

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 18-25 Financial Audit

Department of Defense Task Force for
Business and Stability Operations' Banking
and Financial Infrastructure Development
in Afghanistan and Iraq: Audit of Cost
Incurred by aXseum Solutions, LLC

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



JANUARY
2018

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On December 22, 2010, the Department of Defense's (DOD) Task Force for Business and Stability Operations (TFBSO), through the Department of the Interior's National Business Center, awarded a 1-year, \$1.5 million contract to aXseum Solutions, LLC (aXseum) to provide advisory services in banking and financial infrastructure development in Afghanistan and Iraq. The contract required aXseum to perform activities such as developing a database of profiles of Afghan and Iraqi banks to help modernize banking infrastructure. The contract was modified 24 times, increasing the total amount to \$8.8 million and extending the period of performance through May 5, 2014.

SIGAR's financial audit, performed by Williams, Adley & Company-DC, LLP (Williams Adley), reviewed \$8,799,358 in reimbursable costs incurred under the contract between December 22, 2010, and May 5, 2014. The objectives of the audit were to (1) identify and report on significant deficiencies and material weaknesses in aXseum's internal controls related to the contract; (2) identify and report on instances of material noncompliance with the terms of the contract and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether aXseum has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of aXseum's Special Purpose Financial Statement. See Williams Adley'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 Williams Adley did not comply, in all material respects, with U.S. generally accepted government auditing standards.

January 2018

Department of Defense Task Force for Business and Stability Operations' Banking and Financial Infrastructure Development in Afghanistan and Iraq: Audit of Cost Incurred by aXseum Solutions, LLC

SIGAR 18-25-FA

WHAT THE AUDIT FOUND

Williams Adley identified two findings, one of which is an immaterial weakness in internal control and both of which are instances of noncompliance with contract terms, laws, and regulations. Specifically, Williams Adley identified unsupported consultant costs that aXseum charged to the contract. Additionally, Williams Adley noted aXseum's lack of documentation validating its checks that the consultants it used were neither debarred nor suspended from federal procurements.

As a result of the internal control deficiency and instances of noncompliance, Williams Adley identified \$183 in questioned costs, consisting entirely of unsupported costs— costs not supported with adequate documentation or that did not have required prior approval. Williams Adley did not identify any ineligible costs— costs prohibited by the contract, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Labor	\$0	\$183	\$183
Totals	\$0	\$183	\$183

Williams Adley reviewed prior audit reports pertinent to aXseum's activities under the contract and did not identify any prior findings and recommendations in those reports.

Williams Adley issued an unmodified opinion on aXseum's Special Purpose Financial Statement, noting that it presents fairly, in all material respects, the respective revenues earned, costs incurred, and items directly procured by the U.S. government.

WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the responsible DOD program officer coordinate with the Department of the Interior contracting officer to:

- 1. Determine the allowability of and recover, as appropriate, \$183 in questioned costs identified in the report.**
- 2. Advise aXseum to address the report's internal control finding.**
- 3. Advise aXseum to address the report's noncompliance findings.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

January 18, 2018

The Honorable James N. Mattis
Secretary of Defense

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

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

We contracted with Williams, Adley & Company-DC (Williams Adley) to audit the costs incurred by aXseum Solutions, LLC under a Department of Defense Task Force for Business and Stability Operations (TFBSO) contract to provide advisory services in banking and financial infrastructure development in Afghanistan.¹ Williams Adley's audit covered \$8,799,358 in expenditures charged to the contract between December 22, 2010 and May 5, 2014. Our contract required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Based on the results of the audit, SIGAR recommends that the responsible DOD program officer coordinate with the Department of the Interior contracting officer to:

- 1. Determine the allowability of and recover, as appropriate, \$183 in total questioned costs identified in the report.**
- 2. Advise aXseum to address the report's internal control finding.**
- 3. Advise aXseum to address the report's noncompliance findings.**

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

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

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-105)

¹ The Department of the Interior's National Business Center awarded contract number D11PC18746 to aXseum on TFBSO's behalf. The contract was intended to improve banking and financial infrastructure in Afghanistan and Iraq.

