

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 19-12 Financial Audit**

## Department of State's Support for Corrections System and National Justice Programs in Afghanistan: Audit of Costs Incurred by PAE Justice Support

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



JANUARY  
2019

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On December 30, 2014, the Department of State (State) awarded Pacific Architects and Engineers Inc. a \$41,093,479 cost-plus-fixed-fee contract. The contract's objective was to help the Afghan government implement the Corrections System Support Program and support the National Justice Program to modernize and develop the corrections system. The contract's initial period of performance ended on June 30, 2015. The contract had two option periods. During the timeframe audited, State exercised both option periods, extending the period of performance through February 29, 2016. State modified the contract 12 times. After the second modification, the entity receiving the contract was changed to PAE Justice Support (PAE). Under the final modification, State authorized a total cost of \$27,625,000.

SIGAR's financial audit, performed by Crowe LLP (Crowe), reviewed \$26,381,932 in costs and fixed fees incurred from January 1, 2015, through February 29, 2016. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in PAE'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 PAE has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of PAE's Special Purpose Financial Statement (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.

January 2019

## Department of State's Support for Corrections System and National Justice Programs in Afghanistan: Audit of Costs Incurred by PAE Justice Support

SIGAR 19-12-FA

### WHAT THE AUDIT FOUND

Crowe identified two material weaknesses, three significant deficiencies, and two deficiencies in PAE's internal controls, and seven instances of noncompliance with the terms and conditions of the contract. For example, Crowe found that PAE's productive hours report showed that PAE did not meet the minimum number of hours required, according to the contract's level of effort requirements. Crowe also found that PAE overcharged the government because it did not perform indirect cost adjustments to its annual billing rates.

Because of the internal control deficiencies and instances of noncompliance, Crowe identified \$546,017 in total questioned costs, consisting entirely of unsupported costs—costs not supported with adequate documentation or that did not have the required prior approval. Crowe did not identify any ineligible costs—costs prohibited by the contract, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Failure to Meet Level of Effort Requirements	\$0	\$350,491	\$350,491
Annual Indirect Cost True Up Adjustments Not Performed	\$0	\$150,648	\$150,648
Transportation Costs Do Not Reflect Actual Costs	\$0	\$9,250	\$9,250
Inadequate Supporting Documentation for Allocated Overhead	\$0	\$30,204	\$30,204
Property Transfer Lacking Approval	\$0	\$5,424	\$5,424
<b>Totals</b>	<b>\$0</b>	<b>\$546,017</b>	<b>\$546,017</b>

Crowe identified two prior audit reports that had seven findings that could be material to the SPFS. Crowe concluded that PAE took adequate corrective action for five of the findings. For the remaining two, PAE did not resolve problems stemming from improper maintenance of equipment inventory and did not have appropriate documentation for allowable costs.

Crowe issued a qualified opinion on PAE's SPFS because it concluded that the total questioned costs identified are material to the statement.

### WHAT SIGAR RECOMMENDS

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

1. **Determine the allowability of and recover, as appropriate, \$546,017 in questioned costs identified in the report.**
2. **Advise PAE to address the report's seven internal control findings.**
3. **Advise PAE to address the report's seven noncompliance findings.**



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

January 22, 2019

The Honorable Michael R. Pompeo  
Secretary of State

The Honorable John R. Bass  
U.S. Ambassador to Afghanistan

We contracted with Crowe LLP (Crowe) to audit the costs incurred by PAE Justice Support (PAE) under a Department of State (State) cost-plus-fixed-fee contract.<sup>1</sup> The contract's objective was to help the Afghan government implement the Corrections System Support Program and support the National Justice Program to modernize and develop the country's corrections system. Crowe's audit covered \$26,381,932 in costs and fixed fees charged to the contract between January 1, 2015, and February 29, 2016. Our contract with Crowe required that the audit be performed in accordance with generally accepted government audit standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$546,017 in total questioned costs identified in the report.**
- 2. Advise PAE to address the report's seven internal control findings.**
- 3. Advise PAE to address the report's seven noncompliance findings.**

The results of Crowe's audit are discussed in detail 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 PAE's Special Purpose Financial Statement. We also express no opinion on the effectiveness of PAE's internal control or compliance with the contract, laws, and regulations. Crowe is responsible for the attached auditor's report and conclusions expressed in it. However, our review disclosed no instances where Crowe 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-130)

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<sup>1</sup> The contract number is SAQMMA15C0032.



**PAE Justice Support**

**Bridge – Corrections Systems Support Program 2015**

**Special Purpose Financial Statement**

**For the Period January 1, 2015, through February 29, 2016**

**(With Independent Auditor's Report Thereon)**

# Table of Contents

TRANSMITTAL LETTER .....	1
SUMMARY.....	2
INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT .....	8
SPECIAL PURPOSE FINANCIAL STATEMENT .....	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
SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....	18
SECTION II: SUMMARY SCHEDULE OF PRIOR AUDIT, REVIEW, AND ASSESSMENT FINDINGS.....	27
APPENDIX A: VIEWS OF RESPONSIBLE OFFICIALS. ....	30
APPENDIX B: AUDITOR'S REBUTTAL. ....	32

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## Transmittal Letter

October 19, 2018

To the Chief Executive Officer of Pacific Architects and Engineers, Inc.  
1320 N. Courthouse Road, Suite 800  
Arlington, Virginia 22201

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 PAE Justice Support's ("PAE") Bridge – Corrections Systems Support Program ("CSSP") 2015 contract funded by the United States Department of State ("DOS").

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.

When preparing our report, we considered comments, feedback, and interpretations of PAE, the Office of the Special Inspector General for Afghanistan Reconstruction, and DOS provided both in writing and orally throughout the audit planning and fieldwork phases. Management's final written responses have been incorporated as an appendix to this report.

Thank you for providing us the opportunity to work with you and to conduct the financial audit of PAE's contract.

Sincerely,

A handwritten signature in black ink that reads "John C. Weber".

John C. Weber, CPA, Partner  
Crowe LLP

# Summary

## Background

On December 30, 2014, the U.S. Department of State's ("DOS") Office of Acquisition Management awarded contract number SAQMMA15C0032 to Pacific Architects and Engineers, Incorporated.<sup>1</sup> Beginning with modification number 2 to the contract, the entity receiving the contract was changed to PAE Justice Support ("PAE"). The contract was awarded to fund activities identified in the Afghanistan – Corrections System Support Program ("CSSP") Statement of Work ("SOW") dated December 9, 2014. The contract was officially titled "Bridge – CSSP 2015" and was structured as a cost plus fixed fee arrangement valued at \$41,093,479, inclusive of option periods.

Pursuant to the Statement of Work, the project's purpose was to provide a framework and to define requirements for assisting the Afghan government in implementing the goals and objectives of the Bureau of International Narcotics and Law Enforcement Affairs ("INL") Corrections System Support Program and supporting the National Justice Program to modernize and develop the Afghan corrections system. To accomplish the goal, PAE was expected to provide training, advisory, and infrastructure support services to the Afghan Government as well Security, Life, Mission, IT/Communications, Staffing, and Logistical Support. In addition, due to the contract's being classified as a Bridge Contract, PAE was responsible for developing a transition plan to shift from the previous security framework to a revised framework that was in alignment with the U.S. Government's new requirements.

