

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 19-17 Financial Audit

Department of the Army's Afghan Ministry of
Interior's Network Operations Center and Joint
Operations Center Project: Audit of Costs
Incurred by IAP Worldwide Services Inc.

**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 May 12, 2016, the Army Contracting Command (ACC) awarded delivery order 0003, worth \$36,250,064, under contract number W52P1J-13-D-0107 to DRS Technical Services Inc. (DRS). The purpose of the delivery order was to support the modernization and expansion of the Afghan Ministry of Interior's Network Operations Center and Joint Operations Center. After 14 modifications, the delivery order's total funding increased to \$50,902,910, and the period of performance was extended from November 8, 2016, to December 3, 2018. In November 2015, IAP Worldwide Services Inc. (IAP) acquired DRS. Therefore, the audit report refers to IAP.

SIGAR's financial audit, performed by Conrad LLP (Conrad), reviewed \$49,736,625 in costs charged to the delivery order from May 12, 2016, through July 31, 2018. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in IAP's internal controls related to the delivery order; (2) identify and report on instances of material noncompliance with the terms of the delivery order and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether IAP has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of IAP's Special Purpose Financial Statement (SPFS). See Conrad'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 Conrad did not comply, in all material respects, with U.S. generally accepted government auditing standards.

January 2019

Department of the Army's Afghan Ministry of Interior's Network Operations Center and Joint Operations Center Project: Audit of Costs Incurred by IAP Worldwide Services Inc.

SIGAR 19-17-FA

WHAT THE AUDIT FOUND

Conrad identified one significant deficiency and two deficiencies in IAP's internal controls, and three instances of noncompliance with the terms and conditions of the delivery order and applicable regulations. For example, Conrad tested records for 18 of 22 employees to determine whether the costs IAP incurred for labor were supported and allowable. IAP could not provide documentation that three of the employees had background checks or that two had medical clearances. In addition, the auditors found that three employees did not have the job certifications required by the delivery order. Conrad also tested employee records for IAP's major subcontractors and found that for one subcontractor, two out of four employees did not have the minimum certifications required by the delivery order. Conrad also found that IAP charged ACC twice for one shipment of equipment to Afghanistan, resulting in \$18,328 in questioned costs.

Because of these internal control deficiencies and instances of noncompliance, Conrad identified \$2,231,965 in total questioned costs, consisting of \$2,181,675 in ineligible costs—costs prohibited by the task order, applicable laws, or regulations—and \$50,290 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Category	Ineligible Costs	Unsupported Costs	Total Questioned Costs
Labor	\$2,012,416	\$46,781	\$2,059,197
Shipping	\$18,328	\$0	\$18,328
Fixed Fees			\$154,440
Total Questioned Costs	\$2,181,675	\$50,290	\$2,231,965

Conrad identified a January 2018 Defense Contract Management Agency audit that was relevant to IAP's delivery order. The audit had two findings that could have a material effect on the SPFS and other financial data significant to the audit objectives. Conrad conducted follow up procedures and concluded that IAP had taken adequate corrective action on the findings, which were not repeated in this audit.

Conrad issued a modified opinion on IAP's SPFS because of the amount of questioned costs it identified was material.

WHAT SIGAR RECOMMENDS

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

1. Determine the allowability of and recover, as appropriate, \$2,231,965 in questioned costs identified in the report.
2. Advise IAP to address the report's three internal control findings.
3. Advise IAP to address the report's three noncompliance findings.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

January 30, 2019

The Honorable Patrick M. Shanahan
Acting Secretary of Defense

The Honorable Mark T. Esper
Secretary of the Army

General Austin Scott Miller
Commander, U.S. Forces-Afghanistan and
Commander, Resolute Support

We contracted with Conrad LLP (Conrad) to audit the costs incurred by IAP Worldwide Services Inc. (IAP) under a U.S. Army Contracting Command (ACC) delivery order for the Afghan Ministry of Interior's Network Operation Center and Joint Operations Center project.¹ The purpose of the delivery order was to support the modernization and expansion of the ministry's Network Operations Center and Joint Operations Center. Conrad reviewed \$49,736,625 in costs charged to the delivery order from May 12, 2016, through July 31, 2018. Our contract with Conrad required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$2,231,965 in questioned costs identified in the report.**
- 2. Advise IAP to address the report's three internal control findings.**
- 3. Advise IAP to address the report's three noncompliance findings.**

The results of Conrad's audit are discussed in detail in the attached report. We reviewed Conrad'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 the IAP's Special Purpose Financial Statement. We also express no opinion on the effectiveness of the IAP's internal control or compliance with the delivery order, laws, and regulations. Conrad is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances in which Conrad 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-140)

¹ The delivery order number is 0003, under contract number W52P1J-13-D-0107.

IAP WORLDWIDE SERVICES, INC.

Financial Audit of Costs Incurred Under
Contract No. W52P1J-13-D-0107, Delivery Order No. 0003
Ministry of Interior's Network Operations Center and Joint Operations Center Project

For the Period May 12, 2016 through July 31, 2018

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January 25, 2019

Board of Directors
IAP Worldwide Services, Inc.
Cape Canaveral, Florida

Special Inspector General for Afghanistan Reconstruction ("SIGAR")
Arlington, VA

Conrad LLP (referred to as "Conrad" or "we") hereby provides to you our final report, which reflects results from the procedures we completed during our audit of IAP Worldwide Services, Inc.'s ("IAP") Special Purpose Financial Statement ("SPFS") for costs incurred under Contract No. W52P1J-13-D-0107, Delivery Order 0003, for the period May 12, 2016 through July 31, 2018, to support the Ministry of Interior's Network Operations Center and Joint Operations Center Project.

On November 9, 2018, we provided SIGAR with a draft report reflecting our audit procedures and results. IAP received a copy of the report on December 18, 2018 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 IAP. IAP'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 IAP contract.

Sincerely,

A handwritten signature in blue ink, appearing to read "S. Perera", with a horizontal line underneath the name.

Sam Perera, CPA, CFE, CITP, CGMA
Partner

Background

On May 12, 2016, the U.S. Army Contracting Command – Rock Island (“ACC-RI”) awarded a Cost Plus Fixed Fee (“CPFF”) Contract No. W52P1J-13-D-0107 (“Contract”), Delivery Order 0003 (“Delivery Order”) to DRS Technical Services, Inc. (“DRS”) to Engineer, Furnish, Install, Secure, and Test (“EFIS&T”) a new network to provide a turn-key solution for the modernization and expansion of the Ministry of Interior’s (“MoI”), Network Operations Center (“NOC”), and Joint Operations Center (“JOC”) (“NOC/JOC Project”). DRS proposed on this project when the original solicitation was issued by ACC-RI in October 2015. However, DRS was acquired by IAP Worldwide Services, Inc. (“IAP”) on November 5, 2015. As such, on September 22, 2016, per modification #1 to the contract, IAP replaced DRS as the prime contractor. Therefore, the audit report addresses IAP as the auditee.

The purpose of this contract was to include delivering a turnkey solution and expansion of the NOC and a continuity of operations/disaster recovery support site. The scope included three tasks.

- a) Base period – To engineer, furnish, install, secure, and test MoI NOC and JOC facilities; training; and designing and engineering the MoI NOC Continuity of Operations/Disaster Recovery (“COOP/DR”) support site.
- b) Option Task #1 – To engineer, furnish, install, secure, and test a COOP/DR site based upon the initial engineering design completed in the base requirement.
- c) Option Task #2 – To provide Resident System Support Specialist (“RS3”) support for the MoI NOC and JOC. Option Task #2 was split into two option periods. Option period 1 is for on-site RS3 support and option period 2 is for remote RS3 support.

IAP was required to provide the staffing, resources, and flexibility to execute the project according to the timeline required. Additionally, IAP was required to partner with Afghan local sub-contractors to perform project work and manage the details of the project.

The original contract amount was \$36,250,064 (██████████ in estimated costs plus ██████████ fixed fee) for the period May 12, 2016 through November 8, 2016. However, after 14 modifications to the contract, the total funding increased to \$50,902,910, and the period of performance was extended until December 3, 2018. Our audit scope reviewed \$49,736,625 in total costs incurred for the period of performance from May 12, 2016 through July 31, 2018.

According to IAP’s audited financial statement for fiscal year 2017, Notes to Consolidated Financial Statements, IAP is a U.S. based private company in Cape Canaveral, Florida. The company provides logistics, facilities management, and advanced professional and technical services for government and commercial clients in the United States and internationally. It provides services for the government sector including aviation support, emergency response, expeditionary, logistics and supply chain, network and communications, and expeditionary infrastructure.

