015  
Washington, D.C.

## SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Finding 2015-01: Equipment Management

#### Material Weakness and Non-Compliance

##### Criteria:

FAR 52.245.1 - Property management. (1) The Contractor shall have a system of internal controls to manage (control, use, preserve, protect, repair, and maintain) Government property in its possession. The system shall be adequate to satisfy the requirements of this clause. In doing so, the Contractor shall initiate and maintain the processes, systems, procedures, records, and methodologies necessary for effective and efficient control of Government property.

FAR52.245-1(f) (b) (iii) (a) states: "The Contractor shall create and maintain records of all Government property accountable to the contract, including Government-furnished and Contractor-acquired property.

A. Property records shall enable a complete, current, auditable record of all transactions and shall, unless otherwise approved by the Property Administrator, contain the following:

- (1) The name, part number and description, National Stock Number (if needed for additional item identification tracking and/or disposition), and other data elements as necessary and required in accordance with the terms and conditions of the contract.
- (2) Quantity received (or fabricated), issued, and balance-on-hand.
- (3) Unit acquisition cost.
- (4) Unique-item identifier or equivalent (if available and necessary for individual item tracking).
- (5) Unit of measure.
- (6) Accountable contract number or equivalent code designation.
- (7) Location.
- (8) Disposition.
- (9) Posting reference and date of transaction.
- (10) Date placed in service (if required in accordance with the terms and conditions of the contract)."

FAR52.245-1(f) (b) (iv) (a) states: "The Contractor shall periodically perform, record, and disclose physical inventory results. A final physical inventory shall be performed upon contract completion or termination. The Property Administrator may waive this final inventory requirement, depending on the circumstances (e.g., overall reliability of the Contractor's system or the property is to be transferred to a follow-on contract)."

FAR 52.245-1(j) states: "Contractor inventory disposal. Except as otherwise provided for in this contract, the Contractor shall not dispose of Contractor inventory until authorized to do so by the Plant Clearance Officer."

Condition: PAE provided Crowe with an inventory of 4889 items. The inventory was dated September 2013, the end of the period of performance. This inventory listing did not contain all of the categories as required under FAR52.245-1(f) (b) (iii) (a). Categories not in this inventory listing included acquisition cost, posting reference and date of transaction, date placed in service or date of disposition and identification of the contract to which the equipment belonged.

We also noted large discrepancies in the number of items tracked in the September 2013 and the inventory dated August 2012. The August 2012 inventory included approximately 5,855 items while the 2013 inventory included 4889. A reconciliation was not performed on the periodic inventories, therefore it could not be determined why these items were noted in one inventory and not in the other.

From the August 2012 inventory we noted 19 of 60 items tested did not include documentation noting authorization for the disposal of the item as required by FAR 52.245-1(j). Examples of items with no disposal record include computers, communications equipment and office equipment.

Effect: By not properly complying with disposal guidance, equipment items may be improperly disposed of at a cost to the Federal Government. In addition, without complete property records, the risk that equipment items could be misplaced or lost is enhanced. Failure to retain purchase orders presents a risk that PAE may not have received the items actually ordered and paid for with federal funds.

Questioned costs: We question \$6,458, representing the cost related to 19 items that lacked appropriate documentation and may be missing from the inventory.

Cause: PAE maintained only certain inventory and procurement records and thus the files were not complete. PAE did not have an adequate policies and procedures to ensure that all required information related to equipment was properly documented and that inventory records complied with the noted sections of FAR 52.245.

Recommendation:

We recommend that:

- A. PAE develop policies and procedures to ensure;
  - (1) authorization for equipment disposal is obtained and documentation is retained supporting the disposal as required by FAR 52.245-1(j) and
  - (2) all required inventory components are tracked and maintained in compliance with FAR 52.245-1(f) (b) (iii) (a).
- B. PAE remit the \$6,458 of questioned costs to DOS or provide documentation to support the disposition of the equipment items.

**SECTION 2: Schedule of Prior Audit, Review, and Assessment Findings**

Per discussion with PAE and DOS, no prior audits, reviews, or assessments were conducted over JSSP project activities funded by the contract under audit. Accordingly, there were no corrective actions required for follow-up by Crowe Horwath.

**APPENDIX A – Views of Responsible Parties.**

1320 N. Courthouse Rd, Suite 800  
Arlington, VA 22201  
Telephone 703-717-6058 Facsimile 703-717-6196



24 April 2015

Emy Neuman-Javornik  
Crowe Horwath LLP  
1325 G Street NW, Suite 500  
Washington D.C. 20005-3136

**Subject:** PAE Responses to Final SIGAR Audit Report

**References:** (1) Final SIGAR Audit Report for Management Comment issued on 7 April 2015  
(2) CIVPOL Contract No. SLMAQM04C0033  
(3) JSSP II Task Order No. SAQMMA10F1855

Dear Ms. Neuman-Javornik,

PAE hereby submits the following management response to the audit finding included in the final SIGAR audit report issued on 7 April 2015:

**Finding 2015-01: Equipment Management- Material Weakness and Non-Compliance**

*(Inventory Report missing categories required by FAR 52.245-1 (f) (b) (iii) (a))*

PAE has a management approved Property Management Policy (PAE-654) issued on 13 April 2009 with the latest revision as of 1 January 2014. This Policy is accessible to all employees and is used for implementation by the Property Administrator assigned to each Program. Included in this Policy is reference to FAR 52.245-1 which Crowe Horwath mention in your finding as the basis for identifying that specific categories were not included in the inventory report we provided to Crowe Horwath. PAE agrees that these categories are required to be reported as reflected in the FAR clause and as referenced in our policy. This oversight has been communicated to the Property Administrator assigned to the JSSP Program and inclusion of these required categories will be reflected on the inventory report for future reference.