The contract's base period of performance spanned from January 1, 2015, through June 30, 2015. Two option periods were also incorporated within the terms of the contract. DOS included a ceiling price of \$41,093,479, inclusive of the base period and both option periods. Of the \$41,093,479 ceiling, DOS authorized a total of \$27,625,000 to fund costs incurred within the period January 1, 2015, through February 29, 2016. The contract was modified a total of 12 times. The following table summarizes the modifications:

Modification No.	Date	Highlights
1	1/26/2015	1) Authorized PAE to proceed with the KJRC Security and Sanitation improvements with a not to exceed cost of \$97,426; and 2) Also incorporated a revised SOW.
2	4/2/2015	1) Incorporated a revised SOW; and 2) Changed the contractor's name to "PAE Justice Support."
3	6/11/2015	1) Authorized the IPMT KDC Electrical Project 18D with a not to exceed cost of \$161,965; 2) Authorized changes pursuant to PAE's proposal dated 4/6/2015, which included a de-scoping of the originally required level of effort, implementation of a new joint leadership structure and realignment; 3) Modified certain terms and conditions included in the contract; 4) Acknowledged acceptance of fixes to proposal errors and additional bonus costs per various correspondence between PAE and the Government; 5) Exercised option period 1; and 6) Changed the contract ceiling from \$41,093,479 to \$36,881,643.

<sup>1</sup> Per the contract's signature page, PAE was doing business as "PAE Washington."

Modification No.	Date	Highlights
4	8/14/2015	1) Authorized PAE to continue executing in-scope services that were previously de-scoped; 2) Exercised option period 2 with a new contract expiration date of February 29, 2016; and 3) Adjusted contract line item numbers to reflect the cost proposal dated July 6, 2015.
5	8/18/2015	Included instructions to PAE regarding the payment of lease costs, including prepaid lease expenses, and required express, written authorization from the Contracting Officer's Representative prior to entering into real property leases.
6	11/25/2015	1) Incorporated a change to the SOW for Section 2.2. Security, Life, and Mission Support for the period of performance September 1, 2015, through February 29, 2016; and 2) Incrementally funded CLIN 003 for an additional \$3,000,000 for a total funded amount of \$13,000,000.
7	2/8/2016	1) Incorporated PAE Justice's Technical Rationale and Cost Proposals dated December 4, 2015; 2) Increased CLIN 003 by \$1,670,779 due to an increase in requirements; 3) Reflected PAE's invoicing amount for staff demobilization; and 4) Increased the total contract value by \$1,670,779 to \$37,708,099.
8	2/17/2016	1) Realigned funding in the amount of \$1,472,895 from CLIN 003 to CLIN 001; 2) Realigned funding in the amount of \$1,350,695 from CLIN 003 to CLIN 002; 3) Added funding in the amount of \$438,622 to CLIN 002; 4) Increased the total contract funded value from \$25,259,391 to \$25,698,013; and 5) Incorporated verbiage into the Performance Work Statement for contractor attendance of the 2017 and Beyond: A New Direction for INL Afghanistan Programming Conference in Colombo, Sri Lanka.
9	5/18/2016	1) Added \$53,912 in funding to CLIN 001; and 2) Added \$141,881 in funding to CLIN 002.
10	9/28/2016	1) Added \$113,802 in funding to CLIN 001 to pay invoices; 2) Added \$893,802 in funding to CLIN 002 to pay invoices; 3) Added \$723,587 in funding to CLIN 003 to pay invoices; and 4) Increased the total contract funded value by \$1,731,194 to \$27,625,000.
11	7/31/2017	1) De-obligated \$113,802 from CLIN 001; 2) De-obligated \$410,006 from CLIN 002; 3) De-obligated \$713,261 from CLIN 003; and 4) Decreased the total funded value from \$27,625,000 to \$26,387,930.



Modification No.	Date	Highlights
12	8/15/2017	1) Add \$113,802 to CLIN 001; 2) Add \$410,006 to CLIN 002; 3) Add \$713,261 to CLIN 003; and 4) Increased the total funded amount from \$26,387,930 to \$27,625,000.

The audit's scope includes activity within the aforementioned January 1, 2015, through February 29, 2016, period. Within the period under audit, PAE reported \$26,381,932 in revenues earned.

## Work Performed

Crowe LLP ("Crowe") was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") to conduct a financial audit of PAE's 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 the Special Purpose Financial Statement for the contract 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 of the contract and generally accepted accounting principles or other comprehensive basis of accounting.

### *Audit Objective 2 – Internal Controls*

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

### *Audit Objective 3 – Compliance*

Perform tests to determine whether PAE complied, in all material respects, with the contract's 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.

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

Determine and report on whether PAE 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 covered the period January 1, 2015, through February 29, 2016. The audit was limited to those matters and procedures pertinent to the contract 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, included within the audit program for detailed evaluation:

- Allowable Costs and 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 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 PAE during the period of performance. To the extent documented, policies and procedures were unavailable, Crowe conducted interviews with management to obtain an understanding of the processes that were in place during the period of performance. 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 contract. Crowe identified – through review and evaluation of the contract executed by and between PAE and the U.S. Department of State (“DOS”) and the Federal Acquisition Regulation (“FAR”) – the criteria against which to test the SPFS and supporting financial records and documentation. Using various sampling techniques, including but not 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, procurements, and property and equipment for testing. Supporting documentation was provided by the auditee and subsequently evaluated to assess PAE's compliance. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in accordance with the indirect cost rate memoranda issued by the Defense Contract Audit Agency and the Defense Contract Management Agency, as applicable. We also performed procedures to determine if adjustments to billings that were based on preliminary or provisional rates were made, as required and applicable.

Regarding Audit Objective 4, Crowe inquired of PAE, DOS staff participating in the audit entrance conference, 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 two prior reports that contained seven findings and recommendations that could be direct and material to the SPFS. To determine whether adequate corrective action was taken, Crowe requested final Contracting Officer determination letters to understand if corrective action was required and tested applicable transactions, purchases, property, and agreements to determine if the same or similar issues were noted during the course of the audit. To the extent the same or similar issues were not identified during Crowe's testing and/or the findings were not sustained by the Contracting Officer, adequate corrective action is considered to have been taken.

## Summary of Results

Upon completion of Crowe's procedures, Crowe identified seven 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 contract; and/or (4) questioned costs resulted from identified instances of noncompliance.

Crowe issued a qualified opinion on the Special Purpose Financial Statement as a result of the audit's having identified questioned costs that, when extrapolated against the population of incurred costs, are deemed to be material.

Crowe also reported on both PAE's internal controls over financial reporting and compliance with the applicable laws, rules, regulations, and the terms and conditions of the contract. Two material weakness in internal control, three significant deficiencies in internal control, and two deficiencies in internal control were reported. All seven findings were classified as instances of noncompliance. Where internal control and compliance findings pertained to the same matter, they were consolidated within a single finding.