Work Performed

Conrad LLP (“Conrad”) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) to conduct a financial audit of IAP’s Special Purpose Financial Statement (“SPFS”) for costs incurred under the MoI NOC/JOC project in Afghanistan for the period May 12, 2016 through July 31, 2018.

Objectives, Scope, and Methodology

Objectives Defined by SIGAR

The objectives of the audit include the following:

- *The Special Purpose Financial Statement (“SPFS”)* – Express an opinion on whether IAP’s SPFS for the contract presents fairly, in all material respects, the revenues received, costs incurred, items directly procured by the U.S. Government, and the balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.
- *Internal Controls* – Evaluate and obtain sufficient understanding of IAP’s internal controls related to the contract, assess control risk, and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether IAP 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 award and applicable laws and regulations, including potential fraud or abuse that may have occurred.
- *Corrective Action on Prior Findings and Recommendations* – Determine and report on whether IAP has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the SPFS or other financial data significant to the audit objectives.

Scope

The scope of this audit included all costs incurred during the period May 12, 2016 through July 31, 2018 under the Delivery Order. Our testing of indirect cost was limited to determining that the indirect cost was calculated using the correct revised negotiated indirect cost rates or provisional indirect cost rates, as applicable for the given fiscal year, as approved by the Defense Contract Management Agency (“DCMA”).

Methodology

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

Entrance Conference

An entrance conference was held via conference call on July 31, 2018. Participants included representatives of Conrad, IAP, SIGAR, and ACC-RI.

Planning

During our planning phase, we performed the following:

- Obtained an understanding of IAP;

- Reviewed the Delivery Order and all modifications;
- Reviewed regulations specific to ACC-RI that are applicable to the Delivery Order;
- Performed a financial reconciliation; and
- Selected samples based on our sampling techniques. According to the approved Audit Plan, we used the detailed accounting records that were reconciled to the financial reports, and based upon the risk assessment and materiality included as part of the approved Audit Plan, we performed data mining to assess individual expenditure accounts and transactions that were considered to be high or medium to low risk for inclusion in our test of transactions. None of the populations were homogeneous in nature, which means none of the costs are identical in nature, thus statistical sampling was not used. All samples were selected on a judgmental basis. Our sampling methodology for judgmental samples was as follows:
 - For accounts that appeared to contain unallowable and restricted items according to the terms of the Contract, Federal Acquisition Regulation (“FAR”) Part 31, and any other applicable regulations, we tested 100% of the transactions.
 - For related party transactions, we tested 100% of the transactions.
 - For high risk cost categories, we sampled transactions greater than \$242,800 not to exceed 30% of the total amount expended for each cost category.
 - For medium risk cost categories, we sampled transactions greater than \$485,600 not to exceed 20% of the total amount expended for each cost category.
 - For low risk cost categories, we sampled transactions that are greater than \$485,600 not to exceed 10% of the total amount expended for each cost category and not to exceed 50 transactions in total for all accounts comprising low risk cost categories.

Internal Controls Related to the Contract

We reviewed IAP’s internal controls related to the Contract. This review was accomplished through interviews with management and key personnel, reviewing of policies and procedures, and identifying key controls within significant transaction cycles and testing those key controls.

Compliance with Agreement Requirements and Applicable Laws and Regulations

We performed tests to determine whether IAP complied, in all material respects, with the contract requirements and applicable laws and regulations; and identified and reported on instances of material noncompliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred.

Corrective Action on Prior Findings and Recommendations

We requested from IAP, as well as conducted a search online to various governmental websites including SIGAR, Department of Defense (DoD) and other federal agencies, for all reports from previous engagements in order to evaluate the adequacy of corrective actions taken on findings and

recommendations that could have a material effect on the SPFS. See the Review of Prior Findings and Recommendations subsection of this Summary for this analysis.

Special Purpose Financial Statements

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Delivery Order and general ledger;
- Traced receipt of funds to the accounting records; and
- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the Delivery Order, and reasonable.

Exit Conference

An exit conference was held on November 1, 2018 via conference call. Participants included representatives from Conrad, IAP, SIGAR, and ACC-RI. During the exit conference, we discussed the preliminary results of the audit and reporting process.

Summary of Results

Our audit of the costs incurred by IAP under the Delivery Order with ACC-RI identified the following matters. Findings are classified as either internal control or compliance or a combination of internal control and compliance

Auditor's Opinion on the SPFS

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

We identified \$2,231,965 in total questioned costs because they were either ineligible or unsupported. Ineligible costs are explicitly questioned because they are unreasonable; prohibited by the audited task order or applicable laws and regulations; or not award related. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

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.

Summary of Findings and Questioned Costs

Finding Number	Nature of Finding	Matter	Ineligible Costs	Unsupported Costs	Cumulative Questioned Cost
2018-01	Compliance	Employees did not meet the qualifications as required by the Performance Work Statement ("PWS") or IAP's job qualification description	\$1,413,156		\$1,413,156
2018-02	Compliance	No documentation to support employee's pre-deployment requirements per the contract.	\$750,191		\$2,163,347
2018-03	Internal control – significant deficiency	Lack of supervisory review of timecards		\$37,389	\$2,200,736
	Compliance	Lack of adherence to IAP's timekeeping policy			
2018-04	Internal control – deficiency	Duplicate shipping expense claimed	\$18,328		\$2,219,064
2018-05	Internal control – deficiency	No documentation to support reasonableness of consultant services.		\$12,901	\$2,231,965
Total Questioned Costs			\$2,181,675	\$50,290	\$2,231,965

Internal Control Findings

Our audit discovered three internal control findings, consisting of one significant deficiency and two deficiencies. See Independent Auditor's Report on Internal Control on page 14. The complete management responses from IAP to each of the internal control findings can be found in Appendix A to this report.

Compliance Findings

The results of our tests disclosed three instances of noncompliance related to this audit. See the Independent Auditor's Report on Compliance on page 17. The complete management responses from IAP to each of the compliance findings can be found in Appendix A to this report.

In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under *Government Auditing Standards*. Evidence of such items was not identified by our testing.

Review of Prior Findings and Recommendations

Conrad also requested copies of prior audits, reviews, and evaluations pertinent to IAP's activities under the contract, we had identified one prior audit conducted by the Defense Contract Management Agency ("DCMA") named "*DCMA Purchasing System Initial Determination, [REDACTED]*." Based on our review of this report, we identified two findings that could have a material effect on the SPFS or other financial data significant to the audit objectives. We conducted follow-up procedures including discussion with management, reviewed evidence of revised policies, procedures or other applicable recommended actions and performed testing of similar matters during our current audit. Accordingly, we have concluded that IAP has taken adequate corrective action on those two findings and we did not notice those findings during this audit. . See Status of Prior Audit Findings on page 19 for a detailed description of the prior findings and recommendations.

Summary of IAP's Responses to Findings

The following represents a summary of the responses provided by IAP to the findings identified in this report. The complete responses received can be found in Appendix A to this report.

- 2018-01: IAP disagrees with the findings and recommendations by stating that they did meet the qualification requirements as stated in the Performance Work Statement and the Auditors had mis-interpreted the requirements.
- 2018-02: IAP partially disagrees with the findings and recommendations by stating that although they did not obtain the background checks and medical clearance documentation prior to deployment, IAP confirmed all IAP employees were vetted. IAP had conducted a recent background check on two of the three employees. IAP also does not believe that one of the employees required medical clearance since the employee started out as a 30 day assignment. The second employee was hired in country and completed the medical clearance during his Rest and Recuperation ("R&R").
- 2018-03: IAP partially disagrees with the findings and recommendations. IAP acknowledges that the timecards for the employees in question were entered in advance to the end of the period. However, due to the extenuating circumstances and challenging work site, the employees might not always have access or sporadic internet access which resulted in some instances where the employees requested the supervisor to enter the time on their behalf.
- 2018-04: IAP concurs with the findings and recommendations.

- 2018-05: IAP disagrees with the findings and recommendations. IAP asserts that they went through a competitive analysis of the consultant's rate prior to entering into the consultant agreement. The analysis was done by their Human Resources ("HR") department and evidenced by the signature of the HR representative. Also, IAP provided a recent market survey to demonstrate that the consultant's rates were competitive.



