

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 17-31 Financial Audit

Afghanistan Mine, Battle Area, and Range Clearance Operation – Phase II, Effort I: Audit of Costs Incurred by Janus Global Operations LLC

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



MARCH
2017

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On July 30, 2014, the U.S. Army Engineering and Support Center issued delivery order 0012, under contract number W912DY-10-D-0016, to Sterling Operations Inc. (Sterling) to fund Phase II, Effort I of the Afghanistan-wide Mine, Battle Area, and Range Clearance operation. The required tasks and performance objectives included performing technical and nontechnical surveys, subsurface clearance, and mine, battle area, and range clearance, with a period of performance from July 30, 2014, through December 31, 2015. After six modifications through December 31, 2015, the total cost of the delivery order increased from \$70.9 million to \$104.2 million, and the period of performance was extended to May 1, 2017.

In April 2016, Sterling completed an organizational restructuring and changed its name to Janus Global Operations LLC (Janus).

SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe), reviewed \$85,849,096 in expenditures charged to the delivery order from July 30, 2014, through December 31, 2015. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in Janus's internal controls related to the delivery order; (2) identify and report on instances of material noncompliance with the terms of the delivery order and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether Janus has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of Janus's Special Purpose Financial Statement (SPFS). See Crowe'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, SIGAR oversaw the audit and reviewed its results. Our review disclosed no instances where Crowe did not comply, in all material respects, with U.S. generally accepted government auditing standards.

March 2017

Afghanistan Mine, Battle Area, and Range Clearance Operation – Phase II, Effort I: Audit of Costs Incurred by Janus Global Operations LLC

SIGAR 17-31-FA

WHAT THE AUDIT FOUND

Crowe identified one significant deficiency and two material weaknesses in Janus's internal controls, and three instances of noncompliance with the terms and conditions of the delivery order. Specifically, Janus provided inadequate documentation to support the reasonableness of costs incurred by two of its subcontractors. In addition, Janus did not invoice the U.S. government using the most current or accurate indirect cost rates. Crowe also identified sole-source procurements that either lacked adequate justifications or did not meet price reasonableness cost principles, as required by federal regulations.

As a result of these internal control weaknesses and instances of noncompliance, Crowe identified \$3,114,808 in total questioned costs, consisting entirely of unsupported costs—costs not supported with adequate documentation or that did not have required prior approval. Crowe did not identify any ineligible costs—costs prohibited by the delivery order, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Surface Clearance	\$0	\$12,671	\$12,671
Technical Surveys	\$0	\$6,614	\$6,614
Project Management Support – Effort 1	\$0	\$9,719	\$9,719
Logistics, Maintenance, Management, and Security	\$0	\$2,949,112	\$2,949,112
Total Costs Incurred (Not Allocated to a Specific Project Task)	\$0	\$136,692	\$136,692
Totals	\$0	\$3,114,808	\$3,114,808

Crowe obtained and reviewed prior audit reports, reviews, and evaluations pertinent to Janus's financial performance under the delivery order. In a 2015 Defense Contract Audit Agency memorandum (*Post Award Accounting System Audit, Sterling Operations, Incorporated, Lenoir City, Tennessee*, audit no. 1211-2014B17741001, dated January 6, 2015), Crowe identified two audit findings that could have had direct and material effect on the SPFS or other financial information significant to the audit objectives.

Crowe concluded that Janus took adequate corrective action to address the first finding of inadequate contractor practices for reconciling billed to booked costs, but determined that Janus did not take corrective action on the second finding of inadequate contractor practices for billing and monitoring indirect costs and rates.

Crowe issued a qualified opinion on Janus's SPFS because Janus did not provide adequate documentation to support the reasonableness of costs incurred and erroneously submitted indirect cost adjustments to the U.S. government. As a result, the total questioned cost amount is considered to be material to the SPFS.

WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the responsible contracting officer at the U.S. Army Engineering and Support Center:

1. Determine the allowability of and recover, as appropriate, \$3,114,808 in questioned costs identified in the report.
2. Advise Janus to address the report's three internal control findings.
3. Advise Janus to address the report's three noncompliance findings.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

March 23, 2017

The Honorable Jim Mattis
Secretary of Defense

The Honorable Robert M. Speer
Acting Secretary of the Army

General Joseph L. Votel
Commander, U.S. Central Command

General John W. Nicholson
Commander, U.S. Forces–Afghanistan and
Commander, Resolute Support

Lieutenant General Todd T. Semonite
Commanding General and Chief of Engineers,
U.S. Army Corps of Engineers

We contracted with Crowe Horwath LLP (Crowe) to audit the costs incurred by Janus Global Operations LLC (Janus) under a U.S. Army Engineering and Support Center delivery order to fund Phase II, Effort I of the Afghanistan-wide Mine, Battle Area, and Range Clearance operation.¹ Crowe's audit covered \$85,849,096 in expenditures charged to the delivery order from July 30, 2014, through December 31, 2015. 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 audit, SIGAR recommends that the responsible contracting officer at the U.S. Army Engineering and Support Center:

- 1. Determine the allowability of and recover, as appropriate, \$3,114,808 in questioned costs identified in the report.**
- 2. Advise Janus to address the report's three internal control findings.**
- 3. Advise Janus to address the report's three noncompliance findings.**

The results of Crowe's audit are detailed in the attached report. We reviewed Crowe'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 Janus's Special Purpose Financial Statement. We also express no opinion on the effectiveness of Janus's internal control or compliance with the delivery order, laws, and regulations. Crowe is responsible for the attached auditor's report and the conclusions expressed in the report. However, our review disclosed no instances where Crowe did not comply, in all material respects, with U.S. generally accepted government auditing standards issued by the Comptroller General of the United States.

¹ The center awarded contract no. W912DY-10-D-0016, delivery order 0012 to Sterling Operations Inc. The required tasks and performance objectives included performing technical and nontechnical surveys, subsurface clearance, and mine, battle area, and range clearance. In April 2016, Sterling completed an organizational restructuring and changed its name to Janus.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

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-089)



Janus Global Operations LLC

Mine, Battle Area, and Range Clearance – Phase II

Contract Number W912DY-10-D-0016, Delivery Order 0012

Special Purpose Financial Statement

For the Period July 30, 2014, through December 31, 2015

(With Independent Auditor's Report Thereon)

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Transmittal Letter

February 6, 2017

Board of Directors and Management of Janus Global Operations LLC
2229 Old Highway 95
Lenoir City, Tennessee 37771

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

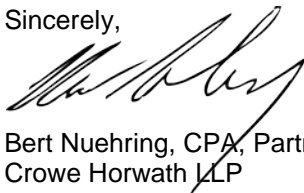
We appreciate the opportunity to provide to you our report regarding the procedures that we have completed during the course of our audit of the Janus Global Operations LLC's ("Janus") delivery order with the United States Army Engineering & Support Center funding the Afghanistan Wide Mine, Battle Area, and Range Clearance – Phase II activities.

Within the pages that follow, we have provided a brief summary of the work performed. Following the summary, we have incorporated our report on the Special Purpose Financial Statement, report on internal control, and report on compliance. We do not express an opinion on the summary or any information preceding our reports. Management's responses appear subsequent to our audit reports and are followed by the auditor's rebuttal.

When preparing our report, we considered comments, feedback, and interpretations of Janus, the Office of the Special Inspector General for Afghanistan Reconstruction, and the U.S. Army Engineering & Support Center provided both in writing and orally throughout the audit planning and fieldwork phases.

Thank you for providing us the opportunity to work with you and to conduct the financial audit of Janus's delivery order.