**OFFICE OF THE
SPECIAL INSPECTOR GENERAL FOR
AFGHANISTAN RECONSTRUCTION**

Financial Audit of Costs Incurred

by

aXseum Solutions, LLC

Under

Contract Number D11PC18746

For the Period

December 22, 2010 to May 5, 2014

Submitted by



January 8, 2018

Table of Contents

Transmittal Letter	i
Summary	1
Background	1
Objectives	3
Scope	4
Methodology	5
Summary of Results.....	6
Summary of Prior Audit Reports	6
Summary of Management Comments on Audit Report	7
Independent Auditor's Report on the Special Purpose Financial Statement.....	8
Special Purpose Financial Statement for Costs Incurred.....	10
Notes to the Special Purpose Financial Statement	11
Notes to the Questioned Costs Presented on the Special Purpose Financial Statement	13
Independent Auditor's Report on Internal Control	14
Independent Auditor's Report on Compliance	16
Attachment A - Schedule of Findings and Questioned Costs	18
Finding 2017-01: Unsupported Consultant Costs	18
Finding 2017-02: Subcontractor Debarment and Suspension Verifications.....	20
Attachment B –Management's Response to Audit Findings	21
Attachment C – Auditor's Response to Management Comments	24



Transmittal Letter

January 8, 2018

Chief Executive Officer
aXseum Solutions, LLC
Arlington, VA

Office of the Special Inspector General for Afghanistan Reconstruction
Arlington, VA

Williams, Adley and Company-DC, LLP (referred to as "Williams Adley" or "we") hereby provides to you our draft report, which reflects results from the procedures we completed during our audit of the aXseum Solutions, LLC (hereinafter referred to as "aXseum") contract number D11PC18746 with the United States Department of Defense, Task Force for Business and Stability Operations funded reconstruction program in Afghanistan.

On October 11, 2017, we provided SIGAR a draft report reflecting our audit procedures and results. aXseum received a copy of the report on December 15, 2017 and provided written responses subsequent thereto. These responses have been considered in the formation of the final report, along with the written and oral feedback provided by SIGAR and aXseum. aXseum's responses and our corresponding auditor analysis are incorporated into this report following our audit reports.

Thank you for providing us the opportunity to work with you and to conduct the audit of this aXseum contract.

Sincerely,

A handwritten signature in cursive script, reading 'Jocelyn Hill'.

Jocelyn A. Hill, CPA
Partner

WILLIAMS, ADLEY & COMPANY-DC, LLP

Certified Public Accountants / Management Consultants

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Summary

Background

Congress created the Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) to provide independent and objective oversight of Afghanistan reconstruction projects and activities. Under the authority of Section 1229 of the National Defense Authorization Act for Fiscal Year 2008 ([P.L. 110-181](#)), SIGAR conducts audits and investigations to: 1) promote efficiency and effectiveness of reconstruction programs and 2) detect and prevent waste, fraud, and abuse. The United States Department of Defense (DoD) funded reconstruction activities in Afghanistan fall under the purview of SIGAR in fulfilling its mandate.

The DoD contracted aXseum Solutions, LLC (aXseum), for services related to reconstruction activities in Afghanistan. On December 22, 2010, the Department of the Interior’s National Business Center, on behalf of the DoD’s Task Force for Business and Stability Operations (“TFBSO”¹), executed a time & materials contract, number D11PC18746, with aXseum to provide advisory services in Banking and Financial Infrastructure Development. The TFBSO was DoD’s principal vehicle for stimulating private sector growth and investment in Afghanistan’s economy. The TFBSO’s mandate was in the “development of economic opportunities, including private investment, industrial development, banking and financial system development, agriculture diversification and revitalization, and energy development” in Afghanistan. The original amount of the award was \$1,500,000 and the period of performance spanned 12 months from the date of award.

The contract required aXseum to provide advisory, training and non-personal services in support of the design, implementation and operation of a robust end-to-end financial infrastructure in Afghanistan/Iraq and other conflict areas. The contract also tasked aXseum with ensuring interoperability and integration of various programs focused on improving the robustness and timely deployment of the subject country’s overall financial infrastructure.

Founded in 2002, aXseum has provided comprehensive technical solutions to federal government and commercial clients. aXseum began its specialization in international economic infrastructure development and management solutions in 2008. In 2010 aXseum began providing support services for several energy revitalization programs in Afghanistan. The company has provided project and program managers, subject matter experts, and accounting transparency roles supporting the energy projects.