INDEPENDENT AUDITORS' REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Directors
IAP Worldwide Services, Inc.
Cape Canaveral, Florida

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 accompanying Special Purpose Financial Statement of IAP Worldwide Services, Inc. ("IAP") and the related notes to the Special Purpose Financial Statement, with respect to Contract No. W52P1J-13-D-0107, Delivery Order 0003, Ministry of Interior's Network Operations Center and Joint Operations Center Project, for the period May 12, 2016 through July 31, 2018.

Management's Responsibility for the Special Purpose Financial Statement

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

Auditors' 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 the standards applicable to financial audits contained in *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 Special Purpose Financial Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Special Purpose Financial Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Special Purpose Financial Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the IAP's preparation and fair presentation of the Special Purpose Financial Statement in order to design audit procedures that are appropriate in

(Continued)

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the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the IAP'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 Special Purpose Financial Statement.

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

Basis for Qualified Opinion

We identified several transactions totaling \$2,231,965 that were questionable based upon our review of the underlying support for the specified transactions. The total questioned cost amount is considered material to the Special Purpose Financial Statement.

Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received and costs incurred by IAP under the Contract, for the period May 12, 2016 through July 31, 2018, in accordance with the basis of accounting described in Note 2.

Basis of Presentation

We draw attention to Note 1 to the Special Purpose Financial Statement, which describes the basis of presentation. The Special Purpose Financial Statement was prepared by IAP 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 No. W52P1J-13-D-0107, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the Contract referred to above. Our opinion is not modified with respect to this matter.

Restriction on Use

This report is intended for the information of IAP Worldwide Services, Inc., the U.S. Army Contracting Command – Rock Island, and the Special Inspector General for Afghanistan Reconstruction, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated January 25, 2019 on our consideration of IAP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering IAP's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Conrad LLP". The signature is written in a cursive, flowing style.

Lake Forest, California
January 25, 2019

IAP WORLDWIDE SERVICES, INC.

Financial Audit of Costs Incurred under
Contract No. W52P1J-13-D-0107, Delivery Order 0003

Special Purpose Financial Statement

For the Period May 12, 2016 – July 31, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	<u>Notes</u>
Revenues:						
W52P1J-13-D-0107-0003	\$ 50,902,910	\$ 49,736,625	\$ -	\$ -	\$ -	
Total revenues	<u>50,902,910</u>	<u>49,736,625</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						(1)
Labor (CLINs 0001 & 0004)	██████████	██████████	2,012,416	46,781	2,059,197	(A)
Material (CLINs 0002 & 0005)	██████████	██████████	-	-	-	
Other Direct Costs (CLINs 0003, 0006, & 0008)	██████████	██████████	-	-	-	
Labor (CLIN 0007)	██████████	██████████	-	-	-	
Travel (CLIN 0009)	██████████	██████████	-	-	-	
Mobilization (CLIN 0010)	██████████	██████████	-	-	-	
Demobilization (CLIN 0011)	██████████	██████████	-	-	-	
Shipping (CLIN 0012)	██████████	██████████	18,328	-	18,328	(B)
DBA Insurance (CLIN 0013)	██████████	██████████	-	-	-	
Fixed Fees	██████████	██████████	██████████	██████████	██████████	(c)
Total costs incurred	<u>50,902,910</u>	<u>49,736,625</u>	<u>\$ 2,181,675</u>	<u>\$ 50,290</u>	<u>\$ 2,231,965</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ -</u>				

See Notes to the Special Purpose Financial Statement
And Notes to Questioned Costs Presented on the Special Purpose Financial Statement

IAP WORLDWIDE SERVICES, INC.

Financial Audit of Costs Incurred under
Contract No. W52P1J-13-D-0107, Delivery Order 0003

Notes to the Special Purpose Financial Statement

(1) Basis of Presentation

The accompanying Special Purpose Financial Statement ("Statement") includes costs incurred under Contract Number W52P1J-13-D-0107, Delivery Order 0003 for the NOC/JOC Program for the period May 12, 2016 through July 31, 2018. Because the Statement presents only a selected portion of the operations of the company, it is not intended to and does not present the financial position, changes in net assets, or cash flows of IAP Worldwide Services, Inc. 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 Federal contract W52P1J-13-D-0107, Deliver Order 0003. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(2) Basis of Accounting

Expenditures reported on the Statement are reported on an accrual basis of accounting. Such expenditures are recognized following the cost principles referenced in the clauses of the aforementioned contract and IAP disclosed cost accounting standard practices, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(3) Foreign Currency Conversion Method

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

(4) Revenue

Revenues on the Statement represent the amount of funds to which IAP Worldwide Services, Inc. is entitled to receive from the U.S. Army for allowable, eligible costs incurred under the contract and fixed fees earned, during the period of performance.

(5) Costs Incurred by Budget Category

The budget categories and associated amounts presented reflect the budget line items presented within the final, approved contract budget adopted as a component of modification number 14 to the contract dated July 2, 2018.

¹ The Notes to the Special Purpose Financial Statement are the responsibility of IAP.

IAP WORLDWIDE SERVICES, INC.

Financial Audit of Costs Incurred under
Contract No. W52P1J-13-D-0107, Delivery Order 0003
Notes to the Special Purpose Financial Statement

(6) 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 which 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. The difference between the "Budget or Funded" Revenue and "Actual" Revenue columns represents accrued costs and fee not yet billed, plus future costs Budgeted/Funded not yet incurred or billed as of July 31, 2018.

(7) Currency

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

(8) Program Status

The NOC/JOC remains active. The period of performance for the contract is scheduled to conclude on December 03, 2018 as noted in modification number 14 dated July 2, 2018.

(9) Subsequent Event

Management has performed an analysis of the activities and transactions subsequent to the May 12, 2016 through July 31, 2018 period covered by the Statement. Management has performed their analysis through January 25, 2019.

(Continued)

IAP WORLDWIDE SERVICES, INC.

Financial Audit of Costs Incurred under
Contract No. W52P1J-13-D-0107, Delivery Order 0003

Notes to Questioned Costs Presented on the Special Purpose Financial Statement²

For the Period May 12, 2016 through July 31, 2018

(A) Labor (CLINs 0001 & 0004)

IAP reported labor under CLINs 0001 & 0004 in the amount of [REDACTED] for the period from May 12, 2016 through July 31, 2018.

During our audit of these costs, we noted:

- (1) IAP's employees did not meet the qualifications required in the Performance Work Statement ("PWS"), which resulted in total ineligible cost of \$1,314,564 being questioned, (See Finding 2018-01);
- (2) IAP was unable to provide evidence of employees meeting the pre-deployment requirements of contract, which resulted in total ineligible cost of \$697,852 being questioned, (See Finding 2018-02);
- (3) An employee had entered time prior to the day worked, which resulted in total unsupported cost of \$34,780 (See Finding 2018-03), and
- (4) Evidence supporting reasonableness check on the rates of consultant services was not maintained, which resulted in total unsupported cost of \$12,001 (See Finding 2018-05).

As a result of these findings, we questioned a total of \$2,012,416 in ineligible costs and \$46,781 in unsupported costs which totaled \$2,059,197.

(B) Shipping (CLIN 0012)

IAP reported shipping in the amount of [REDACTED] for the period May 12, 2016 through July 31, 2018. During our audit of these costs, we noted a duplicate charge was claimed, which totaled \$16,800 with an associated overhead of [REDACTED] and G&A of [REDACTED], which resulted in a total ineligible cost of \$18,328. See Finding No. 2018-04 in the Schedule of Findings and Questioned Costs section of this report.

(C) Fee

IAP reported fees in the amount of [REDACTED] for the period from May 12, 2016 through July 31, 2018. Fees are applicable to Labor and Material only. During the period under audit, IAP claimed a flat fee of [REDACTED] to total labor cost incurred. The fees associated with the costs questioned in **Note A and B** above which totaled \$154,440 are being questioned.

² The Notes to Questioned Costs presented on the Special Purpose Financial Statement were prepared by the auditor for informational purposes only and as such are not part of the audited Special Purpose Financial Statement.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Board of Directors
IAP Worldwide Services, Inc.
Cape Canaveral, Florida

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement of IAP Worldwide Services, Inc. ("IAP") representing revenues received and costs incurred under Contract No. W52P1J-13-D-0107, Delivery Order No. 0003 with the U.S. Army Contracting Command – Rock Island ("ACC-RI") Ministry of Interior ("Mol"), Network Operations Center ("NOC"), and Joint Operations Center ("JOC") ("NOC/JOC Project") for the period May 12, 2016 through July 31, 2018, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated January 25, 2019. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Special Purpose Financial Statement is free from material misstatement.