Sincerely,



Bert Nuehring, CPA, Partner
Crowe Horwath LLP

Summary

Background

On July 30, 2014, the United States Army Engineering & Support Center issued delivery order 12 under contract number W912DY-10-D-0016 to Sterling Operations, Inc. ("Sterling") to fund Phase II of the Afghanistan Wide Mine, Battle Area, and Range Clearance ("BARC Phase II") operation. BARC Phase II includes a variety of tasks and performance objectives, including but not limited to, performing non-technical surveys, subsurface clearance, technical surveys, range and battle area clearance, and mine clearance. The award's original period of performance was divided into two efforts – Effort 1 spanning July 30, 2014, through December 31, 2015, and Effort 2 spanning January 31, 2015, to May 1, 2017. The primary government customer receiving the services from Sterling was the United States Army Corp of Engineers ("USACE"). Effort 1 was considered to be within the scope of the audit.

The initial BARC Phase II delivery order, which was structured as a cost plus fixed fee award, included total funding of \$70,913,000 for Effort I. The delivery order was modified six times within the audit period, including a modification extending the period of performance for Effort I activities to May 1, 2017. In addition, the modifications increased funding for the delivery order to \$218,872,853, including \$104,182,632 for Effort 1. Sterling reported \$81,141,751 in costs incurred under Effort 1 and [REDACTED] in fixed fee earned as of December 31, 2015. Using these funds, Sterling reportedly completed clearance activities for twelve of twenty ranges.

Effective April 4, 2016, Sterling completed an organizational re-structuring thereby changing its name from Sterling Operations, Inc. to Janus Global Operations LLC. Therefore, the auditee, as presented within this document, will be formally referred to as Janus Global Operations LLC, or Janus.

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 Janus's BARC Phase II – Effort 1 project.

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 Janus's Special Purpose Financial Statement for the delivery order presents fairly, in all material respects, revenues earned, costs incurred, items directly procured by the U.S. Government, and balance for the period audited in conformity with the terms and conditions of the delivery order and generally accepted accounting principles or other comprehensive basis of accounting.

Audit Objective 2 – Internal Controls

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

Audit Objective 3 – Compliance

Perform tests to determine whether Janus complied, in all material respects, with the delivery order's requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the delivery order 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 Janus has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the special purpose financial statement or other financial data significant to the audit objectives.

Scope

The scope of the audit included the period July 30, 2014, through December 31, 2015. The audit was limited to those matters and procedures pertinent to the delivery order that have a direct and material effect on the Special Purpose Financial Statement ("SPFS"). The audit also included an evaluation of the presentation, content, and underlying records of the SPFS. Further, the audit included reviewing the financial records that support the SPFS to determine if there were material misstatements and if the SPFS was presented in the format required by SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

- Allowable Costs;
- Allowable Activities;
- Cash Management;
- Equipment and Property Management; and
- Procurement.

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, assessment, and findings and review comments, as applicable.

For purposes of meeting Audit Objective 1 pertaining to the SPFS, transactions were selected from the financial records underlying the SPFS and were tested to determine if the transactions were recorded in accordance with accounting principles generally accepted in the United States of America; were incurred within the period covered by the SPFS and in alignment with specified cutoff dates; were appropriately allocated to the award if the cost benefited multiple objectives; and were adequately supported.

With regard to Audit Objective 2 regarding internal control, Crowe requested and the auditee provided copies of policies and procedures to provide Crowe with an understanding of the system of internal control established by Janus. The system of internal control is intended to provide reasonable assurance of achieving reliable financial 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 delivery order. Crowe identified – through review and evaluation of the indefinite-delivery, indefinite-quantity contract under which the delivery order was issued and the delivery order, inclusive of modifications, executed by and between Janus and United States Army Engineering & Support Center and the Code of Federal Regulations – the criteria against which to test the SPFS and supporting financial records and documentation. Using various sampling techniques, including but limited to audit sampling guidance for compliance audits provided by the American Institute of Certified Public Accountants, Crowe selected expenditures, invoices submitted to the Government for payment, equipment and property purchased with Federal funding, and procurements made under the award and corresponding costs incurred. Supporting documentation was provided by the auditee and subsequently evaluated to assess Janus' compliance. Testing of indirect costs was limited to determining a) whether indirect costs were charged using rates submitted to the Government as part of Janus' incurred costs submissions; and b) whether Janus calculated and submitted vouchers to align indirect costs billed using estimated rates with actual indirect costs incurred.

Regarding Audit Objective 4, Crowe inquired of Janus, the U.S. Army Engineering and Support Center staff, and SIGAR to understand whether or not there were prior audits, reviews, or assessments that were pertinent to the audit scope. Crowe also conducted an independent search of publicly available information to identify audit and review reports. As a result of the aforementioned efforts, we identified one prior report for review and evaluation; the report is dated January 6, 2015, and was issued by the Defense Contract Audit Agency under audit assignment number 1211-2014B17741001. Per our review, two prior findings were identified that required follow-up.

Summary of Results

Upon completion of Crowe's procedures, Crowe identified three findings because they met one or more of the following criteria: (1) significant deficiencies in internal control, (2) material weaknesses in internal control, (3) noncompliance with rules, laws, regulations, or the terms and conditions of the delivery order; and/or (4) questioned costs resulted from identified instances of noncompliance.

Crowe issued a qualified opinion on the Special Purpose Financial Statement due to a material amount of questioned costs having been identified during the audit.

Crowe also reported on both Janus' compliance with the applicable laws, rules, regulations, and the terms and conditions of the delivery order and the internal controls over compliance and financial reporting. Two material weaknesses in internal control, one significant deficiency in internal control, and three instances of noncompliance were reported. Where internal control and compliance findings pertained to the same matter, they were consolidated within a single finding. A total of \$3,114,808 in costs was questioned. Questioned costs are summarized in **TABLE A** contained herein. The 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. Due to the scope of the audit concluding on December 31, 2015, costs incurred in 2016 under procurements that are referenced within this report's audit findings are not questioned herein. See finding 2016-02 for additional information.

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to Janus' financial performance under the award. One prior report was identified, which included two findings requiring follow-up. The issues pertained to Janus not invoicing the Government using the most current or accurate indirect cost rates and having an inadequate process to reconcile billed to booked costs. Based on Crowe's procedures, Janus was considered to have implemented adequate corrective action with respect to the second of the two aforementioned findings. Adequate corrective action was not taken with respect to the first matter as discussed in **SECTION 2** of the report.

TABLE A: Summary of Findings and Questioned Costs

Finding Number	Matter	Questioned Costs
2016-01	Sole Source Procurements and Support for Cost Reasonableness	\$2,948,820
2016-02	Inadequate Support for Certified Cost or Pricing Data Exceptions	\$165,696
2016-03	Indirect Cost Adjustment Not Completed Timely	\$292
Total Questioned Costs		\$3,114,808

Summary of Management Comments

Management disagreed with the questioned costs included within audit findings 2016-01 and 2016-02 because the USACE Contracting Officer approved the purchase order requisitions that authorized Janus to proceed with procuring services from certain subcontractors. Management agreed that neither certificates of current cost or pricing data nor certified cost or pricing data were received from the subcontractors, as required, and provided for audit.

Management concurred with finding 2016-03.

References to Appendices

The auditor's reports are supplemented by two appendices: **Appendix A**, which contains management's responses to the audit findings; and **Appendix B**, which contains the auditor's rebuttal to management's comments.

Independent Auditor's Report on the Special Purpose Financial Statement

To the Board of Directors and Management of Janus Global Operations LLC
2229 Old Highway 95
Lenoir City, Tennessee 37771

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

Report on the Special Purpose Financial Statement

We have audited the Special Purpose Financial Statement ("the Statement") of Janus Global Operations LLC ("Janus"), and related notes to the Statement, with respect to the Afghanistan Wide Mine, Battle Area, and Range Clearance – Phase II project funded by delivery order 12 issued under contract number W912DY-10-D-0016 ("the award"), for the period July 30, 2014, through December 31, 2015.