SIGAR has contracted Williams, Adley and Company-DC, LLP (Williams Adley) to audit costs incurred under contract number D11PC18746 and associated modifications awarded to aXseum. The period of performance for this contract included a base year of

¹ TFBSO ceased operations on November 21, 2014

December 22, 2010 to December 21, 2011, with 24 subsequent modifications issued thereafter, including a modification for de-obligation, for a total funding of \$8.8 million, that is detailed in the following table. A contract modification was issued to extend aXseum's period of performance through May 5, 2014, which revised the audited period of performance through that date. Thus, the audit scope was revised to include the period from December 22, 2010 through May 5, 2014.

Table 1: aXseum Contract with Modifications

	Start Date	End Date	Amount Funded (Obligated)	Purpose
Base Year	12/22/2010	12/21/2011		Initial award funding
Mod 1	4/21/2011	12/21/2011		To increase base period funding
Mod 2	6/14/2011	12/21/2011		To increase base period funding
Mod 3	7/25/2011	12/21/2011		To incorporate notice of assignment and change primary COTR
Mod 4	9/22/2011	12/21/2011		To re-align base period funding
Mod 5	12/6/2011	12/21/2012		To increase base and option period 1 obligated funding
Mod 6	3/9/2012	12/21/2012		Incremental funding of option period 1
Mod 7	5/8/2012	12/21/2012		To correct mod 4 math error on ceiling amount
Mod 8	5/16/2012	12/21/2012		No-cost modification to incorporate DFARS requirements
Mod 9	8/1/2012	12/21/2012		No-cost modification to re-align labor hours
Mod 10	9/19/2012	12/21/2012		No-cost modification to re-align labor hours
Mod 11	12/20/2012	12/21/2013		Exercise option period 2
Mod 12	1/10/2013	12/21/2013		Incremental funding
Mod 13	2/7/2013	12/21/2013		Re-align option period 2 labor hours

	Start Date	End Date	Amount Funded (Obligated)	Purpose
Mod 14	3/19/2013	12/21/2013		No-cost modification to change period of funding from 3/23/2013 to 12/21/2013
Mod 15	3/25/2013	12/21/2013		No-cost modification to incorporate notice of assignment of payments
Mod 16	4/9/2013	12/21/2013		Incrementally funding for option period 2
Mod 17	4/24/2013	12/21/2013		De-obligate excess funds for base period and option period 1
Mod 18	8/5/2013	12/21/2013		Decrease option period 2 funding
Mod 19	12/11/2013	3/21/2014		Extend services to 3/21/2014 and increase funding
Mod 20	1/14/2014	3/21/2014		No-cost modification to extend services and re-align labor
Mod 21	2/28/2014	4/21/2014		Extend services for 1 month and increase funding
Mod 22	4/16/2014	5/5/2014		Extend services for 14 days and increase funding
Mod 23	5/5/2014	5/5/2014		No-cost modification to revise SOW
Mod 24*	7/25/2014	7/25/2014		Close out de-obligation of funding
TOTAL			\$8,799,358	

*This modification occurred subsequent to the audit period and is not part of the audited Statement.

Objectives

The objectives of the audit are to:

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

2. Internal Controls- Evaluate and obtain a sufficient understanding of aXseum's internal controls related to the contract; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
3. Compliance - Perform tests to determine whether aXseum complied, in all material respects, with the contract requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the contract and applicable laws and regulations, including potential fraud or abuse that may have occurred.
4. Corrective Action on Prior Findings and Recommendations - Determine and report on whether aXseum 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

In general, our scope of work includes the TFBSO time and materials contract number D11PC18746 and related modifications executed for costs incurred between December 22, 2010 and May 5, 2014.

1. We performed a financial audit of incurred costs by aXseum under the award listed above that was funded by the TFBSO.
2. We conducted sufficient testing to express an opinion on the engagement objectives. The major areas of review included the following:
 - i. Administrative Procedures and Fraud Risk Assessment
 - ii. Budget Management
 - iii. Cash Management
 - iv. Disbursements and Financial Reporting
 - v. Procurement and Inventory Management
3. We performed compliance testing including, but not limited to, activities allowed or disallowed; allowable costs under cost principles; cost determination for indirect costs; cash management; costs incurred eligibility; period of availability of Federal funds; procurement, suspension and debarment; program income; and reporting.
4. We reviewed transactions for the period from December 22, 2010 to May 5, 2014 and subsequent events and information that may have a significant impact on the findings and questioned costs for the audit period.
5. We expressed an opinion on the Special Purpose Financial Statement and related Notes for the audit period.