*Large discrepancies of inventory items tracked from inventory of Sept 2013 vs inventory of Aug 2012*

PAE could not identify an inventory which totals to the 13,096 items Crowe Horwath mention from the August 2012 inventory report. Through PAE's assessment, the August 2012 report should be 5504 items. We believe the numbers provided in the Quantity columns of the workbook were totaled causing the excess, when the actual number of unique asset tag numbers/identifiers should have been totaled. PAE recommends we meet with the audit team to clear-up this discrepancy or to better understand how Crowe Horwath arrived at the 13,096 count.

*24 inventory items did not have corresponding purchase orders*

As stated in Crowe Horwath reference to FAR 52.245, there is no requirement to identify purchase order numbers in the inventory reports. However, PAE certainly issues purchase orders for every item that PAE procures, which is valued over the micro-purchase threshold of \$3,000, as required by FAR and PAE guidelines. There are some instances where an item will not have a purchase order placed. Examples where there would be no purchase order would be for GFP, transfers from other Contractors or Programs, as built items and for vendor purchases below the written purchase order threshold (\$3000).



However, PAE did do a search on the 24 items Crowe Horwath mention as requiring purchase orders and provide the following summary (attached is a matrix to reconcile the 24 items):

- 4 items transferred in
- 5 items transferred in from JSSP I (PO located and attached)
- 1 as built
- 14 purchase order located and attached

PAE requests the statement in the final audit report in regards to compliance with Section 1.8 of the PAE Procurement Manual be stricken or amended based on the proceeding and following explanation. The Summary and Approval Form (PAE-PRO-006) referenced is used to summarize negotiations and obtain approvals of a Subcontract or Purchase Order for services and/or materials prior to the award. This form has no bearing on Inventory or Property Management and is incorrectly referenced here. PAE revised their Supply Chain Policies and Procedures Manual in June 2014, at which time this form was superseded by PAE-PRO-013 (Award Summary Review Form). PAE's current Global Supply Chain Policy and Procedures Manual also does not require maintaining a copy of this form or a copy of the Purchase Order with the inventory files.

In accordance with FAR 13.302-1 (d), the distribution of copies of purchase orders and related forms are to be limited to the minimum deemed essential for administration and transmission of contractual information. As such, beyond distribution to the subcontractor/vendor and as specifically required for the reconciliation of invoicing and receiving issues, copies of Purchase Orders are not sent outside the Procurement Department. Likewise, copies of form PAE-PRO-006 and form PAE-PRO-013 for summary and approval are maintained only within the Procurement File.

*27 of 60 items did not have proper documentation supporting the disposal of the items*

PAE was able to locate documentation to address 14 of the 27 items as explained below. Of the remaining 13 items with no documentation, PAE agrees to refund a total of \$3,762.41.

- 8 items were not LDD-ed and remain in the inventory (Please see the attached spreadsheet with green highlights in the Notes section)
- 1 item transferred to DynCorp (In the attached spreadsheet with a blue highlight in the Notes section. Also, see attached documentation with DynCorp)
- 5 items were LDD-ed or FWT-ed (In the attached spreadsheet with orange highlights in the Notes section. Also, attached documentation)
- 4 items do not have any documentation. (In the attached spreadsheet with gray highlights in the Notes section stating no documents found, and only a notation of it being on the tracker with COR signature. PAE agrees to refund the amount for these items - \$696.70)
- 9 items do not have any documentation found with no record of what occurred to the item. (In the attached spreadsheet with yellow highlights in the Notes section. PAE agrees to refund the amount for these items - \$3,065.71)

PAE appreciates the opportunity to respond to this final audit report and stands ready to discuss these responses at your earliest convenience.

Sincerely,

  
Andrew Steinmetz, Sr. Contracts Manager, PAE



**APPENDIX B – Crowe Response**

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

May 12, 2015

Crowe Horwath LLP, in consideration of the views presented by the management of Pacific Architects and Engineers presents the following rebuttal to Management Response (Response) found in Appendix A.

**Finding 2015-01**

PAE disagreed in part with the finding. We will address those areas where PAE provided additional information included in their management response.

In regard to differences noted between the August 2012 and September 2013 inventories, we have adjusted the inventory count noted for the August 2012 to reflect an inventory count of 5855. We could not validate PAE's inventory count as noted in Appendix A for August 2012.

We have reviewed additional support provided by PAE regarding authorization for disposal of inventory items noted in the report. The finding has been adjusted for those items for which support was provided in the management response. After consideration of the documentation, the finding has been adjusted to a total questioned cost of \$6,458 for items without disposition support.

PAE provided additional supporting documentation for inventory items for which purchase orders were not noted. This portion of the finding has been removed from the report based on the documentation provided.

## SIGAR's Mission

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

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

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- Phone Afghanistan: +93 (0) 700-10-7300
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## Public Affairs

Public Affairs Officer

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