Management's Responsibility for the Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of the Statement in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") in Appendix IV of Solicitation ID11140014019 ("the Contract"). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a Statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

The audit identified \$3,114,808 in questioned costs as a result of Janus not providing adequate supporting documentation to support the reasonableness of costs incurred by two subcontractors and due to an error in the indirect cost adjustment submitted to the Government. The total questioned cost amount is considered to be material to the Statement.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, revenues earned, 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 Statement was prepared by Janus in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction in Appendix IV of the Contract and presents those expenditures as permitted under the terms of delivery order 12 issued under contract number W912DY-10-D-0016, 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 Janus Global Operations LLC, the United States Army Engineering & Support Center, the United States Army Corps of Engineers, 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 January 27, 2017, on our consideration of Janus' 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 Janus' internal control over financial reporting and compliance.



Crowe Horwath LLP

January 27, 2017
Washington, D.C.

Janus Global Operations LLC
Special Purpose Financial Statement
Contract No. W912DY-10-D-0016, Delivery Order 12, Effort 1
For the Period July 30, 2014, through December 31, 2015

		<u>Questioned Costs</u>				
		<u>Budget/Funded</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
Revenues						4, 5
Contract No. W912DY-10-D-0016, Task Order 12		\$ [REDACTED]	\$ [REDACTED]			
Total Revenue		\$ [REDACTED]	[REDACTED]			
Firm Fixed Price						6
4312.000.001.001	Work Plan	\$ [REDACTED]	\$ [REDACTED]			
4312.000.001.002	Property Management Plan	[REDACTED]	[REDACTED]			
4312.000.001.003	Security Plan	[REDACTED]	[REDACTED]			
4312.000.001.004	Mob/Demob Plan	[REDACTED]	[REDACTED]			
4312.000.001.101	Ops Maint Mgmt of DFAC	\$ [REDACTED]	\$ [REDACTED]			
Costs Incurred						6
4312.000.002.051	Non-Technical Surveys	\$ [REDACTED]	\$ [REDACTED]			
4312.000.002.052	Surface Clearance	[REDACTED]	[REDACTED]		\$ 12,671	B
4312.000.002.053	Technical Surveys	[REDACTED]	[REDACTED]		6,614	B
4312.000.002.055	PM Support Effort I	[REDACTED]	[REDACTED]		9,719	B
4312.000.002.061	GIS Support	[REDACTED]	[REDACTED]			
4312.000.002.071	AMAS Quality Control Insp	[REDACTED]	[REDACTED]			
4312.000.002.081	Mobilization US Personnel	[REDACTED]	[REDACTED]			
4312.000.002.083	Mob US Prsnl W/I Afghan	[REDACTED]	[REDACTED]			
4312.000.002.085	Mob of OCN Personnel	[REDACTED]	[REDACTED]			
4312.000.002.087	Mob OCN Prsnl W/I Afghan	[REDACTED]	[REDACTED]			
4312.000.002.089	Mob of LN Personnel	[REDACTED]	[REDACTED]			
4312.000.002.091	Demob US Personnel	[REDACTED]	[REDACTED]			
4312.000.002.093	Demob OCN Personnel	[REDACTED]	[REDACTED]			
4312.000.002.095	Demob LN Personnel	[REDACTED]	[REDACTED]			
4312.000.002.111	Log Maint Mgmt and Sec	[REDACTED]	[REDACTED]		2,949,112	A, C
4312.000.005.131	Manpower Reporting	[REDACTED]	[REDACTED]			
Total Costs Incurred		\$ 98,800,019	\$ 81,141,751		136,692	B
Fee Earned	Fee Earned	\$ [REDACTED]	\$ [REDACTED]			
Balance		-	-		\$ 3,114,808	7

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

Janus Global Operations LLC
Notes to the Special Purpose Financial Statement
For the Period July 30, 2014, through December 31, 2015

Note 1. Basis of Presentation

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Contract Number W912DY-10-D-0016, delivery order 0012 for the Battle Area and Range Clearance – Phase II ("BARC Phase II") Effort I for the period of July 30, 2014 through December 31, 2015. Because the Statement presents only a selected portion of the operations of the Contractor, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Janus Global Operations LLC. 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 United States generally accepted accounting principles ("GAAP") and, therefore, are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Federal Acquisition Regulation ("FAR") 31, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Foreign Currency Conversion Method

When invoices and receipts are received denominated in Afghanistan Afghanis, the amount is converted to United States Dollars by the document translator. This translator uses the Central Bank of Afghanistan ("CBA") conversion rate for the day of the invoice or receipt. The CBA rate is published at <http://dab.gov.af/en/DAB/currency>.

Note 4. Revenues

Revenues on the Statement represent the amount of funds to which the Contractor is entitled to receive from the United States Army ("Army") for allowable, eligible costs incurred under the contract and fees earned during the period of performance.

Note 5. Revenue Recognition

Cost Reimbursable tasks are recognized based on cost incurred (including accrued costs) plus applicable indirect rates and the proportion of fee associated with the portion of the task completed. Firm Fixed Price tasks are recognized based on the proportion of work completed in comparison to the overall task value. Revenue is calculated using actual indirect rates. These rates are subject to reviews by the Defense Contract Audit Agency ("DCAA") of the Contractor's incurred cost submissions. The final outcome of these reviews may result in a rate adjustment which could increase or decrease the revenue recognized in these statements.

Note 6. Costs Incurred by Budget Category

The budget categories, represented by Contract Line Item Number ("CLIN"), presented and associated amounts reflect the budget line items presented within the final Army-approved contract budget adopted as a component of the modification number six to the contract dated July 30, 2014. CLINs include both direct costs as well as indirect costs as there were no separate CLINs designated for indirect costs.

(Continued)

Note 7. Balance

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

Note 8. Currency

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

Note 9. Program Status

The BARC Phase II program remains active. The period of performance for the contract is scheduled to conclude on May 1, 2017 as noted in modification number five dated November 25, 2015. Accordingly, adjustments to amounts currently reported on the Special Purpose Financial Statement may be made as a result of DCAA audits of incurred costs, the review of final rates shown in the incurred cost submission, or internal reviews that result in the reclassification of costs incurred.

Note 10. Reconciliation to Invoiced Amounts

The Contractor's total costs incurred as of December 31, 2015, is [REDACTED] while the total amount invoiced is [REDACTED] resulting in a difference of [REDACTED]. This difference is due to costs incurred but not yet billed as of December 31, 2015 and differences in indirect rates billed (provisional rates) and rates used to calculate costs and revenues (actual rates). Costs incurred but not yet billed include accrued items, items placed on hold for further research, items awaiting correction, and other such similar costs.

Note 11. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the seventeen month period covered by the Statement. Management has performed their analysis through January 27, 2017.

Note A. Sole Source Procurements and Support for Cost Reasonableness

Finding 2016-01 identified \$2,948,820 in costs charged by Janus to the Government for large loop detectors that were procured from [REDACTED] without adequate supporting documentation for cost or price reasonableness and inadequate support for the sole source procurement.

Note B. Inadequate Support for Certified Cost or Pricing Data Exceptions

Finding 2016-02 questioned \$165,696 in costs incurred by [REDACTED] due to inadequate supporting documentation to support the reasonableness of the costs charged to Janus and passed through to the Government. \$29,004 of the questioned costs were recorded to project tasks 4312.000.002.052, 4312.000.002.053, and 4312.000.002.055. The remaining balance of \$136,692 was recorded to project tasks 4312.000.002.054 and 4312.000.002.056 per Janus' purchase order report. Whereas the tasks ending in .054 and .056 were not utilized for the final project task structure that contributed to preparation of the SPFS from the accounting records, the \$136,692 appears on the "Total Costs Incurred" line and is not allocated by project task.