In response to identified instances of noncompliance, Crowe reported \$546,017 in questioned costs. SIGAR requires that questioned costs be classified as either "ineligible" or "unsupported." SIGAR defines unsupported costs as those that are not supported with adequate documentation or did not have required prior approvals or authorizations. Ineligible costs are those that are explicitly questioned because they are unreasonable; prohibited by the audited contract or applicable laws and regulations; or are unrelated to the award. The full amount of \$546,017 is considered to be unsupported. **Section I: Summary Schedule of Findings and Questioned Costs** provides additional detail regarding the findings.

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to PAE's financial performance under the contract. Seven findings were identified that required Crowe's follow-up. Of the seven findings, Crowe concluded that adequate corrective action had been taken with regard to five of the findings. See **Section II: Summary Schedule of Prior Audit, Review, and Assessment Findings** for additional detail.

The following summary is intended to present an overview of the audit results and is not intended to be a representation of the audit's results in their entirety.

#### **Schedule of Findings and Questioned Costs**

Finding No.	Finding Name	Classification	Unsupported / Ineligible Questioned Costs	Questioned Costs
2018-01	Failure to Meet Level of Effort Requirements	Material Weakness and Noncompliance	Unsupported	\$350,491
2018-02	Incomplete Level of Effort Reports and Evidence of Submission	Material Weakness and Noncompliance	N/A	\$0
2018-03	Indirect Cost True-Up Not Performed	Significant Deficiency and Noncompliance	Unsupported	\$150,648
2018-04	Transportation Cost Charged for Program Participants does not Reflect Actual Costs	Deficiency and Noncompliance	Unsupported	\$9,250
2018-05	Inadequate Supporting Documentation for Allocated Overhead Costs	Deficiency and Noncompliance	Unsupported	\$29,172 <sup>2</sup>
2018-06	Property Transferred without Contracting Officer Approval	Significant Deficiency and Noncompliance	Unsupported	\$5,424
2018-07	Supporting Documentation Not Provided for Costs Incurred	Significant Deficiency and Noncompliance	Unsupported	\$1,032 <sup>3</sup>
<b>TOTAL:</b>				<b>\$546,017</b>

<sup>2</sup> This amount has not yet been reimbursed to PAE. Therefore, it is not recommended for reimbursement.

<sup>3</sup> This amount has not yet been reimbursed to PAE. Therefore, it is not recommended for reimbursement.

### **Summary of Management Comments**

PAE provided responses to each audit finding in a letter dated January 9, 2019. Within its response, PAE specified the following:

- Finding 2018-01: PAE neither agreed nor disagreed with the finding, noting that there were reductions to the initially specified staffing levels as well as delays in staffing personnel;
- Finding 2018-02: Management concurred with the auditor's recommendations, but neither agreed nor disagreed with the auditor's conclusion that the level of effort reports were incomplete and evidence of timely submission of the reports to the State Department ("DOS") was not provided;
- Finding 2018-03: PAE concurred with the facts identified in the finding, but did not consider calculating adjustments to resolve the current overbilling to be necessary based on PAE's understanding of DOS's preferences;
- Finding 2018-04: PAE concurred with the facts identified in the finding, but did not agree with the recommendation or questioned costs as PAE considers the disbursement of advance payments to be appropriate and to have been approved by DOS;
- Finding 2018-05: Management concurred with the finding;
- Finding 2018-06: Management concurred with the facts noted in the finding, but did not agree that the company failed to comply as PAE considered the Contracting Officer Representative to have the necessary authority to approve property transfers; and
- Finding 2018-07: Management concurred with the facts presented in the finding, but did not concur with the questioned costs.

### **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.

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

To the Chief Executive Officer of Pacific Architects and Engineers, Inc.  
1320 N. Courthouse Road, Suite 800  
Arlington, Virginia 22201

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

**Report on the Special Purpose Financial Statement**

We have audited the Special Purpose Financial Statement ("the Statement") of PAE Justice Support ("PAE"), and related notes to the Statement, with respect to the Bridge – Corrections System Support Program (CSSP) 2015 Contract funded by contract number SAQMMA15C0032 for the period January 1, 2015, through February 29, 2016.

***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"). 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 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 qualified audit opinion.

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(Continued)

### ***Basis for Qualified Opinion***

SIGAR requires that the Statement present costs incurred under the contract that are allowable and reimbursable in accordance with the contract's terms and conditions. During the course of the audit, we identified known questioned costs of \$546,017 as a result of PAE's failure to fully comply with the contract's requirements. We estimated the total effect of the noncompliance on the Statement by extrapolating the impact of the identified errors on the population of costs incurred as reported on the Statement. Based on the extrapolation, the total effect of the noncompliance is presumed to be material.

### ***Qualified Opinion***

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the Statement referred to above presents fairly, in all material respects, the 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 Note 1 and on the basis of accounting described in Note 2.

### ***Basis of Presentation and Accounting***

We draw attention to Note 1 and Note 2 to the Statement, which describes the basis of presentation and accounting. The Statement was prepared by PAE in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction and presents those expenditures as permitted under the terms of contract number SAQMMA15C0032, 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 cooperative agreement referred to above. Our opinion is not modified with respect to this matter.

### ***Restriction on Use***

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

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

In accordance with *Government Auditing Standards*, we have also issued reports dated January 9, 2019, on our consideration of PAE's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PAE's internal control over financial reporting and compliance.



Crowe LLP

January 9, 2019  
Washington, D.C.

**PAE**  
**Special Purpose Financial Statement**  
**Contract No. SAQMMA15C0032**  
**For the Period January 1, 2015, to February 29, 2016**

					<u>Questioned Costs</u>	
	<u>Budget</u>		<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
<i>Revenues</i>						
Contract No. SAQMMA15C0032	\$	37,708,099	\$	26,381,932		4, 5
<b>Total Revenue</b>	\$	37,708,099	\$	26,381,932		
<i>Costs Incurred</i>						
CLIN No. 001, BASE (6 Months)	\$	15,001,603	\$		\$ 39,671	6 C, D, E
CLIN No. 002, OPTION PERIOD 1 (2 Months)		5,663,313			280	E
CLIN No. 003, OPTION PERIOD 2 Utilizing FAR 52.217-8 (NTE 6 Months) EXERCISED OPTION		14,345,491			4,927	E, F
<b>Total Costs Incurred</b>	\$	35,010,407	\$		\$ 150,648	B
<b>Fixed Fee</b>	\$	2,697,692	\$		\$ 350,491	4, A
<i>Balance</i>	\$	-	\$	-	\$ 546,017	7

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

PAE  
NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT  
For the Period January 1, 2015, through February 29, 2016

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**NOTE 1 - BASIS OF PRESENTATION**

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Contract Number SAQMMA15C0032 for the Bridge - CSSP 2015 program for the period January 1, 2015, through February 29, 2016. Because the Statement presents only a selected portion of the operations of PAE, it is not intended to and does not present the financial position, changes in net assets, or cash flows of PAE. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal Contract. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE 2 - BASIS OF ACCOUNTING**

Expenditures reported on the Statement are reported on the accrual basis of accounting and present amounts as presented under the terms of the contract.

**NOTE 3 - FOREIGN CURRENCY CONVERSION METHOD**

For purposes of preparing the Statement, conversions from local currency to United States dollars were required under PAE corporate policies as it pertains to foreign exchange rates. PAE's practice is to utilize the spot rate in effect on the transaction date for purposes of translating costs denominated in a foreign currency to U.S. dollars.