Internal Control over Financial Reporting

IAP'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.

(Continued)

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In planning and performing our audit of the Special Purpose Financial Statement of IAP for the period May 12, 2016 through July 31, 2018, 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 Special Purpose Financial Statement and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. We identified two findings reported in the accompanying Schedule of Findings and Questioned Costs as Findings 2018-04 and 2018-05 which are considered to be deficiencies.

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify one deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2018-03, which we consider to be significant deficiency.

IAP's Response to Findings

IAP's response to the findings identified in our audit is included verbatim in Appendix A. IAP's response 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 internal control, and the result of that testing, and not to provide an opinion on the effectiveness of the IAP'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.

(Continued)

Restriction on Use

This report is intended for the information of IAP Worldwide Services, Inc., the U.S. Army Contracting Command – Rock Island, and the Special Inspector General for Afghanistan Reconstruction 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.



Lake Forest, California
January 25, 2019

(Continued)



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Board of Directors
IAP Worldwide Services, Inc.
Cape Canaveral, Florida

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement of IAP Worldwide Services, Inc. ("IAP"), representing revenues received and costs incurred under Contract No. W52P1J-13-D-0107, Delivery Order No. 0003 with the U.S. Army Contracting Command – Rock Island ("ACC-RI") Ministry of Interior ("MoI"), Network Operations Center ("NOC"), and Joint Operations Center ("JOC") ("NOC/JOC Project") for the period May 12, 2016 through July 31, 2018, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated January 25, 2019. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Special Purpose Financial Statement is free from material misstatement.

Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the contract and corresponding modifications are the responsibility of the management of IAP.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether IAP's Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned Delivery Order, 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. As we performed our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. The results of our tests disclosed three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Detailed Audit Findings as Findings 2018-01, 2018-02, and 2018-03.

(Continued)

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IAP's Response to Findings

IAP's response to the findings identified in our audit is included verbatim in Appendix A. IAP's response 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 internal control. Accordingly, this communication is not suitable for any other purpose.

This report is intended for the information of IAP Worldwide Services, Inc., the U.S. Army Contracting Command – Rock Island, and the Special Inspector General for Afghanistan Reconstruction 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.

A handwritten signature in blue ink that reads "Conrad LLP". The signature is written in a cursive, stylized font.

Lake Forest, California
January 25, 2019

IAP WORLDWIDE SERVICES, INC.

Financial Audit of Costs Incurred under
Contract No. W52P1J-13-D-0107, Delivery Order 0003
For the Period May 12, 2016 through July 31, 2018

Status of Prior Audit Findings

We requested from IAP, SIGAR and conducted additional research for any prior engagements including audits, reviews, and evaluations pertinent to IAP's activities. We had identified one prior audit report conducted by the Defense Contract Management Agency ("DCMA") named "*DCMA Purchasing System Initial Determination*, [REDACTED]." The report had two findings that could have material effect on the SPFS and other financial data significant to the audit objectives. The findings summarized below:

Report: DCMA Purchasing System Initial Determination, [REDACTED]

We have reviewed the corrective actions taken to address these two findings and recommendations. Our review procedures include a follow-up discussion with management of the corrective action taken, reviewing evidence of revised policies and procedures or other applicable recommended actions, as well as conducting tests of the similar areas surrounding these issues during our current audit. The findings and status of corrective actions are listed below:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

IAP WORLDWIDE SERVICES, INC.

Financial Audit of Costs Incurred under
Contract No. W52P1J-13-D-0107, Delivery Order 0003
For the Period May 12, 2016 through July 31, 2018

Schedule of Findings and Questioned Costs

Finding 2018-01: Employees did not meet the qualifications as required by the Performance of Work ("PWS")

Nature of Finding: Non-Compliance

Condition: Conrad judgmentally selected 18 out of 22 employees' records to determine if the costs incurred were supported and allowable. During testing, we noted three employees did not meet the minimum certifications requirement per the Performance Work Statement ("PWS") and IAP management had confirmed the employees did not have the certifications as required. According to the PWS, Network Engineers and System Administrators were required to have the following certifications.

- a. Network Engineers require Certified Cisco Network Professional ("CCNP") or Cisco Certified Network Associate ("CCNA") certification.
- b. System Administrators require current Microsoft Certified System Engineer ("MCSE") or Microsoft Certified Solutions Associate ("MCSA") certification. VMWare Certified Professional ("VCP"), or Microsoft virtualization certification equivalent.

The three employees in question were titled as System Engineers. However, the job duties for these three employees were to provide Resident System Support ("RS3") to the NOC/JOC centers as either network engineers, system administrators, or both. Furthermore, we reviewed the entire IAP employee list and none of the employees were titled as network engineer or system administrators. We concluded that IAP's system engineers assigned to this project had either performed the duties of network engineers or system administrators or both, and these positions required certificates under the PWS requirements. The three employees that did not meet have the required certifications are listed as follows:

- One employee held the title of Director Senior Systems Engineer. The employee was to perform both system and network engineering duties and provide subject matter expert ("SME") guidance in these areas according to his resume but only had a VCP certification that satisfied the System Administrator requirement. However, the same employee did not have the required CCNP or CCNA certification for the network engineer position.
- One employee held the title of Senior System Engineer. The employee did not have any of the required certifications as required in the PWS (CCNP, CCNA, MCSE, MCSA, VCP, or Microsoft virtualization certification). In addition, while reviewing this employee's resume, the employee did not appear to have any experience in engineering, but rather mostly in business and contract management.
- One employee held the title of Senior System Engineer. The employee did not have any of the required certifications as required in the PWS (CCNP, CCNA, MCSE, MCSA, VCP, or Microsoft virtualization certification).

Furthermore, of the 18 IAP employees tested, we noted the following employees did not meet the minimum certification requirements per IAP's own job description and its respective job title:

- One employee held the title of Virtualization Engineer. Per IAP's job description for this position, a Virtualization Engineer requires the following industry certifications as appropriate: VCP, VMware Certified Advanced Professional ("VCAP"), VMware Certified Design Expert ("VCDX"), Red Hat Certified Engineer ("RHCE"). The employee did not have any of these certifications.
- One employee held the title of Logistics Specialist. Per IAP's job description for this position, a Logistics Specialist requires a CoreIMS certification. The employee did not have this certification.

We further extended our review of IAP's major subcontractors' employees who had also been positioned in this project as engineers. During our testing of one of the IAP's major subcontractors, of the four employees tested who were assigned to this project, two of the employees were positioned as SME System Engineers but did not have a CCNP, CCNA, MCSE, MCSA, VCP, or Microsoft virtualization certification.

Criteria: Ministry of Interior ("Mol"), Network Operations Center/Joint Operations Center ("NOC/JOC"), Performance Work Statement, Appendix E, *RESIDENT SYSTEM SUPPORT SPECIALIST (RS3)*, Section 1.1.1 E. 1 ROLES AND RESPONSIBILITIES, states, in part:

"Option Period 1: The Contractor shall provide on-site Resident System Support Specialists (RS3) to support the NOC and JOC. The Contractor shall provide sufficient RS3 personnel to provide coverage physically on-site at the Mol NOC/JOC during normal Afghan ICT work hours.

The RS3s shall provide transitional support to the CSTC-A and the ANDSF in matters that relate directly or indirectly to the achievement of contracted systems installed within the NOC and JOC. The RS3s shall provide subject matter expert (SME) support and shall provide continuing on-site transitional assistance to the site Mol personnel (Afghans) and sub-contractors for the O&M of the Data and A/V networks.

1. The Contractor shall provide SMEs that are certified according to industry standard, as applicable to proposed vendor equipment:

a. Network Engineers require Certified Cisco Network Professional (CCNP) or Cisco Certified Network Associate (CCNA). At a minimum one (1) SME will be certified as a CCNP.

b. System Administrators require current Microsoft Certified System Engineer (MCSE) or Microsoft Certified Solutions Associate (MCSA) certification. VMware Certified Professional (VCP), or Microsoft virtualization certification equivalent. At a minimum, one (1) SME will be certified as a MCSE. Certification will match the software being installed.

c. Information Assurance (IA) Manager is required to have at a minimum one (1) of the following - Certified Information Systems Security Professional (CISSP), Information Systems Security Certified Practitioner (SSCP), Global Information Assurance Certification (GIAC) Systems and Network Auditor (GSNA). Certification

in Operating System (OS) technology administration desired (MCSE, Red Hat Certified Engineer (RHCE), etc).

d. The Contractor shall have certified professionals on the RS3 team for each hardware/software platform, as applicable to proposed vendor equipment, that is installed as part of the NOC/JOC.