Note C. Indirect Cost Adjustments Not Completed Timely

Finding 2016-03 questioned \$292 as a result of an error made when completing the indirect cost adjustments filed in October 2016.

¹ Notes to the Questioned Costs are prepared by the auditor for purposes of this report. Management takes no responsibility for the notes to the questioned costs.

Independent Auditor's Report on Internal Control

To the Board of Directors and Management of Janus Global Operations LLC
2229 Old Highway 95
Lenoir City, Tennessee 37771

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

We have audited the Special Purpose Financial Statement ("the Statement") of Janus Global Operations LLC ("Janus"), and related notes to the Statement, with respect to the Afghanistan Wide Mine, Battle Area, and Range Clearance – Phase II project funded by delivery order 12 issued under contract number W912DY-10-D-0016 ("the award"), for the period July 30, 2014, through December 31, 2015. We have issued our report thereon dated January 27, 2017, within which we have qualified our opinion.

Internal Control over Financial Reporting

Janus' 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 award; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of presentation described in Note 1 to the Statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the Statement for the period July 30, 2014, through December 31, 2015, we considered Janus' internal controls to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of Janus' internal control. Accordingly, we do not express an opinion on the effectiveness of Janus' 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 two findings in internal control that we consider to be material weaknesses and one finding that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies noted in Findings 2016-01 and 2016-02 in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency noted in Finding 2016-03 in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency.

Janus Global Operations LLC's Response to the Findings

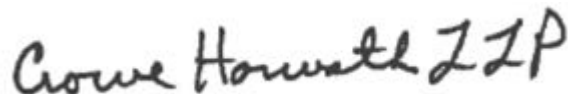
Janus' response to the findings identified in our audit are described in Appendix A to the audit report. Janus' response was not subject to the auditing procedures applied in the audit of the Special Purpose Financial Statement and, accordingly, we express no opinion on it.

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 Janus, the United States Army Engineering & Support Center, the United States Army Corps of Engineers, 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.

A handwritten signature in dark ink that reads "Crowe Horwath LLP". The signature is written in a cursive, flowing style.

Crowe Horwath LLP

January 27, 2017
Washington, D.C.

Independent Auditor's Report on Compliance

To the Board of Directors and Management of Janus Global Operations LLC
2229 Old Highway 95
Lenoir City, Tennessee 37771

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

We have audited the Special Purpose Financial Statement ("the Statement") of Janus Global Operations LLC ("Janus"), and related notes to the Statement, with respect to the Afghanistan Wide Mine, Battle Area, and Range Clearance – Phase II project funded by delivery order 12 issued under contract number W912DY-10-D-0016 ("the award"), for the period July 30, 2014, through December 31, 2015. We have issued our report thereon dated January 27, 2017, within which we have qualified our opinion.

Management's Responsibility for Compliance

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

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 three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Findings 2016-01, 2016-02, and 2016-03 in the accompanying Schedule of Findings and Questioned Costs.

Janus Global Operations LLC's Response to the Findings

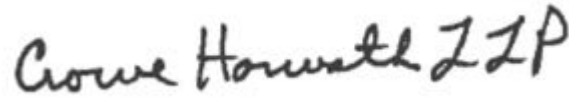
Janus' response to the findings identified in our audit are described in Appendix A to the audit report. Janus' response was not subject to the auditing procedures applied in the audit of the Special Purpose Financial Statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of 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 Janus Global Operations LLC, the United States Army Engineering & Support Center, the United States Army Corps of Engineers, 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.

A handwritten signature in black ink that reads "Crowe Horwath LLP". The script is cursive and somewhat stylized, with the letters "C", "H", and "L" being particularly prominent.

Crowe Horwath LLP

January 27, 2017
Washington, D.C.

Finding 2016-01: Sole Source Procurements and Support for Cost Reasonableness

Criteria: With respect to the allowability of costs, incurred, the commercial cost principles appearing in Title 48, Subpart 31.2 of the Code of Federal Regulations include the following requirements:

- (1) Reasonableness.
- (2) Allocability.
- (3) Standards promulgated by the CAS Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the circumstances.
- (4) Terms of the contract.
- (5) Any limitations set forth in this subpart.

(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.

Janus' procurement procedures state:

[REDACTED]

10/10/2016

[REDACTED]

Condition: During our testing of 60 procurements, we noted that 26 purchase orders were awarded through sole source procedures. Our evaluation of sole source justification documents resulted in our identification of three purchase orders that were either inadequately justified or did not meet the test of price reasonableness: two purchase orders awarded to the [REDACTED] (purchase orders 1115989 and 1115990 valued at \$1,908,578 and \$11,183,328, respectively) and one purchase order (1114884) awarded to [REDACTED]

First, we identified a sole source procurement that was not supplemented by evidence of price reasonableness. Janus purchased custom technical equipment from [REDACTED] (Purchase Order 1114884) indicating that the vendor was the only supplier of the technology that would allow for detection at the sub-surface depth required for the project. The procurement file did not, however, contain evidence of a market analysis or other research to support the assertion that [REDACTED] was the only vendor capable of providing the required large loop detectors. Therefore, the supporting documentation for the sole source procurement is considered to be inadequate.

In addition, in the absence of documentation within Janus' procurement file or otherwise produced by Janus, it could not be determined that the price charged by [REDACTED] to Janus, inclusive of the profit, was reasonable. Per review of the Federal transaction schedule showing all direct costs charged to the award, we noted that \$2,948,820 in costs were billed for [REDACTED] large loop detectors. The full amount of costs incurred is in question in the absence of documentation that is sufficient to quantify a reasonable component of the billed costs.

Next, the justifications provided by Janus regarding the two sole source awards of \$1,908,578 and \$11,183,328 stated that [REDACTED] was recommended due to their past performance in Helmand and Kandahar, a justification that is not in compliance with Janus' procurement procedures. Janus also represented that one other entity was identified, but that the entity did not perform the requisite services in risky environments. Evidence of Janus' having performed a market analysis to identify available contractors or having inquired of other Federal Government agencies that have performed demining efforts in Afghanistan using in-country resources (e.g., Afghan Technical Consultants, HALO Trust, Mine Clearance Planning Agency, Mine Detection Dog Center, or Roots for Peace) was not included within the file support. As a result, Janus did not document the execution of competitive procedures, to the maximum extent practical.

Janus further indicated that a cost or price analysis was not performed for the [REDACTED] awards. Janus provided documentation comparing [REDACTED] costs to the internal cost of delivery based on Janus' direct delivery of demining services in Afghanistan in 2015. Per review of this documentation, the [REDACTED] costs were considered to be reasonable such that [REDACTED] costs are not in question.

Questioned costs: \$2,948,820

Effect: [REDACTED] may have included an unreasonable profit margin or markup within its pricing model thereby overcharging Janus and the Government. Such an overcharge would not be detected by Janus due to cost or price analyses on the [REDACTED] prices not having been performed. With regard to the selection of [REDACTED] for demining services, in the presence of alternate suppliers, the procurement may be improperly directed to the organization and greater costs than necessary may have been charged due to Janus' not proceeding with an open, competitive process.