**NOTE 4 - REVENUES AND FIXED FEE**

Revenues on the Statement represent the amount of funds to which PAE is entitled to receive from the Department of State for allowable, eligible costs incurred under the contract and fixed fees earned during the period of performance. Fixed fee is invoiced based on percentage of cost with remaining fees invoiced at program completion, if applicable.

**NOTE 5 - REVENUE RECOGNITION**

The Bridge - CSSP 2015 program used cost type/percentage of completion (POC) accounting throughout the period of performance.

**NOTE 6 - COSTS INCURRED BY BUDGET CATEGORY**

The budget categories presented and associated amounts reflect the budget line items presented within the final, approved contract budget adopted as a component of the SAQMMA15C0032 Modification 12.

**NOTE 7 - BALANCE**

The balance presented on the Statement represents the difference between revenues earned and costs incurred 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.

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(Continued)



PAE  
NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT  
For the Period January 1, 2015, through February 29, 2016

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**NOTE 8 - CURRENCY**

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

**NOTE 9 - PROGRAM STATUS**

The Bridge – CSSP 2015 program's period of performance has completed. The period of performance for the contract concluded on February 29, 2017.

**NOTE 10 - LEVEL OF EFFORT**

PAE's contract with the United States Department of State requires that PAE provide [REDACTED] productive hours and [REDACTED] non-productive hours in direct labor, including subcontractor direct labor hours. The following table summarizes direct labor hours worked during each applicable performance period under the contract.

Period	Hours
Base Year	[REDACTED]
Option Period 1	[REDACTED]
Option Period 2	[REDACTED]
<b>Total</b>	[REDACTED]

**NOTE 11 - SUBSEQUENT EVENTS**

Management has performed an analysis of the activities and transactions subsequent to the January 1, 2015, through February 29, 2016, period covered by the Statement. Management has performed their analysis through January 9, 2019.

PAE JUSTICE SUPPORT  
NOTES TO THE QUESTIONED COSTS PRESENTED ON  
THE SPECIAL PURPOSE FINANCIAL STATEMENT

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- A. Finding 2018-01 questioned \$350,491 of the authorized fixed fee amount as a result of PAE's failure to meet and document the minimum number of required productive and non-productive hours worked on the project.
- B. Finding 2018-03 questioned \$150,648 as a result of PAE's not having calculated and passed through a true-up adjustment that would align the actual indirect costs incurred with those amounts invoiced to the Government using provisional, estimated indirect cost rates.
- C. Finding 2018-04 includes \$9,250 in questioned costs resulting from PAE's having provided a cash advance to program participants to assist in funding transportation costs. However, PAE did not identify the actual costs incurred for the transportation that should be charged to the contract.
- D. Finding 2018-05 includes \$29,172 in allocated overhead costs that are questioned. This matter resulted from PAE's not providing adequate supporting documentation that permits the recalculation of the allocation such that it could not be determined that the allocation is accurate, reasonable, and allowable.
- E. Finding 2018-06 includes \$5,424 in questioned costs as a result of PAE's having transferred government property from the Bridge – CSSP 2015 contract to a follow-on contract without documented approval from the Contracting Officer.
- F. Finding 2018-07 questioned \$1,032 in costs incurred as a result of PAE's not providing supporting documentation.

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Chief Executive Officer of Pacific Architects and Engineers, Inc.  
1320 N. Courthouse Road, Suite 800  
Arlington, Virginia 22201

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Statement") of PAE Justice Support ("PAE"), and related notes to the Statement, with respect to the Bridge – Corrections System Support Program (CSSP) 2015 funded by contract number SAQMMA15C0032 for the period January 1, 2015, through February 29, 2016. We have issued our report thereon dated January 9, 2019, within which we have qualified our opinion.

**Internal Control over Financial Reporting**

PAE's management is responsible for establishing and maintaining effective internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the contract; and transactions are recorded properly to permit the preparation of the 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 January 1, 2015, through February 29, 2016, we considered PAE's 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 PAE's internal control. Accordingly, we do not express an opinion on the effectiveness of PAE's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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(Continued)

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 consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as findings 2018-01 and 2018-02 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 deficiencies described in the accompanying Schedule of Findings and Questioned Costs as findings 2018-03, 2018-06, and 2018-07 to be significant deficiencies.

In addition, we identified certain matters that we classified as deficiencies in internal control. These items are described in the accompanying Schedule of Findings and Questioned Costs as findings 2018-04 and 2018-05.

### **PAE Justice Support's Response to the Findings**

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

### **Purpose of this Report**

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

### **Restriction on Use**

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

  
Crowe LLP

January 9, 2019  
Washington, D.C.

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the Chief Executive Officer of Pacific Architects and Engineers, Inc.  
1320 N. Courthouse Road, Suite 800  
Arlington, Virginia 22201

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Statement") of PAE Justice Support ("PAE"), and related notes to the Statement, with respect to the Bridge – Corrections System Support Program (CSSP) 2015 funded by contract number SAQMMA15C0032 for the period January 1, 2015, through February 29, 2016. We have issued our report thereon dated January 9, 2019, 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 contract task orders is the responsibility of the management of PAE Justice Support.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as findings 2018-01, 2018-02, 2018-03, 2018-04, 2018-05, 2018-06, and 2018-07.

### PAE Justice Support's Response to the Findings

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

### Purpose of this Report

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

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(Continued)

### Restriction on Use

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



Crowe LLP

January 9, 2019  
Washington, D.C.

PAE JUSTICE SUPPORT  
SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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**Finding 2018-01: Failure to Meet Level of Effort Requirements**

Material Weakness and Noncompliance

**Criteria:** Section H-034 of the contract, as modified, states:

(a) The Contractor agrees to provide in the performance of this contract [622,896 productive hours; 10,381 non-productive hours] total direct labor hours, including subcontractor direct labor hours specifically identified in the Contractor's proposal.

(b) Of the total direct labor hours set forth above, it is estimated that (0) hours are uncompensated effort. Uncompensated effort is defined as hours provided by personnel in excess of 40 hours per week without additional compensation for such excess work. All other effort is defined as compensated effort. If no uncompensated effort is identified herein, uncompensated effort performed by the Contractor shall not be counted in fulfillment of the level-of-effort obligations under this contract.

(c) Effort performed in fulfilling the total level-of-effort specified in paragraph (a) shall only include effort performed in direct support of this contract, and shall not include time and effort expended on such things as local travel to and from an employee's usual work location, uncompensated effort while on travel status, truncated lunch periods, work (actual or inferred) at an employee's residence or other non-work locations, or other time and effort which does not have a specific and direct contribution to the performance of work under this contract.

(g) If the total level-of-effort specified in paragraph (a) above is not provided by the Contractor during the period of this contract; the Contracting Officer, at its sole discretion, shall either (1) reduce the fee of this contract as follows:

Fee Reduction Required LOE = Fee (Required LOE – Expended LOE)

Or, (2) subject to the provisions of FAR 52.232-20 "LIMITATION OF COST," FAR 52.232-21 "LIMITATION OF COST (FACILITIES)," or FAR 52.232-22 "LIMITATION OF FUNDS," as applicable, require the Contractor to continue to perform the work until the total level-of-effort specified in paragraph (a) above has been provided, at no increase in the fee of this contract.