Our audit was conducted to form an opinion on the Special Purpose Financial Statement in accordance with the Special Purpose Financial Statement presentation requirements in Note 2. Therefore:

- The Transmittal Letter to SIGAR and the information presented in the Table of Contents, Summary, and Management Response to Audit Findings are presented for informational and organizational content purposes, or additional analysis, and are not required parts of the Special Purpose Financial Statement. Such information has not been subject to the auditing procedures applied in the audit of the Special Purpose Financial Statement, and accordingly, we do not express an opinion or provide any assurance on it.
- The scope of our audit does not include procedures to verify the efficacy of the TFBSO funded program, and accordingly, we do not express an opinion or provide any assurance on it.

Methodology

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS), as published in the Government Accountability Office's Government Auditing Standards, 2011 revision (or "Yellow Book"). Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the Special Purpose Financial Statement of the costs incurred under the award are free of material misstatement. An audit includes:

- Obtaining an understanding of aXseum's internal controls related to the award, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment.
- Examining, on a test basis, evidence supporting the amounts and disclosures presented in the Special Purpose Financial Statement.

To meet the audit objectives, we prepared an audit plan for the engagement. We reviewed applicable background materials, including contracts, auditee financial progress reports, DoD regulations, SIGAR's Afghanistan alert letters, audit reports and special program reports, and auditee single audits, performance audits and/or financial statement audits as applicable and available, to gain a thorough understanding of the control environment, the requirements of the contract, and any past findings and recommendations that may impact the audit. If prior audits indicated a need for corrective action to be taken by aXseum, we ensured through inquiry, observation and testing whether the necessary steps were taken to adequately address those findings and recommendations. We requested and received supporting documentation for compliance evaluation of incurred costs and gained an understanding of the internal control related thereto. We assessed the control risk for sampling and testing purposes.

We used both statistical and judgmental sampling techniques to select direct labor, travel, subcontract and other direct cost samples to test for allowable incurred costs based on our risk assessment, and reviewed procurement records to determine cost reasonableness and compliance with exclusion of parties not eligible to participate in federal awards, as applicable.

The scope of our audit reflects our assessment of control risk and includes tests of incurred costs to provide a reasonable basis for our opinion.

Summary of Results

We issued an unmodified opinion on aXseum's Special Purpose Financial Statement. We also reported on aXseum's internal control and compliance with contract terms, laws and regulations.

We identified two findings, which we considered immaterial weaknesses in internal control and noncompliance with the contract terms, laws, and regulations, that resulted in questioned costs in the amount \$183. Finding 2017-01 pertains to unsupported consultant costs incurred by aXseum, which we determined was an internal control deficiency and noncompliance issue. Finding 2017-02, which details aXseum's lack of documentation confirming its validation that consultants were neither disbarred nor suspended from federal procurements, pertains to noncompliance with contract terms, laws and regulations, but does not have related questioned costs.

There are two categories of questioned costs—ineligible and unsupported. Ineligible costs are those costs deemed unallowable in accordance with the terms of the contract and applicable laws and regulations, or are an unnecessary or unreasonable expenditure of funds. Unsupported costs are those costs for which aXseum was unable to provide sufficient supporting documentation for us to determine the accuracy and allowability of the costs. All the costs we identified are categorized as unsupported costs.

Finding	Description	Ineligible Costs	Unsupported Costs	Total Questioned Cost
2017-01	aXseum unsupported consultant costs	\$0	\$183	\$183
Totals			\$183	\$183

Summary of Prior Audit Reports

We requested prior audit reports and corrective action recommendations to determine the impact on our audit, as well as to evaluate the adequacy of the corrective actions implemented. We reviewed aXseum's Financial Statement audits performed by Viscarra & Associates for 2010 through 2014. An unqualified opinion was issued for each of those years. We also reviewed the Contractor Performance and Assessment Report (CPAR)

that aXseum provided to us. There were no prior findings and recommendations in the referenced audit reports or CPAR.

Summary of Management Comments on Audit Report

In management's official response to the draft audit report, as fully disclosed in Attachment B to this report, aXseum did not dispute the questioned cost amount of \$183 for Finding 2017-01. Management stated that it would reimburse its consultants in lieu of reimbursing the Government for the questioned costs as management has concluded the costs are valid and should be paid to the consultants. For Finding 2017-02, management did not dispute the issue concerning record retention of evidence to support compliance with debarment and suspension verifications. aXseum stated it has amended its policy to retain, indefinitely, records related to debarment and suspension verifications to address the finding's recommendation. Our response to management comments is provided in Attachment C.