IAP's Job Description for Virtualization Engineer, states, in part:

"License & Certifications:

- Industry certifications as appropriate (VCP, VCAP, VCDX, RHCE)"

IAP's Job Description for Logistics Specialist, states, in part:

"License & Certifications:

...

- Core IMS Certification (Ability to train Core IMS)"

FAR 31.201-2, *Determining allowability*, states in part:

"(a) A cost is allowable only when the cost complies with all of the following requirements:...

(4) Terms of the contract."

Cause: IAP Management did not fully understand and had misinterpreted the requirements of the PWS for these positions. IAP's interpretation of the requirements are, as long as one SME is CCNP for a network engineer and one SME is MCSE for a system administrator, then the requirements are satisfied. IAP management also stated that the position described in the PWS is not the same position that these employees held. IAP management also believed that the employees' experiences had made them over-qualified in the positions they were titled. In addition, IAP management did not properly monitor its human resource department to ensure that employees that were hired in certain positions had met the minimum certifications requirement as required in the IAP's own job description for the respective positions.

Effect: Positioning unqualified personnel to this contract resulted in noncompliance of the PWS requirements and ineligible costs claimed to the contract.

Questioned Costs: The labor costs including fringe associated with all these employees of [REDACTED] overhead of [REDACTED], G&A of [REDACTED], resulted in total ineligible costs of \$1,314,564. In addition, the fixed fee associated with these questioned labor costs is [REDACTED]. This resulted in a total ineligible cost of \$1,413,156.

Recommendation:

- (1) We recommend that IAP either provides evidence to ACC-RI to demonstrate that these employees met the qualification requirements, or return \$1,413,156 of ineligible costs.

(Continued)

- (2) We recommend IAP develop policies and procedures as well as training to appropriate personnel to ensure they carefully review the future contracts in order to assess and determine the applicability of the required certifications requested by the funding agency.

Finding 2018-02: Lack of evidence to support employees met the minimum pre-deployment requirements

Nature of Finding: Non-Compliance

Condition: Conrad judgmentally selected 18 out of 22 employees' records to determine if the costs incurred were adequately supported and allowable. During our testing of employees' pre-deployment requirements that are required under the terms of the contract, of the 18 employees tested, IAP could not provide sufficient documentation that they had met the requirements prior to deployment.

- Evidence of background check prior to pre-deployment for three employees was not provided by IAP.
- Evidence of medical clearance prior to pre-boarding for two employees was not provided by IAP.

In addition, we identified and determined three employees that IAP could not provide background checks documentation, two of them did not also have the job certifications required under the contract.

Criteria: Per Contract No. W52P1J13D0107, section 252.225-7995, (e), states, in part:

“(e) Preliminary personnel requirements.

(1) The Contractor shall ensure that the following requirements are met prior to deploying CAAF (specific requirements for each category will be specified in the statement of work or elsewhere in the contract):

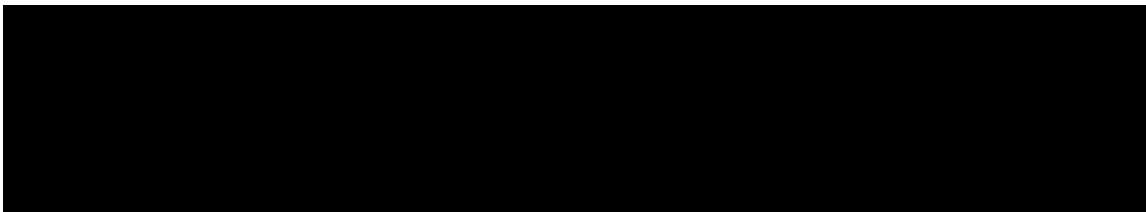
(i) All required security and background checks are complete and acceptable.

(ii) All CAAF deploying in support of an applicable operation

(A) Are medically, dentally, and psychologically fit for deployment and performance of their contracted duties;

(B) Meet the minimum medical screening requirements, including theater-specific medical qualifications as established by the geographic Combatant Commander (as posted to the Geographic Combatant Commanders website or other venue); and...”

IAP's Business Process number 16-05.0, Records Retentions, states, in part:



[REDACTED]

[REDACTED]

[REDACTED]

FAR 31.201-2, *Determining allowability*, states:

“(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: IAP did not follow its record retention policy to maintain or file the records properly. Therefore, IAP was unable to locate these records as requested.

Effect: IAP’s inability to provide the evidence of the employees’ background check and/or medical clearances resulted in IAP not proving that the employees were cleared of all the pre-deployment requirements prior to work on this project which resulted in ineligible costs claimed.

Questioned Costs: The labor costs including fringe associated with all these employees of [REDACTED] overhead of [REDACTED], G&A of [REDACTED], resulted in total ineligible costs of \$697,852. In addition, the fixed fee associated with these questioned labor costs is [REDACTED]. This resulted in a total ineligible cost of \$750,191.

Recommendation:

- (1) We recommend that IAP either provides evidence to ACC-RI showing that these employees met the pre-deployment requirement, or return \$750,191 of ineligible costs.
- (2) We recommend IAP perform training for its staff to ensure they strictly adhere to its retention policy.

Finding 2018-03: Lack of adherence to IAP's timekeeping policy

Nature of Finding: Internal control – significant deficiency & Non-Compliance

Condition: Conrad judgmentally selected 18 out of 22 employees that were charged to this project and selected three months during our audit period for these 18 employees and requested all timecards to determine if the employees had properly charged time to this contract and if the costs incurred were adequately supported and allowable. There was a total of 146 timecards tested for these 18 employees during the three-month period selected. For the 146 weekly timesheets tested, we noted 25 weekly timesheets among 7 out of the 18 employees tested where employees had entered times prior to the days occurred.

In addition, on 34 timesheets, we noted that employees had recorded times after 9:00 am on the following day, which is a violation of the IAP's timekeeping policy. These costs are not questioned since this is only a violation of IAP's policy.

Criteria: According to IAP's timekeeping policy, *General Guidelines*, states, in part:

[REDACTED]

FAR 31.205-6 (a), *Compensation for personal services*, states, in part:

“...(3) The compensation must be based upon and conform to the terms and conditions of the contractor's established compensation plan or practice...”

...(5) Costs that are unallowable under other paragraphs of this [subpart 31.2](#) are not allowable under this subsection [31.205-6](#) solely on the basis that they constitute compensation for personal services...”

FAR 31.201-2 Determining allowability, states, in part:

1. “(a) A cost is allowable only when the cost complies with all of the following requirements...
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.”

(Continued)

Cause: IAP employees did not strictly follow the timekeeping policy due to employees lacking sufficient training to ensure they understand the importance of adherence to IAP's timekeeping policy, and management did not properly review the timesheets to ensure they were accurate prior to approval.

Effect: Entering time prior to work days actually occurring brings into question whether the hours certified on the timesheets were factual and accurate. Entering time after the deadline per IAP's timekeeping policy is a violation of the IAP timekeeping policy.

Questioned Costs: The labor costs including fringe associated with the employees who entered time prior to days worked which totaled [REDACTED], overhead of [REDACTED], G&A of [REDACTED], which resulted in total unsupported cost of \$34,780. In addition, the associated fixed fee for these questioned labor costs is [REDACTED]. These questioned costs resulted in a total unsupported cost of \$37,389.

Recommendation:

- (1) We recommend that IAP provide other evidence to ACC-RI to prove that the employees actually worked the hours that were entered prior to the days worked, or return \$37,389 of unsupported costs to ACC-RI.
- (2) We recommend that IAP provide training to all employees as well as management emphasizing the need to adhere to established timekeeping policies and perform adequate supervisory review.

Finding 2018-04: Duplicate cost claimed

Nature of Finding: Internal Control – Deficiency

Condition: Conrad selected judgmentally selected 4 out of 105 shipping transactions to determine if the costs incurred were adequately supported and allowable. Of the four shipping transactions tested, IAP claimed a duplicate shipping charge related to a shipment of equipment to Kabul, Afghanistan totaling \$16,800.

Criteria: FAR 31.201-2(d), *Determining allowability*, states:

“(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: This was due to a human error where IAP accounts payable staff miscoded this transaction which resulted in the transaction being processed twice and lack of supervisory review.