**Condition:** To test compliance with the direct labor hours (including both productive and non-productive hours) requirement, we requested that PAE provide a copy of the Level of Effort (LOE) reports submitted to DOS containing PAE's direct labor hours worked. In response, PAE provided a copy of its productive hours report for audit. The productive hours reported by PAE totaled [REDACTED], which is [REDACTED] less than the [REDACTED] required productive hours. Therefore, PAE did not meet the minimum hours required as per the contract.

In addition, the report provided did not identify the number of non-productive hours worked such that one cannot conclude that PAE met the required 10,381 non-productive hours. PAE's report also did not include detailed information that would permit a determination regarding whether there was uncompensated effort included within the total reported hours or hours that were ineligible for inclusion as per the contract (e.g., travel to and from an employee's usual work location and work performed at an employee's residence or other non-work locations).

Crowe also identified deficiencies in the LOE reports. See Finding 2018-02 for additional detail regarding reporting requirements and matters of noncompliance applicable to the LOE reports.

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(Continued)

PAE JUSTICE SUPPORT  
SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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**Questioned costs:** \$350,491 in unsupported costs, calculated as follows using the formula prescribed in the contract:

Formula: Fee \* ((Required LOE - Expended LOE)/Required LOE)

[REDACTED]

**Effect:** The Government may have paid PAE a greater fee amount than required due to the contract's associating a potential reduction in fee when the level of effort requirement is not met. In addition, PAE may have improperly recorded and reported ineligible hours worked to the State Department without management's knowledge.

**Cause:** PAE did not have a process in place to ensure that hours worked in contribution to the level of effort requirement are eligible and properly accounted for. In addition, per discussion with management, PAE incorrectly assumed that the hour requirements appearing in the contract had been reduced as a result of certain positions having been de-scoped during various discussions with State Department personnel, even though the contract was not modified to reflect such changes.

**Recommendation:** We recommend that PAE:

1. Either reimburse the Government the questioned cost amount of \$350,491 or provide additional documentation that supports PAE's having met both the productive and non-productive hours requirement applicable to the CSSP contract; and
2. Design, document, and formally adopt a procedure that requires the individual responsible for compliance with each applicable contract to identify any level of effort requirements applicable to a contract, document how the requirements will be met, and document how management will monitor compliance with the requirement during the contract's period of performance.

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(Continued)



PAE JUSTICE SUPPORT  
SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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**Finding 2018-02: Incomplete Level of Effort Reports and Evidence of Submission**

Material Weakness and Noncompliance

**Criteria:** As noted in Section H-034(i) of the contract, as modified, "Within 45 days after completion of the work under each separately identified period of performance hereunder, the Contractor shall submit the following information in writing to the Contracting Officer with copies to the cognizant Contract Administration Office and to the cognizant audit activity office to which vouchers are submitted:

1. the total number of direct labor hours expended during the applicable period;
2. a breakdown of this total showing the number of hours expended in each direct labor classification and associated direct and indirect costs;
3. a breakdown of other costs incurred; and
4. the Contractor's estimate of the total allowable cost incurred under the contract for the period."

**Condition:** During our testing of the productive hours report provided by PAE in response to our request for copies of the Level of Effort reports submitted to DOS, we noted that the documentation provided for audit did not identify a breakdown of direct and indirect costs, a breakdown of other costs incurred, and PAE's estimate of the total allowable cost incurred under the contract for each applicable period of performance. We further noted that PAE did not provide evidence that the reports were submitted to the State Department within 45 days of the close of each period of performance, as required by the contract.

**Questioned costs:** None

**Effect:** In the absence of timely submitted level of effort reports, the Government's ability to monitor PAE's progress toward meeting the level of effort requirement and costs incurred relative to hours worked may have been reduced.

**Cause:** PAE did not implement an adequate supervisory review process to ensure that PAE adhered to contract reporting requirements.

**Recommendation:** We recommend that PAE design, document, and formally adopt a procedure that requires the individual responsible for compliance with each applicable contract to:

1. Identify all level of effort related reporting requirements applicable to a contract;
2. Document how the level of effort reporting requirements will be met; and
3. Document how management will monitor the timely submission of each required level of effort report during the contract's period of performance.

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(Continued)

PAE JUSTICE SUPPORT  
SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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**Finding 2018-03: Indirect Cost True-Up Not Performed**

Significant Deficiency and Noncompliance

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

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."

FAR 31.201-1, Composition of total cost, states:

(a) The total cost, including standard costs properly adjusted for applicable variances, of a contract is the sum of the direct and indirect costs allocable to the contract, incurred or to be incurred..."

**Condition:** PAE did not complete an indirect cost true-up calculation for each year based on actual costs incurred and anticipated final billing rates. Using PAE's anticipated final rates, we calculated a variance in costs charged to the contract of \$150,648 using the sample of 25 reimbursement requests selected for testing.<sup>4</sup> The amount represents an over-charge to the Government and, therefore, is in question.

**Questioned costs:** \$150,648

**Effect:** In the absence of a process to calculate and assess the potential indirect cost adjustment amount, there may be a significant under- or over-billing that PAE and the Government are not made aware of.

**Cause:** As a matter of standard company practice, PAE does not calculate indirect cost adjustments until the audit of PAE's indirect costs for each applicable year is completed by DCAA or the applicable Federal agency.

**Recommendation:** We recommend that:

1. PAE either reimburse the Government \$150,648 or otherwise produce documentation showing that the calculated over-charge has already been credited to the Government; and
2. PAE design and implement internal control procedures to perform true-up calculations in order to calculate actual indirect costs incurred. These calculations should be performed, at a minimum, on an annual basis.

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<sup>4</sup> 110 total reimbursement requests were submitted to DOS.

PAE JUSTICE SUPPORT  
SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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**Finding 2018-04: Transportation Cost Charged for Program Participants does not Reflect Actual Costs Incurred**

Deficiency and Noncompliance

**Criteria:**

FAR 31.201-2, *Determining allowability*, “(a) A cost is allowable only when the cost complies with all of the following requirements: (1) Reasonableness; (2) Allocability; (3) Standards promulgated by the CAS Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the circumstances; (4) Terms of the contract; and (5) Any limitations set forth in [48 CFR Subpart 31.2].”

FAR 31.201-4, *Determining allocability*, states that “A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship.”

FAR 31.201-1, Composition of total cost, states:

(a) The total cost, including standard costs properly adjusted for applicable variances, of a contract is the sum of the direct and indirect costs allocable to the contract, incurred or to be incurred...”

**Condition:** PAE provided program participants cash advances to fund participants’ transportation to CSSP programs. During our testing, we identified a \$9,250 transportation cost cash advance that was based on estimated travel expenses for the program participants. PAE provided support, in the form of rosters showing that the cash advances were received by program participants.

Per discussion with management, PAE did not obtain documentation supporting the actual cost incurred by program participants for transportation. In the absence of such documentation, it is unclear whether the full value of the cash advance was used for and benefited the program activity such that the costs may not be allocable to the CSSP project. Any variance between the cash advance amounts charged to the Government and the actual costs incurred for the project would not be considered a cost for the contract. Accordingly, the costs are in question.