Cause: Per our discussions with Janus, the company did not consider it necessary to conduct cost or price analyses for [REDACTED] due to a) Janus' having purchased the same or similar products from [REDACTED] for a number of years and b) [REDACTED] being the only provider known to Janus of the large loop detectors required to meet the USACE's requirements. Regarding [REDACTED] Janus indicated that it was unaware of

other organizations who would complete demining services in higher risk areas and did not conduct a market analysis after being informed of two prospects by the Afghan Government. Janus' procurement policy did not expressly require inclusion of cost or price analyses prior to issuing subcontracts.

Recommendation: We recommend that Janus take the following actions:

1. Modify its procurement policy to require procurement staff to support the reasonableness of cost or price analysis for all procurements in which adequate competition does not exist or competitive procedures are otherwise not conducted, as required by federal regulations;
2. Obtain documentation supporting the development of the price charged by [REDACTED] and document reasonableness, including an analysis of the profit, and provide the support to the United States Army Engineering & Support Center or otherwise reimburse the Government \$2,948,820;
3. Provide documentation to support the assertion that [REDACTED] is the only vendor capable of providing the applicable large loop detectors; and
4. Conduct training of procurement staff regarding appropriate documentation to support the use of noncompetitive procurement methods.

Finding 2016-02: Inadequate Support for Certified Cost or Pricing Data Exceptions

Material Weakness and Non-Compliance

Criteria: Janus' procurement procedures state:

4.15 PRICE/COST ANALYSIS



FAR 52.215-13, *Subcontractor Cost or Pricing Data--Modifications*, as incorporated into Janus' agreement, requires that Janus obtain certified cost or pricing data for contract modifications in accordance with FAR 15.403-4.

FAR 15.403-4 required the submission of certified cost or pricing data for those procurements exceeding \$700,000. FAR 15.403-1, *Prohibition on Obtaining Certified Cost or Pricing Data*, provides four specific exceptions from the certified cost or pricing data requirement, including instances where price is based on adequate price competition, prices are set by law or regulation, or the item being procured is a commercial item, and when a waiver is granted by the head of the contracting activity. Pursuant to FAR 15.403-1, certified cost or pricing data shall not be required when one of the aforementioned exceptions applies.

With respect to the allowability of costs incurred, the commercial cost principles appearing in Title 48, Subpart 31.2 of the Code of Federal Regulations include the following requirements:

31.201–2 Determining allowability

- (a) A cost is allowable only when the cost complies with all of the following requirements:
 - (1) Reasonableness.
 - (2) Allocability.
 - (3) Standards promulgated by the [Cost Accounting Standards] Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the circumstances.
 - (4) Terms of the contract.
 - (5) Any limitations set forth in this subpart.
- (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. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.

31.201–3 Determining reasonableness

- (a) A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business. Reasonableness of specific costs must be examined with particular care in connection with firms or their separate divisions that may not be subject to effective competitive restraints. No presumption of reasonableness shall be attached to the incurrence of costs by a contractor. If an initial review of the facts results in a challenge of a specific cost by the contracting officer or the contracting officer's representative, the burden of proof shall be upon the contractor to establish that such cost is reasonable.

Condition: Janus utilized [REDACTED] to provide risk management consulting services and

(Continued)

supervision/management of the Afghan Public Protection Force ("APPF") in-country. The original purchase order (1115982) was valued at \$8,328,080 and was subsequently modified through three change orders. The third change order - valued at \$3,840,330 - exceeded the threshold requiring certified cost and pricing data and a certificate of current cost or pricing data. .

Similarly, purchase order 1115315 for [REDACTED] was modified multiple times. Those modifications that exceeded the certified cost or pricing data threshold were not accompanied by such data or certificates of current cost or pricing data. Change orders 2, 4, 5, and 6 exceeded the threshold requiring both the data and certificates. \$4,555,340 in costs were recorded by [REDACTED] under the purchase order. Of the \$4,555,340, \$4,497,834 was recorded within the period under audit.

With respect to both [REDACTED] and [REDACTED] Janus failed to provide certified cost or pricing data, certificates of current cost or pricing data, or adequate documentation to support the appropriate application of an exception to the certified cost or pricing data requirements.

Reasonableness of Cost

In the absence of certified cost or pricing data to support the reasonableness of costs incurred, we tested the procurement files to determine if alternative support was assembled during the procurement process to conclude that the costs incurred were reasonable. A cost or price analysis or other comparative analysis was not provided to support cost reasonableness for [REDACTED] or [REDACTED]

[REDACTED]
In addition, regarding [REDACTED] we noted that the average APPF camp security guard rate of [REDACTED] per month [REDACTED] exceeds the average APPF guard rate of \$899 per month (\$756 average calculated per Table 3 in SIGAR audit report 13-15, *Afghanistan Public Protection Force: Concerns Remain about Force's Capabilities and Costs*, and adjusted for inflation between 2012 - 2015). Janus also provided a schedule showing the monthly rate for security services provided to the U.S. Government by Janus under various contracts awarded to the company when it was named EOD Technology, Incorporated ("EODT"). Whereas the procurement decisions, pricing structures, or other matters resulting in EODT's selection at the time are not subject to audit under the scope of this engagement and the scopes of work varied, consideration of such rates for purposes of concluding that [REDACTED] sole source rates are reasonable was not considered appropriate. Accordingly, the [REDACTED] security rates resulting from the procurement are considered to be unreasonable, in part. We noted that Janus did not record any costs in 2015 under the [REDACTED] purchase order in question; rather, \$5,418,143 was recorded in 2016 under the purchase order. These costs are not in question due to the scope of the audit concluding on December 31, 2015.

[REDACTED]
With respect to the reasonableness of [REDACTED] costs incurred, Janus provided various analyses completed during the audit showing comparisons to internal costs to deliver the same or similar services as well as comparisons to rates that resulted from competitive bids received subsequent to award to [REDACTED]. Based on our review of the documentation provided by Janus, unit rates for all positions with the exception of maintenance employees and provincial liaisons were considered to be reasonable. Price comparisons for maintenance employees relative to Janus' internal maintenance did not specify the type of maintenance workers functioning for [REDACTED] and for Janus such that the scopes or work and expertise levels are the same. In the absence of such a detailed analysis and basis of comparison, the support provided is considered insufficient. Regarding provincial liaisons, the [REDACTED] rate of [REDACTED] per day exceeded the competitive rates of \$17.89 and \$27 such that [REDACTED] rate is considered unreasonable. The total costs incurred during our audit period for the two positions is \$165,696, which is in question.

However, as noted above, profit amounts were not itemized within the pricing build-up and, therefore, could not be assessed for reasonableness. Due to the lack of available supporting documentation, the profit amount could not be segregated or otherwise quantified and questioned.

Questioned costs: \$165,696

Effect: The Government may have been overcharged as a result of Janus not completing cost or price analyses or otherwise receiving adequate supporting documentation for price and cost reasonableness prior to entering into agreements. In addition, in the absence of pricing support clearly identifying profit

(Continued)

and administrative cost amounts, amounts paid by Janus may exceed those rates prescribed by the APPF. Lastly, due to costs having been incurred subsequent to the audit period, there is a risk that unreasonable costs may be charged for the balance of the period of performance.

Cause: Janus considered the Contracting Officer's approval of the Purchase Order Requisitions ("POR") to constitute a tacit approval of the allowability and reasonableness of the subcontractors' costs. However, the Government's approval of each POR did not expressly indicate that the Government concurred with the reasonableness and allowability of the costs and documentation supporting reasonableness that satisfies the applicable commercial cost principles requirements in support of the reasonableness assertion was not included in the procurement files.