Attachments

The auditor's reports are supplemented by three attachments:

Attachment A includes the Schedule of Findings and Questioned Costs.

Attachment B contains aXseum's official management response to the draft report.

Attachment C contains the auditor's response to management comments.



Independent Auditor's Report on the Special Purpose Financial Statement

Chief Executive Officer
aXseum Solutions, LLC
Arlington, VA

Report on the Special Purpose Financial Statement

We have audited the Special Purpose Financial Statement of the aXseum Solutions, LLC (hereinafter referred to as "aXseum") contract number D11PC18746, funded by the Task Force for Business and Stability Operations for the period December 22, 2010 through May 5, 2014. The special purpose financial statement ("Statement") is the responsibility of aXseum's management.

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 methods of preparation described in Note 2; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements (including the Statement) that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit of the Statement in accordance with generally accepted government auditing standards (GAGAS) 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 to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as, evaluating the overall presentation of the Statement.

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

Opinion

In our opinion, the Statement referred to above presents fairly, in all material respects, the respective revenues earned, costs incurred, items directly procured by the U.S. Government, and balance under contract number D11PC18746 for the period December 22, 2010 through May 5, 2014 in accordance with the terms of the agreement and in conformity with the basis of accounting described in Note 2 of the Statement.

Other Reporting Required by GAGAS

In accordance with GAGAS, we have also issued our reports, dated September 27, 2017 on our consideration of aXseum's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with GAGAS in considering aXseum's internal control over financial reporting and compliance.

Restriction on Use

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

Williams, Adley & Company PC, LLP

Washington, D.C.
September 27, 2017

aXseum Solutions, LLC
Special Purpose Financial Statement for Costs Incurred
 Under Contract Number D11PC18746
For the Period of December 22, 2010 to May 5, 2014

Revenues	Budget	Actual	Ineligible	Unsupported	Note ²
Award	\$9,800,380	\$8,799,358			3
Total Revenues	\$9,800,380	\$8,799,358			
Costs Incurred					4
Non APPF					
Labor				\$183	A
Security					
Communications					
DBA Insurance					
Travel					
Total Cost	\$9,800,380	\$8,799,358			
Outstanding Balance	\$0	\$0		\$183	

² The Notes to the Special Purpose Financial Statement are an integral part of the financial statement.

Notes to the Special Purpose Financial Statement³

For the Period of December 22, 2010 to May 5, 2014

NOTE 1 – STATUS AND OPERATION

On 12/22/2010, the Department of Interior (DOI) awarded aXseum Solutions, LLC (aXseum) a Time and Materials Type Contract, Contract No. D11PC18746. The contract period is from 12/22/2010 through 5/5/2014, including all option periods and extensions.

The contract allows for the provision of professional business analysis, advisory and assistance support services to the Department of Defense Task Force to Improve Business and Stability Operations (TFBSO) using the labor categories and rates defined in the contract.

The contract has the following periods of performance, budget and spending amounts. MOD 0024 de-obligated the [REDACTED].

	Period of Performance	Budget	Actual	(Over)/Under
Base Year	12/22/10 - 12/21/11	[REDACTED]	[REDACTED]	[REDACTED]
OY 1	12/22/11 - 12/21/12	[REDACTED]	[REDACTED]	[REDACTED]
OY 2	12/22/12 - 12/21/13	[REDACTED]	[REDACTED]	[REDACTED]
Extension 1	12/22/13 - 3/21/14	[REDACTED]	[REDACTED]	[REDACTED]
Extension 2	3/22/14 - 4/21/14	[REDACTED]	[REDACTED]	[REDACTED]
Extension 3	4/22/14 - 5/5/14	[REDACTED]	[REDACTED]	[REDACTED]
Total		9,800,380.14	8,799,357.67	1,001,022.47

NOTE 2 – BASIS OF PREPARATION/SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The Special Purpose Financial Statement (the "Statement") presents the budget, revenues earned by aXseum under Contract No. D11PC18746 for the period from

³Numeric notes to the Special Purpose Financial Statement were developed by and are the responsibility of aXseum's management.

12/22/2010 to 5/5/2014. The Statement presents only a selected portion of aXseum's operations, and it is not intended to and does not present the financial position and cash flows of aXseum.