In addition, IAP stated that this error had been corrected and they were working with the customer to credit the duplicate charge during the closeout process. The customer had agreed to accept and will be placed in the file until such time as a credit can be applied to a current bill. ACC-RI approved that IAP can keep the credit balance in its open Account Receivable until all rate adjustments and costs have been booked through closeout of the Contract.”

Effect: Duplicate shipping charges resulted in ineligible costs claimed to the contract and government may have paid for ineligible costs.

Questioned Costs: Total questioned duplicate shipping charge of \$16,800 and associated overhead of [REDACTED] and G&A of [REDACTED] resulted in a total ineligible cost of \$18,328.

Recommendation:

- (1) We recommend that IAP follow-up with ACC-RI to ensure that the duplicate charge, including the associated overhead and G&A, totaling \$18,328 is credited prior to close-out of the contract.
- (2) We recommend that IAP perform additional training with its AP department to ensure duplicate charges are not processed and adequate checks and balances are in place.

(Continued)

Finding 2018-05: Lack evidence to support reasonableness of consultant expense

Nature of Finding: Internal Control – Deficiency

Condition: Conrad reviewed all 8 consultant service transactions to determine if the costs incurred were adequately supported, allowable, allocable, and reasonable. All of the 8 transactions were incurred by one consultant. During our testing, IAP stated that it had conducted a reasonable check on the service fees for this consultant to ensure the fees were reasonable and competitive. However, IAP did not maintain any documentation to support this reasonable check.

Criteria: FAR 31.2, section 31.201-3, *Determining Reasonableness*, states the following:

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

(b) What is reasonable depends upon a variety of considerations and circumstances, including—

- (1) Whether it is the type of cost generally recognized as ordinary and necessary for the conduct of the contractor’s business or the contract performance;
- (2) Generally accepted sound business practices, arm’s-length bargaining, and Federal and State laws and regulations;
- (3) The contractor’s responsibilities to the Government, other customers, the owners of the business, employees, and the public at large;...”

FAR 31.205-33, *Professional and consultant services costs*, states the following:

“...(b) Costs of professional and consultant services are allowable subject to this paragraph and paragraphs (c) through (f) of this subsection when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Government...”

FAR 31.201-2(d), *Determining allowability*, states:

“(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: IAP did not have policy and procedure for maintaining evidence for procurement on consultant services. IAP’s general practice for procurement of consultant services required a reasonableness check on the consultant’s service fee that are competitive with the market and industry trend but does not require evidence supporting such check to be maintained.

Effect: Without documentation to support that the costs were reasonable and that supporting documentation demonstrates costs claimed were allocable and applicable, it cannot be readily determined whether or not the cost should be allowed.

Questioned Costs: Total questioned consultant costs of [REDACTED] and associated overhead of [REDACTED], G&A of [REDACTED] resulted in total questioned cost of \$12,001. In addition, the associated fixed fee for these questioned consultant costs is [REDACTED]. This resulted in a total unsupported cost of \$12,901.

Recommendation:

- (1) We recommend that IAP provide documentation to support that the costs were reasonable and allowable for the consultant’s services provided to ACC-RI, or return the \$12,901 to ACC-RI.
- (2) We recommend that IAP create a policy and procedures that requires evidence of studies to be maintained for the reasonableness of consultant services during procurement.

IAP WORLDWIDE SERVICES, INC.

Financial Audit of Costs Incurred under
Contract No. W52P1J-13-D-0107, Delivery Order 0003
For the Period May 12, 2016 through July 31, 2018

IAP's Responses to Findings

Included on the following pages is IAP's response received to the findings identified in this report.

January 11, 2019

Mr. Sam Perera, Partner
Conrad, LLC
23161 Lake Center Drive, Suite 200
Lake Forest, CA 92630

SUBJECT: IAP Worldwide Services, Inc.'s Response to Results of Financial Audit of Costs
Incurred Under Contract W52P1J-13-D-0107, Delivery Order Number 0003
Ministry of Interior's Network Operations Center & Joint Operations Center Project
For the Period May 12, 2016 through July 31, 2018

Dear Mr. Perera,

On December 18, 2018 IAP Worldwide Services, Inc. ("IAP") received a copy of a draft audit report from Conrad, LLC. Regarding the work performed, the draft report states that:

"Conrad LLP ('Conrad') was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction ('SIGAR') to conduct a financial audit of IAP's Special Purpose Financial Statement ('SPFS') for costs incurred under the MoI NOC/JOC project in Afghanistan for the period May 12, 2016 through July 31, 2018."

The draft audit report correctly states that:

"The purpose of this contract was to include delivering a turnkey solution and expansion of the NOC and a continuity of operations/disaster recovery support site. The scope included three tasks.

a) Base period – To engineer, furnish, install, secure, and test MoI NOC and JOC facilities; training; and designing and engineering the MoI NOC Continuity of Operations/Disaster Recovery ("COOP/DR") support site.

b) Option Task #1 – To engineer, furnish, install, secure, and test a COOP/DR site based upon the initial engineering design completed in the base requirement.

c) Option Task #2 – To provide Resident System Support Specialist ("RS3") support for the MoI NOC and JOC. Option Task #2 was split into two option periods. Option period 1 is for on-site RS3 support and option period 2 is for remote RS3 support.

IAP was required to provide the staffing, resources, and flexibility to execute the project according to the timeline required. Additionally, IAP was required to partner with Afghan local sub-contractors to perform project work and manage the details of the project."

The draft report fails to address that IAP successfully accomplished the mission in a dangerous and challenging environment, providing the turnkey solution and accomplishing all three tasks within the required timeline and to the satisfaction of its customer, the U.S. Army Contracting Command – Rock Island (“ACC-RI”). At no time during performance of the contract did the customer notify IAP that it was not satisfied with the performance or qualifications of any of IAP’s personnel or that the mission was not being satisfactorily completed. Instead, IAP was advised by the Contracting Officer that its performance was outstanding (see Exhibit A).

The draft report outlines four separate objectives of the audit that were established by the SIGAR:

1. *“Express an opinion on whether IAP’s SPFS for the contract presents fairly, in all material respects, the revenues received, costs incurred, items directly procured by the U.S. Government, and the balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.*
2. *Evaluate and obtain sufficient understanding of IAP’s internal controls related to the contract, assess control risk, and identify and report on significant deficiencies including material internal control weaknesses.*
3. *Perform tests to determine whether IAP 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 award and applicable laws and regulations, including potential fraud or abuse that may have occurred.*
4. *Determine and report on whether IAP has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the SPFS or other financial data significant to the audit objectives.”*

IAP provides herein its responsive comments to the findings of the draft report in the same order as those results are presented.

The draft report: The draft report on Page 4 states:

“We issued a qualified opinion due to we had identified \$2,231,965 in total questioned costs under the Delivery Order because they were either ineligible or unsupported which we considered to be material to the SPFS. Ineligible costs are explicitly questioned because they are unreasonable; prohibited by the audited task order or applicable laws and regulations; or not award related. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.”

IAP Response: IAP believes there is no basis for a qualified opinion or for the vast majority of identified questioned or ineligible costs. Each of the categories of questioned costs and IAP’s responsive comments are addressed further herein.

The overall draft report: On pages 4 through 6 of the draft, the auditor presents a summary of findings from four separate sub-reports:

- Report on the Special Purpose Financial Statement (SPFS) - pages 7 – 13
- Report on Internal Control - pages 14 – 16
- Report on Compliance - pages 17 – 18
- Status of Prior Audit Findings - page 19

IAP Response: IAP is providing its response to each of the findings in each of the sub-reports.

The draft report on the SPFS: A further summary of the findings related to the audit of the Special Purpose Financial Statement is presented on page 13. The auditors concluded that certain costs were “ineligible” or “unsupported” and therefore were questioned along with the applicable General and Administrative indirect costs (“G&A”) and the related fee. The questioned costs fall into different categories, as follows:

- (1) IAP’s employees did not meet the qualifications required in the Performance Work Statement resulting in total ineligible cost of \$1,314,564 (**Finding 2018-01**)
- (2) IAP was unable to provide evidence of employees meeting the pre-deployment requirements of the contract resulting in total ineligible cost of \$697,852 (**Finding 2018-02**)
- (3) An employee entered time prior to the day worked, resulting in total unsupported cost of \$34,780 (**Finding 2018-03**)
- (4) IAP claimed a duplicate shipping charge of \$16,800 with an associated overhead of [REDACTED] and G&A of [REDACTED], which resulted in a total ineligible cost of \$18,328 (**Finding 2018-04**)
- (5) Evidence supporting reasonableness check on the rates of consultant services was not maintained resulting in total unsupported cost of \$12,001 (**Finding 2018-05**)
- (6) Fees totaling \$154,440 were questioned by the auditor as being associated with the questioned costs identified in (1) through (5), above.