Lastly, Janus improperly applied the "Prices Set by Law or Regulation" exception to requiring certified cost or pricing data to both the [REDACTED] and [REDACTED] modifications. The application was considered improper due to inadequate documentation to support the subcontractors' prices having been set in law or regulation, including: [REDACTED] and [REDACTED] purchase orders containing numerous rates that were not prescribed by the APPF within its price lists², certain rates charged not agreeing to those prescribed in the APPF price list documents, and Janus not documenting or otherwise producing a law or regulation that expressly set the prices or rates charged by its subcontractors. Janus also indicated that [REDACTED] acts as an extension of the APPF such that Janus assumes the [REDACTED] rates are set and approved by the APPF.

Recommendation: We recommend that Janus take the following actions:

1. Provide training to procurement staff regarding requirements applicable to: a) certified cost or pricing data, including application of exceptions to the requirement and documentation required to support the exceptions; b) conduct of cost or price analyses; and c) documentation standards for cost or price analyses;
2. Provide documentation showing that the scope of work for [REDACTED] maintenance workers is the same as the Janus maintenance workers and provide an accompanying cost comparison to support the reasonableness of [REDACTED] rate to the United States Army Engineering & Support Center or otherwise reimburse the Government for \$23,531 in maintenance costs; and
3. Reimburse the Government for \$142,165 in liaison charges or otherwise provide the United States Army Engineering & Support Center with documentation supporting the reasonableness of the amount charged.

² The APPF publishes price lists within its "APPF Monthly Cost Per Guard" and "Rent expenses, food, and other daily requirements" documents. The lists prescribe certain costs to be charged for APPF guards, including but not limited to, ammunition, weapons, administrative overhead, training, food stipend, medicine, burial contribution, bank charges, uniforms, and other items. APPF documents for download may be accessed here: <http://www.appf.gov.af/downloads.htm>.

Finding 2016-03: Indirect Cost Adjustment Not Completed Timely

Significant Deficiency and Noncompliance

Criteria: FAR 52.216-7(e), *Allowable Cost and Payment*, states:

- (e) *Billing rates.* Until final annual indirect cost rates are established for any period, the Government shall reimburse the Contractor at billing rates established by the Contracting Officer or by an authorized representative (the cognizant auditor), subject to adjustment when the final rates are established. These billing rates—
- (1) Shall be the anticipated final rates; and
 - (2) May be prospectively or retroactively revised by mutual agreement, at either party's request, to prevent substantial overpayment or underpayment.

Condition: Following the completion of Janus' fiscal years ended December 31, 2014, and December 31, 2015, Janus did not calculate and submit an adjustment to its previously invoiced indirect costs based on calculated final indirect cost rates for the base periods in a timely manner. Janus completed the indirect cost adjustment and submitted the voucher during the audit - submitting invoice 4312-24 dated October 31, 2016. The amount of the adjustment was \$6,006,878 thus indicating that there was an underbilling to the Government.

During our review of the adjustment and Janus' reconciliation of the adjustment to the Special Purpose Financial Statement and Janus' final invoice containing costs incurred through December 31, 2015, as provided by management (4312-14R), we noted that there was an overbilling to the Government of \$291.84.

Questioned costs: \$292

Effect: Janus' underbilling was not addressed timely thus resulted in a large unplanned obligation to the Government crossing multiple Federal accounting periods.

Cause: Janus had understood that the Defense Contract Audit Agency ("DCAA") was required to audit the indirect cost rate prior to an adjustment being processed. In addition, Janus did not have a process in place instructing staff to process the adjustment immediately following issuance of its annual financial statement audit reports.

Recommendation: We recommend that Janus reimburse the Government \$292 and, going forward, proceed with processing adjustments at the conclusion of each fiscal year irrespective of DCAA's having initiated or otherwise completed its indirect cost rate audits. We further recommend that Janus adopt a policy or procedure that directs accounting and finance staff to process adjustments at the time required by federal regulation and/or the terms of its rate agreements so as to prevent future untimely adjustments.

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

Crowe reviewed one audit report issued by the Defense Contract Audit Agency (“DCAA”) dated January 6, 2015, under audit assignment number 1211-2014B17741001. Upon review of the report, two findings were noted that could have a direct and material effect on the Special Purpose Financial Statement or other financial information significant to the audit objectives. Accordingly, Crowe conducted follow-up procedures regarding the findings, as noted below.

Finding 1 – Inadequacy of Contractor Practices for Billing and Monitoring Indirect Costs/Rates

Issue: Janus did not monitor the rates used for billing indirect costs on cost type projects. Invoices were prepared using indirect rates obtained from the proposals submitted prior to the project award. The indirect rates were not considered suitable or appropriate for the current fiscal year and did not reflect the latest anticipated final rates for the current fiscal year. DCAA further notes that the use of the rates raised questions regarding the accuracy and reasonableness of the amount of indirect costs billed and whether costs were being significantly over billed or under billed.

Status: Corrective action regarding this matter is not considered to have been adequately completed as Crowe observed a similar issue during the course of this audit. Specifically, Janus did not submit an adjustment to the Government to address the use of non-current indirect cost rates such that a \$6 million under billing occurred. See Finding 2016-03.

Finding 2: Inadequacy of Contractor Practices for the Reconciliation of Billed to Booked Costs

Issue: Janus was unable to readily provide a reconciliation of billed to booked costs because the billing period for the contractor’s invoices differed from the period in which the costs billed were accumulated in the contractor’s accounting records.

Status: We noted that Janus was able to produce a reconciliation of amounts billed to those recorded within the accounting system. This matter was not seen to have been repeated under the scope of the audit.

APPENDIX A: Views of Responsible Officials



12 January 2017

Eric J. Russell, CIA, CGAP, CGMS, MPA
Crowe Horwath LLP
155 West Nationwide Boulevard, Suite 500
Columbus, OH 43215

RE: SIGAR Draft Audit Report for Contract W912DY-10-D-00016, Delivery Order 0012

Dear Mr. Russell:

In the comments below, I will address each of the findings of the report. However, there is an over-arching internal control practice that has not been identified in the draft report, which is known as the "COR POR". The "COR POR" is a purchase order requisition process to identify the vendor and pricing for a procurement for this contract. The documentation from the competitive vendors, or the justification in the case of a sole source vendor, is included in order for the United States Army Corp of Engineers (USACE) personnel to be able to determine if the procurement is reasonable and justified. If the USACE personnel agree with the procurement, the "COR POR" is signed by both Janus and USACE personnel, including the USACE Contracting Officer (KO). Once approval has been obtained, the "COR POR" is sent to Janus procurement employees to place an actual purchase order with the supplier.

The practice of the "COR POR" was developed jointly by Janus and the US Army Corp of Engineers (USACE) at the beginning of this project in order to have a pre-approval of all procurement activity by a USACE Contracting Officer (KO) prior to purchase orders being placed with vendors. This process results in all procurements being deemed fair and reasonable by the US Government prior to the execution of the purchase order. Each of the questioned items have been pre-approved under this COR POR process and signed by the USACE KO.

Therefore, based on the above pre-approval process, we disagree with the findings that there is a material weakness or significant deficiency in internal control and we disagree that the costs should be questioned.

This COR POR process was discussed during the audit exit conference meeting on November 21, 2016, which was attended by Crowe, SIGAR, USACE, and Janus. During that meeting, the USACE KO confirmed that the intent of the COR POR process was to approve the procurement prior to the purchase order being sent to the vendor. Based on your comments in the meeting that the form did not specifically state that was the intent, Janus worked with the USACE KO to update the language to make it clear that the document was always intended to have the US Government approve the purchase and that the KO approving the COR POR had found the procurement to be reasonable. The following language has now been added to the COR POR form to enhance the reader's understanding of what has always been the document's purpose:

This signature/approval represents the understanding and agreeance that price presented as above is fair and reasonable and is consistent with the scope and directive provided by USACE. Further, if pricing is based on a sole source, signature/approval represents the agreeance with the merits and process used in justifying the sole source as per the FAR Subpart 6.302.