(b) Accounting Basis

The Special Purpose Financial Statement has been prepared on the accrual basis of accounting. Under this basis, revenues are recognized when earned, and expenses are recognized when incurred.

(c) Foreign Currency Conversion Method

The Special Purpose Financial Statement is denominated in US Dollar. Transactions in foreign currencies were converted to U.S. Dollar by using the conversion rate for the day on which the cost was incurred.

NOTE 3 – REVENUE

Revenue on the Special Purpose Financial Statement represents the total amount billed to DOI in accordance with the terms and conditions of the contract during the period of performance.

(a) Labor

Contract No. D11PC18746 is a Time and Materials type contract. aXseum billed labor hours to DOI at the agreed upon labor rates.

(b) Travel/ODCs

All travel and ODCs incurred by aXseum under the contract were billed to DOI at cost plus a fixed G&A rate of three percent

NOTE 4 – COSTS INCURRED/COST CATEGORIES

The budget categories and the associated amounts reflect the contract line items presented on the contract and any amendments thereto.

The costs incurred reported on the Schedule of Cost Incurred are presented in accordance with the contract line items. All costs reported under Travel/ODCs are fully burdened using the approved fixed G&A rate of three percent.

Notes to the Questioned Costs Presented on the Special Purpose Financial Statement⁴

Note A: Questioned Costs – Consultants Costs

Finding 2017-01 provides details concerning \$183 of incurred consultant costs that were questioned because adequate support for the labor hours billed to the project was not provided.

⁴ Alphabetic notes to the questioned costs presented on the special purpose financial statement were developed by and are the responsibility of the auditor.



Independent Auditor's Report on Internal Control

Chief Executive Officer
aXseum Solutions, LLC
Arlington, VA

We have audited the Special Purpose Financial Statement (the "Statement") of the aXseum Solutions, LLC ("aXseum") contract number D11PC18746 for the period December 22, 2010 through May 5, 2014, and have issued our report on it dated September 27, 2017.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS) 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.

Internal Control over Financial Reporting

The management of aXseum is responsible for establishing and maintaining 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 agreements; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of accounting described in Note 2 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 aXseum's Statement for the period December 22, 2010 through May 5, 2014, we obtained an understanding of internal control. With respect to internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the Statement and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants (AICPA). 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not note matters involving internal control and its operation that we consider to be material weaknesses as defined above. However, we did identify one instance, described in the accompanying Summary of Findings and Questioned Costs as Finding 2017-01, which we consider to be a deficiency in internal control.

Restriction on Use

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

Williams, Adley & Company-DC, LLP

Washington, D.C.
September 27, 2017



Independent Auditor's Report on Compliance

Chief Executive Officer
aXseum Solutions, LLC
Arlington, VA

We have audited the Consolidated Special Purpose Financial Statement (the "Statement") of aXseum Solutions, LLC (hereinafter referred to as "aXseum") contract number D11PC18746 for the period December 22, 2010 through May 5, 2014, and have issued our report on it dated September 27, 2017.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS) 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 resulting from violations of agreement terms and laws and regulations that have a direct and material effect on the determination of the Statement amounts.

Compliance and Other Matters

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

In performing our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. Evidence of possible fraud or abuse was not indicated by our testing.

Material instances of noncompliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the Statement. The results of our tests did not disclose instances of noncompliance that are required to be reported here under GAGAS. However, we identified two instances of noncompliance that are not material to the Statement, which are required to be reported in accordance with the contract with SIGAR. These instances of noncompliance are described in the accompanying Schedule of Findings and Questioned Costs as findings 2017-01 and 2017-02.

Restriction on Use

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

Williams, Adley & Company-DC, LLP

Washington, D.C.
September 27, 2017

Attachment A - Schedule of Findings and Questioned Costs

Finding 2017-01: Unsupported Consultant Costs

Nature of Finding: Internal Control Deficiency and Noncompliance

Condition: We tested \$727,453 of [REDACTED] in labor costs charged to the contract between December 22, 2010 and May 5, 2014. We noted that in four instances, aXseum overstated the chargeable level of effort for its consultants billed to DoD. These instances amounted to \$183 in unsupported labor costs. Simply put, the hours billed to aXseum by the consultants in the exceptions we noted were less than the hours aXseum billed to the Federal Government for these labor costs.