IAP Response to the draft report on the SPFS: Within the following paragraphs, IAP provides its response to each of the referenced audit findings 2018-01 through 2018-05. Those findings are outlined within pages 20 – 30 of the draft report.

Finding 2018-01: *IAP employees did not meet the qualifications as required by the Performance Work Statement resulting in total ineligible cost of \$1,314,564.*

The draft report alleges that IAP assigned unqualified personnel to this contract which resulted in noncompliance with the Performance Work Statement (“PWS”) requirements and claiming of ineligible costs to the contract. Specifically, pages 20 – 22 of the draft report allege that IAP somehow failed to comply with the terms of the contract by providing unqualified personnel to fulfill the required contract statement of work.

The report concludes that all costs incurred by IAP for all of the labor provided by the named employees [REDACTED] plus applicable overhead and G&A allocated of [REDACTED] and [REDACTED] respectively are “ineligible costs.” In addition, the draft report states that fixed fee associated with these ineligible costs [REDACTED] is also questioned for a total of \$1,413,156 that the auditor considers to be unallowable per FAR 31.201-2(a)(4) because the costs did not comply with the terms of the contract. The draft report further states that:

“IAP Management did not fully understand and had misinterpreted the requirements of the PWS for these positions. IAP’s interpretation of the requirements are, as long as one SME is CCNP for a network engineer and one SME is MCSE for a system administrator, then the requirements are satisfied. IAP management also stated that the position described in the PWS is not the same position that these employees held. IAP management also believed that the employees’ experiences had made them over-qualified in the positions they were titled. In addition, IAP management did not properly monitor its human resource department to ensure that employees that were hired in certain positions had met the minimum certifications requirement as required in the IAP’s own job description for the respective positions.”

“We recommend that IAP either provide evidence to ACC-RI to demonstrate that these employees met the qualification requirements, or return \$1,413,156 of ineligible costs.”

IAP Response to Finding 2018-01: IAP completely disagrees with both the auditor’s interpretation of the contract and conclusion made in this finding. IAP unequivocally disagrees with both the assertion that IAP furnished unqualified personnel to perform under this contract, and the statement that IAP Management did not fully understand and had misinterpreted the requirements of the PWS for these positions. A review of the clear and very precise language of the PWS (quoted below) shows that IAP, as well as its customer, understood the PWS requirements and that IAP in fact met those requirements. At no time during performance of this contract did the customer provide any indication to IAP that it was unsatisfied with any aspect of its performance, the qualifications of personnel, or identify any failure to meet the contractual terms of the contract. The assertion that IAP did not fully understand and had misinterpreted the requirements of the PWS for these positions is inconsistent with the outstanding performance ratings that IAP received (see Exhibit A).

Performance Work Statement, Appendix E, *RESIDENT SYSTEM SUPPORT SPECIALIST (RS3)*, Section 1.1.1 E. 1 *ROLES AND RESPONSIBILITIES*, states, in part:

“Option Period 1: The Contractor shall provide on-site Resident System Support Specialists (RS3) to support the NOC and JOC. The Contractor shall provide sufficient RS3 personnel to provide coverage physically on-site at the MoI NOC/JOC during normal Afghan ICT work hours.”

IAP Comment: IAP fully complied with this specific section of the PWS by providing sufficient and highly-qualified RS3 personnel to provide physically on-site coverage at the MoI NOC/JOC.

“The RS3s shall provide transitional support to the CSTC-A and the ANDSF in matters that relate directly or indirectly to the achievement of contracted systems installed within the NOC and JOC. The RS3s shall provide subject matter expert (SME) support and shall provide continuing on-site transitional assistance to the site MoI personnel (Afghans) and sub-contractors for the O&M of the Data and A/V networks.”

IAP Comment: IAP fully complied with this section of the PWS by successfully providing the described transitional support through the use of highly-qualified RS3 subject matter experts to achieve installation of the contracted systems within the NOC and JOC. IAP also successfully provided continuing on-site assistance to Afghan personnel and subcontractors for the operation and maintenance of the Data and A/V networks. These tasks as previously noted were successfully completed to the satisfaction of IAP’s customer.

“1. The Contractor shall provide SMEs that are certified according to industry standard, as applicable to proposed vendor equipment:

- a. Network Engineers require Certified Cisco Network Professional (CCNP) or Cisco Certified Network Associate (CCNA). **At a minimum one (1) SME will be certified as a CCNP.**
- b. System Administrators require current Microsoft Certified System Engineer (MCSE) or Microsoft Certified Solutions Associate (MCSA) certification. VMWare Certified Professional (VCP), or Microsoft virtualization certification equivalent. **At a minimum, one (1) SME will be certified as a MCSE.** Certification will match the software being installed.
- c. Information Assurance (IA) Manager **is required to have at a minimum one (1) of the following - Certified Information Systems Security Professional (CISSP), Information Systems Security Certified Practitioner (SSCP), Global Information Assurance Certification (GIAC) Systems and Network Auditor (GSNA). Certification in Operating System (OS) technology administration desired (MCSE, Red Hat Certified Engineer (RHCE), etc.).**

d. The Contractor shall have certified professionals on the RS3 team for each hardware/software platform, as applicable to proposed vendor equipment, that is installed as part of the NOC/JOC.” (**Emphasis added**)

IAP Comment: Contrary to the report’s assertion, neither IAP Management nor its government customer misinterpreted the requirements of the PWS for these positions. The language of the PWS is clear and concise and not open to any interpretation other than the meaning that it clearly intended. This was the manner in which the customer administered the contract. It is clear in the contractual language that the PWS did not envision that each and every person assigned to this contract delivery order effort was required to hold every possible certification listed.

At the exit briefing, IAP advised the auditors that some of the certifications that they assumed were required for individual employees were actually a combination of three different positions (Network Engineer, Systems Administrator, and Information Assurance Manager). As highlighted above, the PWS actually states that at least one SME must have a CCNP and at least one SME must have an MCSE and this requirement was met. Further, the manner of the wording of the PWS sections noted above, in IAP's opinion, also permits a "certification equivalent" as acceptable.

Finding 2018-01: On page 20, the report states that:

“During testing, we noted three employees did not meet the minimum certifications requirement per the Performance Work Statement (“PWS”) and IAP management had confirmed the employees did not have the certifications as required.”

IAP Response to Finding 2018-01: IAP strongly disagrees with the statement that “IAP management had confirmed the employees did not have the certifications as required” as being misleading and inaccurate. The assertion by the Auditor clearly has to be an error as IAP “never confirmed that the employees in question did not have the certifications required.” IAP’s position regarding the certifications required for its personnel is presented in the paragraphs above and those that follow.

Finding 2018-01: On page 20 the draft report states, in part:

“The three employees that did not meet have the required certifications are listed as follows:

- *One employee held the title of Director Senior Systems Engineer. The employee was to perform both system and network engineering duties and provide subject matter expert (“SME”) guidance in these areas according to his resume but only had a VCP certification that satisfied the System Administrator requirement. However, the same employee did not have the required CCNP or CCNA certification for the network engineer position.”*

IAP Response to Finding 2018-01: As IAP explained during the exit conference, the job title for the employee did not define his exact responsibilities and this is not unusual. The employee did not function as a network engineer. Instead, he was responsible for general management and oversight of the project. A copy of his job description was provided to the auditor.

Finding 2018-01: On page 20 the draft report states, in part:

“• One employee held the title of Senior System Engineer. The employee did not have any of the required certifications as required in the PWS (CCNP, CCNA, MCSE, MCSA, VCP, or Microsoft virtualization certification). In addition, while reviewing this employee’s resume, the employee did not appear to have any experience in engineering, but rather mostly in business and contract management.

• One employee held the title of Senior System Engineer. The employee did not have any of the required certifications as required in the PWS (CCNP, CCNA, MCSE, MCSA, VCP, or Microsoft virtualization certification).”