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ISO 9001:2015, ISO 14001:2015, OHSAS 18001:2007, ISO 18788:2015, and ANSI/ASIS PSC.1-2012 Certified

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The updated document was approved by the USACE KO in December 2016 and is now being used. A copy of the updated document is attached to this letter.

As stated above, we believe there should be no findings, as the COR POR process addresses and satisfies the internal control requirements, but we have addressed each finding in the draft report below.

In response to the specific findings:

Finding 2016-01 Sole Source Procurement and Support for Cost Reasonableness

With regard to the procurement of equipment from [REDACTED], Janus agrees that certified cost or pricing data and certificates of current cost or price were not received, but disagrees with the questioned costs. Janus considers the costs to be reasonable as the procurement was pre-approved by the USACE with the COR POR process, the unit in question has unique features and functionality that is uniquely suited for the type of work we are performing for USACE and has been continuously used by Janus on USACE projects since 2010 at similar pricing in non-cost reimbursable situations, and the vendor has stated in writing that the price paid by Janus is no greater than other customers (see attached letter from [REDACTED]). Since the audit exit meeting, we have tried to locate other vendors that can meet the client requirements. Our technical experts have now been able to identify another vendor whose equipment can meet the depth requirements and has the GPS functionality required by our client. However, the competitor's price is over five times the cost of the [REDACTED] equipment. We also have sought quotes on similar equipment from other companies, but only two of four companies responded to our request, and the two respondents are both channel partners for [REDACTED] and would add their resale markup to the [REDACTED] price. This continues to show that the price paid to [REDACTED] was reasonable. To reiterate the earlier point, the USACE KO approved the sole source procurement and price paid in advance of the purchase orders being sent to the vendor. We understand that the auditors did not consider the support to be sufficient, appropriate audit evidence, but respectfully request that USACE review the documentation as alternative documentation for reasonableness. Janus will continue to search out alternatives to sole source vendors, will ask the vendor for certified cost and pricing data for future procurements, and will include market analysis or other research to better document the selection of vendors, especially in sole source situations.

With regard to the procurement from [REDACTED], Janus believes the actions taken to source the vendor were reasonable and appropriate in the circumstance. Janus approached the national demining authority of Afghanistan, as well as the United Nations Mine Action Authority (the international expert in demining) to determine which vendors were willing to work in high threat areas and who they would recommend based on past performance. The only demining company these authoritative bodies recommended was DAFA. While there are other demining companies and Non-governmental organizations operating in Afghanistan, the specific requirement for this procurement was to go to the highest threat regions of the country, where the security situation was most perilous. Using the national and international governing bodies for demining was a reasonable and prudent action on the part of Janus to find a vendor. The COR POR process identified [REDACTED] as a sole source procurement and was approved by the USACE KO prior to a purchase order being sent to the vendor. Janus will continue to evaluate other demining companies that are willing to work in high threat environments, will ask the vendor for certified cost and pricing data for future procurements, and will include market analysis or other research to better document the selection of vendors, especially in sole source situations.

Janus will hold training sessions for personnel in Afghanistan and in the United States on procurement practices, including appropriate documentation to support the use of non-competitive procurement methods. Since this audit, the Director of Procurement has been to Afghanistan to meet with the local procurement staff to reinforce the procurement manual processes and to ensure future procurements have better documentation, including cost or price analysis for all procurements for which adequate



competition does not exist. External training personnel will be used as needed for specialty training on the FAR requirements related to procurement.

Finding 2016-02 Inadequate Support for Certified Cost or Pricing Data Exceptions

With regard to the procurement from [REDACTED], Janus agrees that certified cost or pricing data and certificates of current cost or price were not received, but disagrees that the cost should be questioned. The Resolute Support section of the US Government indicated to Janus and the USACE KO via the regular security briefings in Afghanistan, that [REDACTED] was the only Risk Management Company (RMC) that was approved by the Afghan Ministry of Interior (MOI) to provide guard services in the high threat areas of Afghanistan where the demining work was to be done as part of this project. The price negotiation with [REDACTED] substantially reduced their initial price. The Afghan Public Protection Force (APPF) website that indicates prices for APPF services, indicates that the final price is negotiable. The prices shown on the APPF website are not based on the regional differences, which are adjusted based on threat levels. In addition, Janus cannot hire APPF resources directly, but must use an RMC to procure those services. The RMC will mark up the prices APPF charges them for services.

Janus considers the costs to be reasonable as the procurement was pre-approved by the USACE with the COR POR process and the prices paid to [REDACTED] for the security work were lower than prices paid by the US Government (USG) to Janus in full and open competitive bids, when Janus was a Private Security Company in Afghanistan, for security at Forward Operating Bases, which had a lower security threat level than the work to be performed by [REDACTED]. The [REDACTED] price of [REDACTED] per guard per month compares to USG prices paid to Janus of an average of [REDACTED] per guard per month across multiple awards in Afghanistan, with the most recent award being priced at [REDACTED] per guard per month. While the auditor does not consider this directly relevant pricing analysis to be appropriate, we disagree. To reiterate the earlier point, the USACE KO approved the sole source procurement and price paid in advance of the purchase orders being sent to the vendor. We understand that the auditors did not consider the support to be sufficient, appropriate audit evidence, but respectfully request that USACE review the documentation as alternative documentation for reasonableness. Janus will continue to search out alternatives to sole source vendors, will ask the vendor for certified cost and pricing data for future procurements, and will include market analysis or other research to better document the selection of vendors, especially in sole source situations.

With regard to the procurement from [REDACTED], Janus agrees that certified cost or pricing data and certificates of current cost or price were not received, but disagrees that the cost should be questioned. The two positions identified in the auditor's report as not being reasonable were the maintenance worker and the provincial liaison. Janus employs a variety of maintenance workers, but did not have internal staff for painting and welding, so [REDACTED] was used for that purpose. The pay range of maintenance workers employed by Janus is from [REDACTED] per day. The [REDACTED] price for a maintenance worker is [REDACTED] per day. This seems reasonable since it is on the lower side of the wage range for maintenance workers, whereas skill requirements of the maintenance workers from [REDACTED] are more indicative of workers employed at the upper end of that pay scale. The community liaison position is unique and the [REDACTED] price was higher than other firms, but is still reasonable given the unique job duties of this position. To reiterate the earlier point, the USACE KO approved the sole source procurement and price paid in advance of the purchase orders being sent to the vendor. We understand that the auditors did not consider the support to be sufficient, appropriate audit evidence, but respectfully request that USACE review the documentation as alternative documentation for reasonableness. Janus will continue to search out alternatives to sole source vendors, will ask the vendor for certified cost and pricing data for future procurements, and will include market analysis or other research to better document the selection of vendors, especially in sole source situations.

Janus will hold training sessions for personnel in Afghanistan and in the United States on procurement practices, including appropriate documentation to support the use of non-competitive procurement methods. Since this audit, the Director of Procurement has been to Afghanistan to meet with the local



procurement staff to reinforce the procurement manual processes and to ensure future procurements have better documentation, including cost or price analysis for all procurements for which adequate competition does not exist. External training personnel will be used as needed for specialty training on the FAR requirements related to procurement.

Finding 2016-03 Indirect Cost Adjustment Not Completed Timely

At the end of 2014, the DCAA recommended that Janus adopt a book to bill process and begin invoicing the US Government for rate adjustments once new rates were known. Janus began the process of preparing the book to bill reconciliations and rate adjustments. However, the focus was on projects where funds would be expiring, so this project was not prioritized as the first project to be completed. As the process focused on the oldest projects first, it took longer to complete the process than if we had focused on current projects. The result is that all of the cost reimbursable projects are utilizing book to bill reconciliations and the rate adjustments invoices for all projects are in the process of being generated. Janus agrees that the rate invoice for this project was incorrectly overbilled by \$292 and this is being refunded to the USACE. This was a single cell error in the reconciliation worksheet, which was pointed out to the auditors, as we had already located the error and planned to provide this credit to USACE on a future billing.