Criteria: Per 32 CFR, Subpart B, section 34.17, allowability of costs shall be determined in accordance with the cost principles applicable to the type of entity incurring the costs, as follows: (a) For-profit organizations. Allowability of costs incurred by for-profit organizations that are recipients of prime awards from DoD Components, and those that are subrecipients under prime awards to other organizations, is to be determined in accordance with: (1) The for-profit cost principles in 48 CFR parts 31 and 231 (in the Federal Acquisition Regulation, or FAR, and the Defense Federal Acquisition Regulation Supplement, or DFARS, respectively).

According to 48 CFR, Part 31, subsection 201-2(a), a cost is allowable only when the cost complies with all of the following requirements:

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

Per 48 CFR, Part 31, subsection 201-2(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.

Under FAR, subsection 52.216-7(b), Reimbursing Costs:

- (1) For the purpose of reimbursing allowable costs ... the term "costs" includes only –
 - (i.) Those recorded costs that, at the time of the request for reimbursement, the contractor has paid by cash, check or other form of actual payment for items or services purchased directly for the contract.

According to aXseum's Accounting Processes and Procedures, section VII-Billing

Procedures, a job assignment includes specific project codes to ensure costs are allocated to appropriate cost objectives. The billing system functions in relation with the job cost and timekeeping systems. As such:

- Billing is a product of the accounting system
- Billing costs are traceable to job cost reports
- Billing costs are taken directly from the accounting system and are traceable to necessary subsidiary ledgers
- Direct costs are identified at the point of source documents and are traceable by cost element
- Differences which may exist between billed costs and costs supported by job cost ledger are easily and readily reconcilable

Cause: According to aXseum, the costs were incurred and properly billed to the U.S. Government, however, the costs were not properly recorded in billings from the consultants, which resulted in the consultants being underpaid by the \$183. Although we requested documentation, aXseum did not provide evidence that it reached out to its consultants to revise any billing errors, which should have resulted in the billings from and payments to consultants matching the amounts charged to the Government for labor costs. Thus, we determined that aXseum's policies and procedures did not include sufficient controls to ensure all consultants' invoices and the supporting documentation were properly transferred to DoD billing statements and reconciled for accuracy. For example, aXseum did not have written procedures to ensure consultant billings were reconciled to government billings, which could have led to the timely resolution of discrepancies between consultant billings and aXseum invoices to the Government. Further, without documentation to support why the consultants or aXseum did not question any shortages in payments received from aXseum, we believe the consultant invoices were correct and the billings to the Government were overstated.

Effect: Because the reconciliation between consultant invoices for labor costs and billing statements to the Government was not adequately or timely performed in all instances, the Federal Government paid invoices for unsupported costs, which we determined as \$183 in questioned costs.

Recommendation: We recommend that aXseum:

1. Implement internal controls to confirm labor hours being billed match the supporting documentation and agree with the level of effort charged to the Federal Government in all instances.
2. Provide DoD with adequate documentation to support consultant labor costs that we questioned as unsupported, or reimburse DoD the \$183 in unsupported costs.

Finding 2017-02: Subcontractor Debarment and Suspension Verifications**Nature of Finding:** Noncompliance

Condition: During our testing, aXseum did not provide evidence that the background check relating to debarment and suspension of consultants was performed prior to executing contracts with the consultants. Because aXseum did not retain documentation supporting the timely completion of background checks on consultants, it cannot be reasonably concluded that aXseum validated that its consultants were neither suspended nor debarred before hiring them. Although we performed an independent verification on SAM.gov for the consultants, which did not return evidence of current debarment or suspension, aXseum was not in compliance with the requirements for documenting adherence to timely debarment and suspension verifications.

Criteria: Per 48 CFR, subsection 52.209–6(b), Other than a subcontract for a commercially available off-the-shelf item, the contractor shall not enter into any subcontract, in excess of \$30,000 with a contractor that is debarred, suspended, or proposed for debarment by any executive agency unless there is a compelling reason to do so; (c) the contractor shall require each proposed subcontractor whose subcontract will exceed \$30,000, other than a subcontractor providing a commercially available off-the-shelf item, to disclose to the contractor, in writing, whether as of the time of award of the subcontract, the subcontractor, or its principals, is or is not debarred, suspended, or proposed for debarment by the Federal Government.

Per 48 CFR, Part 31, subsection 201-2(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.