**Questioned costs:** \$9,250

**Effect:** The Government may have reimbursed PAE for cash advances that did not fully benefit the CSSP program. In addition, the Government may have paid a greater amount than necessary for transportation, thus reducing the funds available for program purposes.

**Cause:** Management considered the transportation cost estimates to be reasonable. In addition, management did not consider identification of actual transportation costs to be necessary and, therefore, did not have a process in place to identify actual transportation costs.

**Recommendation:** We recommend that PAE:

1. Either reimburse the Government \$9,250 or otherwise produce supporting documentation identifying the actual costs incurred by the travelers; and
2. Develop and document a procedure for the review and evaluation of transportation costs that includes obtaining evidence of actual costs incurred and processing of an adjustment, if necessary, to align the estimated transportation costs with actual costs incurred.

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(Continued)

PAE JUSTICE SUPPORT  
SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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**Finding 2018-05: Inadequate Supporting Documentation for Allocated Overhead Costs**

Deficiency and Noncompliance

**Criteria:** FAR 31.201-2, *Determining allowability*, “(a) A cost is allowable only when the cost complies with all of the following requirements: (1) Reasonableness; (2) Allocability; (3) Standards promulgated by the CAS Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the circumstances; (4) Terms of the contract; and (5) Any limitations set forth in [48 CFR Subpart 31.2].”

FAR 31.201-2(d) states, “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.”

FAR 31.201-4, *Determining allocability*, states that “A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship.”

**Condition:** During our testing of 43 direct cost transactions, we noted that PAE recorded \$29,172 in allocated overhead costs to the CSSP project. We requested that PAE provide documentation supporting the total overhead and support for the amount allocated to the CSSP Project for purposes of re-calculating the amount charged. The documentation provided did not indicate the total overhead pool, identify the basis of allocation, or include sufficient detail to recalculate the amount recorded to the CSSP project per management’s transaction support. In the absence of adequate supporting documentation that demonstrates the overhead costs are appropriately allocated to the CSSP Project and are allowable, the costs are in question.

Per discussion with PAE, the costs had not been reimbursed by the Government as they had been rejected during the initial review. The costs are, however, subject to resubmission.

**Questioned costs:** \$29,172

**Effect:** PAE may have attempted to charge the Government for costs that are not allocable to the CSSP project.

**Cause:** PAE did not have a process in place to retain or otherwise produce documentation adequate to demonstrate that directly allocated overhead costs are allowable.

**Recommendation:** We recommend that PAE either:

1. Record the \$29,172 in costs in the project ledger as unallowable to mitigate the risk that the company will resubmit these costs to the Government for reimbursement; or
2. Demonstrate that the questioned costs are allowable by producing adequate documentation to support the charged overhead costs that indicates the total amount of overhead, identifies the basis of allocation, and includes sufficient detail to recalculate management’s transaction.

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(Continued)

PAE JUSTICE SUPPORT  
SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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**Finding 2018-06: Property Transferred without Contracting Officer Approval**

Significant Deficiency and Noncompliance

**Criteria:** Pursuant to FAR 52.245-1(c), *Use of Government property*, “(1) The Contractor shall use Government property, either furnished or acquired under this contract, only for performing this contract, unless otherwise provided for in this contract or approved by the Contracting Officer.”

PAE’s Standard Operating Procedure Number PAE-900-1-P-11-SOP-06, *Property Management*, Section 16, “Property Transfers,” instructs personnel to obtain approval from the “Program Manager Advisor/Contracting Officer Representative” prior to transferring property.

**Condition:** We selected 40 of 933 government property items for testing. During the conduct of our procedures, we found that all 40 of the sampled items had been transferred from the CSSP contract to a follow-on contract. However, neither evidence of Contracting Officer approval for the transfers nor express authorization within the contract for a transfer was provided. In the absence of the Contracting Officer’s approval or express permission for transfer having been included in the contract, the \$5,424 in costs incurred for acquisition of the sampled items is in question.

**Questioned Costs:** \$5,424

**Effect:** Government property that was transferred to the successor CSSP program managed by PAE may not be being used in accordance with the Contracting Officer’s intent. Further, the unauthorized transfer of assets may cause confusion and inconsistencies in property records regarding the location and use of government property.

**Cause:** PAE’s Property Management Standard Operating Procedures (“SOPs”) were improperly designed. Specifically, the SOPs were designed to require approval from the Contracting Officer’s Representative rather than the Contracting Officer, as required.

**Recommendation:** We recommend that PAE:

1. Either reimburse the Government \$5,424 or produce evidence of the Contracting Officer’s approval of the government property transfer;
2. Modify its property management SOPs to reflect FAR 52.245-1’s approval requirements applicable to the use of government property; and
3. Request and obtain direction from the Contracting Officer regarding the use and proper disposition of the transferred assets.

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(Continued)

PAE JUSTICE SUPPORT  
SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Finding 2018-07: Supporting Documentation Not Provided for Incurred Costs**

Significant Deficiency and Noncompliance

**Criteria:** Pursuant to FAR 31.201-2(d), Determining allowability. "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."

**Condition:** PAE did not produce adequate supporting documentation (e.g., receipts or evidence of travel) for the ten of the twelve transactions that are listed below. The total amount of the transactions is \$1,032, including two reversals of \$28. PAE's accounting system identified these costs as not having been billed as of the end of the audit period. Nevertheless, PAE may yet submit these costs for reimbursement.

Sample	Company ID	Invoice ID	Project Bill Number ID	Project Name	Account Name	Invoiced Amount <sup>5</sup>
1	61	6100020362	0	Lunch Stipend LNs	DC Per Diem Allowance	\$27.50
2	61	6100020478	0	Training	DC Travel Per Diem Meals	\$275.00
3	61	6100020362	0	Lunch Stipend LNs	DC Per Diem Allowance	\$13.75
4	61	6100020362	0	Lunch Stipend LNs	DC Per Diem Allowance	\$27.50
5	61	6100020463	0	CSSPAN Labor	AN Danger Pay	\$278.89
6	61	6100020478	0	Mental Health	DC Travel Lodging	\$357.00
7	61	6100020362	0	Lunch Stipend LNs	DC Per Diem Allowance	\$(27.50)
8	61	6100020362	0	Lunch Stipend LNs	DC Per Diem Allowance	\$24.75
9	61	6100020362	0	Lunch Stipend LNs	DC Per Diem Allowance	\$27.50
12	61	6100020362	0	Lunch Stipend LNs	DC Per Diem Allowance	\$27.50
7	61	6100020362	0	Lunch Stipend LNs	DC Per Diem Allowance	\$(27.50)
8	61	6100020362	0	Lunch Stipend LNs	DC Per Diem Allowance	\$24.75
<b>TOTAL</b>						<b>\$1,031.89</b>

**Questioned Costs:** \$1,032

**Effect:** There is a risk that PAE will invoice the Government and be reimbursed for costs that are inadequately supported and, therefore, unallowable.

<sup>5</sup> Amounts included in parenthesis reflect reversals.

(Continued)

PAE JUSTICE SUPPORT  
SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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**Cause:** PAE did not have adequate procedures in place to ensure that costs charged to the project are adequately supported.