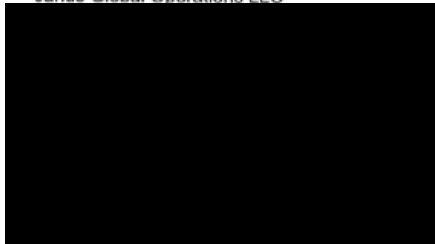
Going forward, Janus will complete book to bill reconciliations on a timely basis and produce any rate adjustment invoices or credits once the annual incurred cost submission is completed. We will not wait on DCAA to audit the rates prior to issuing rate adjustment invoices.

In closing, we disagree with the findings that there is a material weakness or significant deficiency in internal control and we disagree that the costs should be questioned. However, we have taken actions since the audit to make improvements to the procurement practices and will enhance the documentation package provided as part of all non-competitive procurement, we will seek certified cost and pricing data when needed, and we will continue to utilize the pre-approval COR POR process to ensure our client is satisfied that all procurements are fair and reasonable. We will provide additional training to our staff in Afghanistan and the United States on the specific issues raised and in the procurement process overall.

We appreciate the opportunity to respond to your draft audit report. If you have any questions or comments, please contact me at [REDACTED]

Sincerely,

Janus Global Operations LLC





*This signature/approval represents the understanding and agreement that price presented as above is fair & reasonable and is consistent with the scope and directive provided by USACE. Further, if pricing is based on a sole source, signature/approval represents the agreement with the merits and process used in justifying the sole source as per the FAR Subpart 6.302

[REDACTED]

EB/BA

Monday, November 21, 2016

Ref. Delivery of Large Loop Metal detectors [REDACTED] / Sterling/JANUS on PO1114884

[REDACTED] has provided our [REDACTED] Large Loop Metal detectors to Sterling Global Operations (JANUS) in support of their de-mining mission in Afghanistan.

The pricing provided to Sterling Global Operations (JANUS) on PO1114884 is consistent to the pricing offered across the board to all other [REDACTED] clients, in both the public and humanitarian sectors. The official list price for the [REDACTED] was during the negotiation [REDACTED]. The contracted price between [REDACTED] and Sterling was [REDACTED] including modifications = [REDACTED].

The delivered UPEX740MD to Sterling Afghanistan included necessary modification to the unit required by Sterling Global Operations and their customer in a value of approx. [REDACTED].

Added to the list price of [REDACTED] the contract price of [REDACTED] includes a discount of approx. [REDACTED].

[REDACTED] 21st November 2016

[REDACTED]

APPENDIX B: Auditor's Rebuttal

Crowe Horwath LLP ("Crowe" or "we" or "us") has reviewed the letter dated January 12, 2017, containing Janus Global Operations LLC's ("Janus") responses to the draft audit report. In consideration of those views, Crowe has included the following rebuttal to certain matters presented by the auditee. A rebuttal has been included in those instances where management disagreed with an audit finding. In those instances where management has not disputed the finding, as presented, no rebuttal has been provided. Crowe did not deem it necessary to modify any of the findings following our review of management's comments.

General Comments

Management included an over-arching response to the audit report pertaining to what is referred to as the "COR POR" process. Per Janus' comments, the COR POR process is a process in which a purchase order requisition is submitted to United States Army Corp of Engineers ("USACE") personnel identifying an intended vendor and expected pricing for a subcontract. It is Janus' position that USACE's approval of the purchase order requisition serves as evidence that the Government considered the costs to be reasonable. USACE personnel participating in the exit conference verbally indicated that Janus' understanding was accurate.

However, no documentation was provided that was considered adequate to support the reasonableness of the costs incurred or the prices charged by Janus' subcontractors. In the absence of sufficient, appropriate audit evidence to support reasonableness and that permits the auditor to arrive at an independent conclusion that reasonableness determinations were proper, purchases were arms' length, profit margins charged were appropriate in the case of those noncompetitive procurements, the verbal representations and Janus' response are not considered adequate for purposes of modifying the audit findings. Furthermore, evidence was not provided showing that the Government provided a waiver of the FAR 31.201-3, *Determining Allowability*, requirement stating that "the burden of proof shall be upon the contractor to establish that such cost is reasonable" when reasonableness is questioned. Accordingly, the findings pertaining to unreasonable costs have not been modified due to Janus not having provided adequate documentation to support reasonableness.

In addition, management disagreed that there were any material weaknesses or significant deficiencies. As referenced within audit findings 2016-01 and 2016-02, the procurement procedures, as designed and executed, failed to detect and correct instances of noncompliance that – when quantified – were material to the Special Purpose Financial Statement. Furthermore, internal controls include processes internal to the company that, when executed, provided reasonable assurance that Janus will comply with applicable Federal regulations. Janus' procurement practices did not incorporate processes necessary to ensure that costs incurred and/or prices charged by its subcontractors were reasonable and, where applicable, in alignment with prices prescribed by the Afghan Government. Reliance upon USACE to support the reasonableness of costs charged by Janus does not reflect a Janus internal control. The matters noted in findings 2016-01 and 2016-02 were not detected and corrected by Janus prior to the audit.

With regard to audit finding 2016-03, Janus completed the true-up calculation during the audit in response to Crowe's request. As a result of this exercise, the total adjustment and error referenced in finding 2016-03 were detected. Janus' procedures during the award did not independently detect and correct the matters noted.

In consideration of the above, both findings 2016-01 and 2016-02 remain classified as material weaknesses in internal control and finding 2016-03 remains classified as a significant deficiency.

Finding 2016-01

We have reviewed the documentation provided by Janus subsequent to the audit exit conference. The documentation provided resulted from Janus identifying additional large loop providers and attempting to obtain quotes from the companies to support Janus' assertion that prices for [REDACTED] – the subcontractor providing large loop detectors through a sole sourced subcontract – were reasonable. Whereas a formal

request for quotation process or other competitive procedure was not executed, there is insufficient information available to demonstrate that the vendors were provided with all of the same requirements, specifications, and order details as [REDACTED] and the basis for [REDACTED] pricing calculation (including profit amounts) remains unknown, the costs remain in question. Furthermore, the presence of these additional vendors indicates that a sole source mechanism may have been inappropriate as cited within the audit finding and as expected pursuant to FAR 52.244-5.

Management disagreed with the questioned costs due to the use of the aforementioned COR POR process and the presence of [REDACTED] letter to Janus. As previously noted, the COR POR process is insufficient support to conclude that the costs incurred and billed were reasonable.

With respect to the element of the finding pertaining to [REDACTED] Janus' management response did not provide new factual, supported information. Therefore, there were no changes with respect to the [REDACTED] components of the finding.

Management concurred that neither certificates of current cost or pricing data nor certified cost or pricing data were received by Janus or provided for audit.

The audit finding remains unmodified from its original draft format.

Finding 2016-02

Management concurred that neither certificates of current cost or pricing data nor certified cost or pricing data were received by Janus or provided for audit.

Janus disagreed with the questioned costs noted in the finding due to use of the COR POR process and Janus' position that the unit cost ranges for both maintenance workers and provincial liaisons are reasonable. As previously noted, the COR POR process is insufficient support to conclude that the costs incurred and billed were reasonable. Janus did not provide new information with respect to the unit cost ranges. Accordingly, the finding remains unmodified from the original version contained in the draft report.

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

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

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To 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
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