Cause: aXseum management asserted that they performed the debarment and suspension checks on the consultants at sam.gov but did not maintain a copy of those background checks in their records. We determined aXseum did not fully adhere to regulations that require the performance of debarment and suspension checks and retention of the documentation evidencing the checks because such requirements were not clearly stated in aXseum's policies and procedures.

Effect: Because aXseum did not comply with record retention requirements related to debarment and suspension verifications, there is an increased risk of waste, fraud and abuse of Federal funds through procurements with excluded parties.

Recommendation: We recommend that aXseum update its policies and procedures to include retention of the debarment and suspension search results in the procurement or contract files for audit purposes.

Attachment B –Management’s Response to Audit Findings

aXseum Solutions, LLC
an ISO 9001:2008 certified company

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Alexandria, VA 22314
www.aXseum.com
(571) 482-2777

December 22, 2017

Jocelyn Hill, CPA
Partner
Williams, Adley & Company
1030 15th Street, N.W., Suite 350 West
Washington, DC 20005

RE: Office of the Special Inspector General for Afghanistan Reconstruction
Arlington, VA, Response to Audit Report, for contract number
D11PC18746

aXseum received a copy of the report on December 15, 2017 and this is the company’s response to that report, specifically Attachment A – Schedule of Findings and Questioned Costs.

Finding 2017-01: Unsupported Consultant Costs

Effect: Because the reconciliation between consultant invoices for labor costs and billing statements to the Government was not adequately or timely performed in all instances, the Federal Government paid invoices for unsupported costs, which we determined as \$183 in questioned costs.

aXseum’s Response:

aXseum does not dispute the questioned cost finding of \$183 and has determined that the cost is due to the consultants in question.

Recommendation: We recommend that aXseum:

1. Implement internal controls to confirm labor hours being billed match the supporting documentation and agree with the level of effort charged to the Federal Government in all instances.



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aXseum's Response to Recommendation 1:

The audited period was for the 2012 fiscal year. Since that time, beginning in the 2013 fiscal period, aXseum Solutions implemented a new accounting system to include Deltek GCS, along with Deltek Time and Expense. Additionally, the company implemented a new process to include a Voucher System to ensure that all invoices receive multiple levels of review during the approval process.

2. Provide DoD with adequate documentation to support consultant labor costs that we questioned as unsupported, or reimburse DoD the \$183 in unsupported costs.

aXseum's Response to Recommendation 2:

After reviewing the documentation and having discussed the situation with the consultants, we determined that the consultants had in fact worked the hours in question and that the difference had occurred as a result of a rounding error; therefore, they will be paid their full claimed amount due to include the balance shown below.

Consultant	Amount due

Finding 2017-02: Subcontractor Debarment and Suspension Verifications

Effect: Because aXseum did not comply with record retention requirements related to debarment and suspension verifications, there is an increased risk of waste, fraud and abuse of Federal funds through procurements with excluded parties.

aXseum's Response:

aXseum does not dispute the questioned noncompliance finding for record retention requirements related to debarment and suspension verifications.

Recommendation: We recommend that aXseum update its policies and procedures to include retention of the debarment and suspension search results in the procurement or contract files for audit purposes.



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an ISO 9001:2008 certified company

aXseum's Response to Recommendation:

aXseum has amended its policy to retain, indefinitely, records related to debarment and suspension verifications.

Should you have any additional questions or concerns, please feel free to contact me at

[REDACTED]

Sincerely,

Michael Perez
Chief Executive Officer
aXseum Solutions, LLC

Your mission. Our people. Worldwide success.

Attachment C – Auditor’s Response to Management Comments

In consideration of the views presented by aXseum’s management, we present the following rebuttal or clarification to certain matters. The responses below are intended to clarify factual errors and provide context, where appropriate, to assist the users of this report in their evaluation of the findings and recommendations included herein. In those instances where management’s response did not provide new information or support to modify the facts and circumstances of the findings, and where management agrees with the findings presented, we have not provided a response.

Finding 2017-01: Unsupported Consultant Costs

aXseum management agreed with the \$183 in questioned cost. However, management’s position is that the amount should be paid to the consultants and not to the Government because aXseum determined the consultant hours were worked. We do not agree with that approach as the consultant invoices we reviewed do not support the extra hours billed to the Government.

SIGAR's Mission

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

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

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

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

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

- Web: www.sigar.mil/fraud
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- Phone DSN Afghanistan: 318-237-3912 ext. 7303
- Phone International: +1-866-329-8893
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Public Affairs

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