**Recommendation:** We recommend that PAE:

1. Either reclassify the \$1,032 in costs as unallowable to mitigate the risk of billing them in the future or locate documentation supporting each transaction; and
2. Provide training to individuals responsible for recording costs to project accounts that includes an assessment of the existence of supporting documentation for each transaction prior to recording a cost to a Federal project account.

PAE JUSTICE SUPPORT  
SECTION II: SUMMARY SCHEDULE OF PRIOR AUDIT, REVIEW, AND ASSESSMENT FINDINGS

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Crowe reviewed two prior reports pertaining to audits of PAE and that included seven findings and recommendations that may be direct and material to the Special Purpose Financial Statement or other financial information significant to the audit objectives.

Regarding the identified questioned costs in each report, we noted the following:

1. Evidence of PAE's having reimbursed the Government for \$6,458 in sustained questioned costs associated with SIGAR Financial Audit 15-69 was provided; and
2. Regarding \$506,866 in questioned costs reported in SIGAR Financial Audit 15-22, DOS indicated that it is continuing discussions with PAE and resolution is anticipated by the end of 2018. No further procedures were considered necessary with respect to the questioned costs, as of the date of this report.

Regarding the aforementioned reports that contained findings and recommendations that may be direct and material to the SPFS, we have summarized the results of our procedures below and on the following pages.

**Finding No. 2015-01: Equipment Management**

**Report:** Audit of PAE's Special Purpose Financial Statement for the period May 31, 2010, through September 24, 2013, pertaining to the Justice Sector Support Program dated May 12, 2015.

**Issue:** A material weakness and non-compliance pertaining to property management was identified. Questioned costs totaled \$6,458 relating to 19 items that lacked appropriate documentation and may have been missing from the inventory.

**Status:** We conducted testing of government property and did not identify reportable instances in which the information contained in the physical inventory was inadequately supported. Crowe concluded that adequate corrective action was taken with respect to this matter.

**Finding No. 2014-01: Cash Management Procedures**

**Report:** Audit of PAE's Special Purpose Financial Statement for the period March 31, 2005, through May 30, 2010, pertaining to the Afghanistan Justice Support Program dated October 10, 2014.

**Issue:** Seven invoices were originally rejected by the Department of State. As a result, PAE revised these invoices with proper documentation and/or removal of ineligible items. One of the reimbursement invoices was missing documented approvals while another expense was not paid within the 30 days of invoicing the Department of State. This invoice was paid 298 days after Department of State was invoiced.

**Status:** We conducted testing of sample of transactions to determine if the costs were paid timely in relation to the date of submission of the corresponding reimbursement request. No exceptions were noted. Crowe concluded that adequate corrective action has been taken with respect to this issue.

**Finding No. 2014-02: Procurement Practices**

**Report:** Audit of PAE's Special Purpose Financial Statement for the period March 31, 2005, through May 30, 2010, pertaining to the Afghanistan Justice Support Program dated October 10, 2014.

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(Continued)



PAE JUSTICE SUPPORT  
SECTION II: SUMMARY SCHEDULE OF PRIOR AUDIT, REVIEW, AND ASSESSMENT FINDINGS

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**Issue:** PAE could not produce support for approvals on four JSSP purchases. These four purchases did not contain proper internal purchase approvals as the requisition was not signed. In addition, these purchases did not include support for proper approval. As a result, questioned costs totaled \$12,251 from the difference in the lowest bid and the second lowest bid. No support was provided to support the decision to award the second lowest bidder the contract.

**Status:** During our testing of procurement, we did not identify any instances in which PAE did not produce evidence of management approval of procurements. In addition, we did not identify any instances in which PAE could not produce support for its selection of a vendor that was other than the lowest bidder. Crowe concluded that adequate corrective action has been taken with respect to this issue.

**Finding No. 2014-03: Allowable Costs – Inadequate Supporting Documentation**

**Report:** Audit of PAE's Special Purpose Financial Statement for the period March 31, 2005, through May 30, 2010, pertaining to the Afghanistan Justice Support Program dated October 10, 2014.

**Issue:** PAE did not provide adequate supporting documentation for program costs and as a result, it could not be determined if the costs were allowable. For 7 of the 60 items tested, no support was provided and could not be tested for allowability. Also, 17 items had specific exceptions as noted on the table on page 24 of the abovementioned report. Questioned costs total \$239,099 for the period.

**Status:** During our testing of transactions, we noted that PAE did not produce adequate supporting documentation for certain costs incurred. Please see findings 2018-05 and 2018-07.

**Finding No. 2014-04: Improper Maintenance of Equipment**

**Report:** Audit of PAE's Special Purpose Financial Statement for the period March 31, 2005, through May 30, 2010, pertaining to the Afghanistan Justice Support Program dated October 10, 2014.

**Issue:** PAE could not provide required documentation of the disposition of three equipment items noted as missing or lost. A total of \$2,750 resulted in questioned costs. In addition, PAE did not maintain complete inventory records on four items. These items were missing acquisition costs and unique identifiers

**Status:** During our CSSP audit procedures, we identified 40 instances in which PAE could not produce documentation demonstrating compliance with property disposition and transfer regulations. Please see finding 2018-06. Crowe concluded that adequate corrective action has not been taken with respect to this matter.

**Finding No. 2014-05: Special Purpose Financial Statement Adjustment**

**Report:** Audit of PAE's Special Purpose Financial Statement for the period March 31, 2005, through May 30, 2010, pertaining to the Afghanistan Justice Support Program dated October 10, 2014.

**Issue:** An adjustment of \$566,000 was noted to the SPFS and financial records (affecting both revenue and expenses). The adjustment was not identified until Crowe brought the variance between the initial SPFS and DOS reports to PAE's attention.

PAE JUSTICE SUPPORT  
SECTION II: SUMMARY SCHEDULE OF PRIOR AUDIT, REVIEW, AND ASSESSMENT FINDINGS

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**Status:** We conducted testing of the transactions underlying the SPFS to determine if each transaction was adequately supported and accurately reported. We did not identify any instances in which a material misstatement existed. Crowe concluded that adequate corrective action was taken with respect to this matter.

**Finding No. 2014-08: Substitutions to Key Personnel**

**Report:** Audit of PAE's Special Purpose Financial Statement for the period March 31, 2005, through May 30, 2010, pertaining to the Afghanistan Justice Support Program dated October 10, 2014.

**Issue:** PAE was unable to provide support for the substitution of key personnel.

**Status:** During our testing of employee labor charges, we did not identify any instances in which PAE did not obtain prior approval for key personnel. Crowe concluded that adequate corrective action was taken with respect to this matter.

APPENDIX A:  
VIEWS OF RESPONSIBLE OFFICIALS

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PAE provided responses to the audit findings on January 9, 2019. PAE's responses have been incorporated on the following pages.



January 9, 2018

Eric J. Russell  
Crowe LLP  
1455 Pennsylvania Ave., NW  
Suite 700  
Washington, DC 20004

Reference: PAE Responses to SIGAR audit of Contract No. SAQMMA15C0032

Dear Mr. Russell:

PAE hereby submits the following management response to the audit findings included in the SIGAR audit report dated October 19, 2018, received by PAE on December 17, 2018.

**Finding 2018-01: Failure to Meet Level of Effort Requirements**

The auditor noted discrepancies between the level of effort delivered in Section H-034 in the initial award and the level of effort delivered through the end of the contract. In addition, the auditor had reservations about the detail provided in the level of effort report

During the implementation of the contract, there were a number requests by the government to delay staffing or refrain from fielding personnel due to the anticipated site consolidations and moving the INL programs to new locations within the International Zone (IZ). PAE worked closely with the Government to accommodate adjustments in staffing levels, including delaying arrivals at post until receipt of the modification to return to post in the IZ during the last weeks of the contract. Even with lower staffing levels, PAE implemented the program in accordance with the Scope of Work with no decline in performance.

**Finding 2018-02: Incomplete Level of Effort Reports and Evidence of Submission**

The auditor had reservations about the detail provided in the level of effort reports.

PAE provided the labor reports, per section H-034 of the contract. We acknowledge that although there was a process for reporting, there was not a formal standard in place to ensure consistency across the INL portfolio. PAE agrees to review the level of effort reporting requirements for the INL portfolio of contracts and monitor timely submission of these reports when required.

**Finding 2018-03: Indirect Cost True-Up Not Performed**

The auditor notes there was no indirect cost true-up for each year.

As noted in the auditor's report, PAE does not calculate indirect cost adjustments until the audit of PAE's indirect costs for each applicable year is completed by DCMA.

In past experience, the Department of State has not accepted indirect rates that are not final, and, therefore, have no approved basis in billing.

**Finding 2018-04: Transportation Cost Charged for Program Participants does not Reflect Actual Costs Incurred**

The auditor identified transportation charges without detailed supporting documents.

PAE consulted with the INL COR on the CSSP to establish approved transportation stipend amounts for each of the students traveling training events. The stipend amounts were based on distance traveled and pre-approved by the INL COR prior to disbursements. PAE included these approval documents with each invoice to Government, thereby substantiating these costs and methodologies. As noted in the auditor's letter, PAE provided the roster of trainees who received transportation advances.

**Finding 2018-05: Inadequate Supporting Documentation for Allocated Overhead Costs Finding**

The auditor identified overhead costs that lacked fully supported documentation.

As noted in the finding, these costs were not billed to the Government, and there should not be any questioned costs associated with charges that were not billed to the government. PAE agrees with the recommendation to move these costs to a non-billable account.

**Finding 2018-06: Property Transferred without Contracting Officer Approval**

The auditor identified 40 property items transferred without Contracting Officer approval.

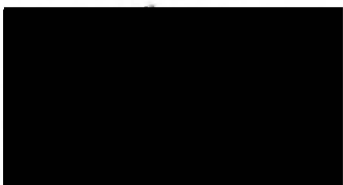
As noted in the finding, each of these items were transferred to the successor contract. In addition, PAE provided the auditors with the COR delegation letter which authorizes the COR serve as Property Administrator. Given that these items were transferred to successor contracts with COR approval, PAE believes these items were properly transferred.

**Finding 2018-07: Supporting Documentation Not Provided for Incurred Costs**

The auditor noted a lack of supporting documentation for trainee costs.

Of the \$1,031.89 in questioned costs, only \$976.89 was invoiced. In addition, \$344.89 of these individual transactions are less than \$30, thereby not requiring the same level of documentation as costs above \$75. PAE believes these costs are reasonable, allocable, and allowable under the contract.

Sincerely,



Contracts, PAE

APPENDIX B:  
AUDITOR'S REBUTTAL

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Crowe LLP ("Crowe" or "we" or "us") has reviewed the letter dated January 9, 2019, containing PAE's ("PAE" or "the auditee") responses to the draft audit report. In consideration of those views, Crowe has included the following rebuttal to certain matters presented by the auditee. Crowe incorporates a rebuttal in those instances where management disagrees with the facts presented within the condition, does not concur with Crowe's recommendation, or provides additional documentation for review. In those instances, where management either agrees with the finding or does not disagree with the facts in the finding, as presented, no rebuttal is provided. Using this framework, Crowe has incorporated rebuttals to two of management's comments, below.

**Finding 2018-01: Failure to Meet Level of Effort Requirements**

PAE neither agreed nor disagreed with the audit finding. PAE indicated that, during implementation of the contract, the Government requested delays in staffing or otherwise asked that PAE not field personnel. PAE also noted that the program was implemented in accordance with the Scope of Work without a decline in performance, irrespective of reduced staffing levels. Whereas Crowe did not audit contract implementation and performance, we have not and will not question or otherwise opine on PAE's performance. The scope of the finding is limited to noncompliance with the contract provisions pertaining to level of effort requirements.

Crowe noted that PAE did not provide additional documentation or evidence that the level of effort requirement within the contract was modified. Therefore, we have not modified the audit finding.

**Finding 2018-02: Incomplete Level of Effort Reports and Evidence of Submission**

PAE indicated that the company provided the labor reports as per Section H-034 of the contract. However, no additional documentation was provided to Crowe indicating that the reports submitted were complete (i.e., contained all required data as required by the contract). In the absence of additional documentation to demonstrate compliance with the reporting requirement, we have not modified the audit finding.

**Finding 2018-03: Indirect Cost True-Up Not Performed**

PAE concurred with the facts noted in the finding and the cited condition. However, PAE does not believe that it has a basis for billing the Government using actual indirect cost rates based on its past experience with the State Department. PAE did not, however, provide any new information or a regulatory basis for its assertion. As noted within the finding, FAR 31.201-1, total costs under a contract reflect the sum of direct and indirect costs "incurred or to be incurred." Whereas PAE's actual indirect costs associated with the project are less than what has been invoiced, the questioned cost amount of \$150,648 does not represent actual costs incurred or to be incurred in the future. Therefore, the finding remains unchanged.

**Finding 2018-04: Transportation Cost Charged for Program Participants does not Reflect Actual Costs Incurred**

PAE disagreed with the finding because 1) the roster of trainees who received the transportation advances was provided to the auditors; and 2) the PAE provided the methodology and documentation of INL's concurrence with the transportation fund advance amount with the invoices. We note, however, that the methodology and issuance of the advances are not in question. Rather, the finding questions the costs as a result of PAE's not having obtained documentation to support the actual costs incurred. Whereas PAE provided neither documentation to support the actual costs incurred by participants for transportation nor regulatory guidance clearly demonstrating that an adjustment to align estimated costs with actual costs incurred is not required, the finding remains unchanged.

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(Continued)

APPENDIX B:  
AUDITOR'S REBUTTAL

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**Finding 2018-06: Property Transferred without Contracting Officer Approval**

PAE disagreed with the finding due to the Contracting Officer Representation (COR) Delegation Letter specifying that the COR is to act in the place of the Property Administrator. Whereas the applicable regulation requires the Contracting Officer to authorize transfers of government property to other projects, the COR Delegation Letter did not represent sufficient, appropriate audit evidence to modify the finding. Accordingly, the finding remains unchanged.

**Finding 2018-07: Supporting Documentation Not Provided for Incurred Costs**

PAE neither agreed nor disagreed with the finding. The company did, however, indicate that it considered the costs to be reasonable, allocable, and allowable under the contract. Whereas PAE did not provide additional or alternative documentation to support the allowability of the costs, the finding remains unchanged.

## 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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## Public Affairs

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