IAP Response to Finding 2018-01: IAP believes that the auditors have assumed that the PWS required IAP to title its employees only as “Network Engineers”, “System Administrators” and “Information Assurance Managers.” This is clearly not the case and the terms of the contract did not specify how IAP must title its employees. The important aspect of the PWS was that IAP must provide qualified personnel that as a minimum met the certification requirements of the PWS.

IAP has done so in accumulating a highly skilled team of personnel with a wide breadth and depth of IT experience. Paragraph 1.e of the Performance Work Statement required that IAP submit copies of the RS3 staff resumes, with Personally Identifiable Information (PII) deleted, and copies of all certification certificates. All resumes and certification(s) were required to be submitted at least thirty (30) days before System Acceptance Test (SAT) for verification by the customer. IAP successfully passed the SAT as documented by customer acknowledgement that it had achieved Full Operational Capability (see Exhibit B).

Accordingly, IAP considers that a technical review of its employees’ qualifications has already been performed by those most qualified to do so and IAP employees have been deemed acceptable by the customer to meet the PWS requirements. Further, IAP’s highly qualified personnel have operated the system for many months now without any customer complaints regarding the quality or level of staff support. Instead, IAP’s satisfaction ratings by the Contract Officer have been outstanding and IAP has successfully completed all aspects of the contract on time and within budget.

Conclusion: IAP’s financial and accounting records clearly document that these costs were properly incurred to the benefit of the subject contract delivery order and in accordance with the terms of the contract to the complete satisfaction of its customer. IAP sees no basis to question any of the labor or associated costs as being unallowable, ineligible, or not allocable to the subject contract delivery order.

Finding 2018-02: *“IAP was unable to provide evidence of employees meeting the pre-deployment requirements of the contract resulting in total ineligible cost of \$697,852.”*

On pages 24 and 25 the auditor recommends that IAP should return \$750,191 of “ineligible” labor and associated costs and fee because IAP was supposedly unable to provide evidence that three employees received background checks and two employees obtained medical clearance prior to deployment to the contract site. The report does not deny that these personnel actually worked at the site and that the costs of their labor were allocable to the contract only that IAP was unable to provide sufficient documentation that these individuals met the background and medical clearances required per Contract No. W52P1J13D0107 section 252.225-7995 (e) Preliminary personnel requirements.

IAP Response to Finding 2018-02: Based on communications between the program manager, contracts manager and site manager, IAP has confirmed that all IAP employees and associated subcontract employees were vetted through the customer. Due to the nature and timing of the contract, deploying personnel support on the project was conducted in a phased approach. Personnel were subjected to multiple layers of screening and vetting prior to performing on the project site. This work required access to a non-US facility and entailed extensive clearance processes.

It was a coordinated effort with the customer to get qualified personnel to the project site in Afghanistan, with the ability to perform the tasks assigned. Further, IAP has provided separate evidence to show that background checks were recently completed for two of the three employees in question (see Exhibits C and D). The third employee was terminated before completion of his background check. Regarding the required medical clearances, one employee started out as a 30 day assignment which did not require a medical clearance. The second employee was hired in-country and completed the medical clearance during his R&R.

Finding 2018-02: As a basis for questioning costs, on page 25 the draft report cites criteria from the FAR stating, in part:

FAR 31.201-2, *Determining allowability*, states:

“(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.”

IAP Response to Finding 2018-02 and Conclusion: Although in these instances, documentation of background checks and medical clearances was not obtained prior to deployment, they were eventually obtained and documented for all but one employee. IAP does not see that anomaly as significant enough to make all of the costs “ineligible” for reimbursement.

IAP's books and accounting records clearly document that the costs at issue were incurred to the benefit of the subject contract delivery order and that the terms of the contract were met to the satisfaction of its customer.

Further, the records are adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles. IAP sees no basis to question any of the labor or associated costs as being unallowable, ineligible, or not allocable to the subject contract delivery order.

However, to preclude deployment of any personnel that have not been completely cleared through medical and background clearances procedures, IAP Human Resources department, has put in force a mandatory clearance for both a successful background and medical clearance for all employees working abroad prior to his/her deployment. All standard and required procedures must be completed by the employee, submitted and handled by the Human Resources department, for all background and medical confirmations.

No Program Management Office may independently clear an employee for scheduled travel without an affirmative result and consultation through human resources. Any employee who seeks a medical waiver or where additional medical and/or background clearance review may be required may not be deployed until such actions have been successfully cleared by the Human Resources Department.

Finding 2018-03: Lack of adherence to IAP's timekeeping policy

As detailed on pages 26 and 27, the auditor has concluded that labor costs for some time charges plus all directly and indirectly associated costs and fee (totaling \$37,389) should be questioned as unallowable because in some instances employees did not strictly adhere to IAP's time recording policies. The auditors found that in some instances employees had entered their time in advance of working the time and in other instances employees had recorded time worked after 9:00 am on the following day, which is in violation of the IAP's timekeeping policy.

IAP Response to Finding 2018-03 and Conclusion: IAP concedes that in the instances noted its employees were not strictly complying with IAP time recording policies cited by the auditor. However, there are significant extenuating circumstances at this dangerous and challenging work site. This task is 100% external to ISAF and US bases, and these employees live and work "outside the wire" in a hostile, austere environment with no access or only sporadic internet connectivity. These conditions pose challenges to prompt daily recording of time charges when trying to use IAP's electronic timekeeping systems.

In such instances IAP personnel have alternative methods available to record their time, such as employees notifying their supervisor to enter time on their behalf. As required by IAP's timekeeping policy, each of the identified employees had certified as to the accuracy of their time charges and the certified time charges were appropriately reviewed by IAP supervisors before entry into IAP's labor distribution.

In all of the samples selected, time was certified as accurate by the individual employees and the responsible supervisors and charged to the appropriate cost objectives. Accordingly, IAP believes there is no basis to conclude that the costs at issue are unallowable or not allocable to the contract delivery order.

IAP does recognize that exceptions to its time recording policies must be addressed, and has identified and discussed the auditor's findings with the appropriate supervisory personnel for the exceptions noted. Although IAP does provide time keeping training to all of its employees upon hire and on a recurring annual refresher basis, IAP will provide focused additional training to these specific employees and their supervisors to emphasize the need for strict compliance with its policies including when deemed necessary, develop and document alternative time entry methods which may include as an example paper time sheet records when internet access is unavailable.

Finding 2018-04: *IAP claimed a duplicate shipping charge of \$16,800 with an associated overhead of [REDACTED] and G&A of [REDACTED], which resulted in a total ineligible cost of \$18,328.*

Page 28 of the draft report explains that the auditors identified one instance where IAP claimed a duplicate shipping charge related to a shipment of equipment to Kabul, Afghanistan totaling \$16,800. The report explains that due to human error, IAP accounts payable staff miscoded a transaction resulting in the transaction being processed twice and the mistake was not caught by supervisory review.

The auditor reports that the duplicate shipping charge of \$16,800 and associated overhead of [REDACTED] and G&A of [REDACTED] resulted in a total ineligible cost of \$18,328. The draft report recommends that IAP follow-up with ACC-RI to ensure that the duplicate charge, including the associated overhead and G&A is credited to the customer prior to close-out of the contract. The Auditor also recommends that IAP provide additional training to its Accounts Payable department to ensure duplicate charges are not processed and adequate checks and balances are in place.

IAP Response to Finding 2018-04: IAP concurs with Finding 2018-04 and the audit report recommendation. However it is important to note that this administrative error was voluntarily reported to the auditor during the data gathering process. Prior to fieldwork, IAP was well into the process of notifying the customer and reaching agreement on a methodology to return the funds to the customer.

IAP has coordinated with its customer regarding the inadvertent duplication. The customer has agreed that it is acceptable for IAP to maintain a credit balance until IAP is able to apply a credit to a current bill or provide the credit during contract closeout. In addition, the IAP Controller specifically discussed the identified duplication with AP department personnel to reinforce and emphasize compliance with IAP's established procedures and help to prevent any such future errors.

Finding 2018-05: *“Evidence supporting reasonableness of the rates of consultant services was not maintained resulting in total unsupported cost of \$12,001”.*

Pages 29 and 30 of the draft report present the auditor’s opinion that all costs paid by IAP to one consultant totaling [REDACTED] should be questioned as “unsupported” because IAP did not maintain within its files documentation showing that the service fees paid to the consultant were reasonable. In addition, the auditor questions associated overhead of [REDACTED] and G&A of [REDACTED] for a total of \$12,001. Finally, the auditor also questions [REDACTED] of fee as being associated with the unsupported and questioned consultant costs. The report states, in part:

“Conrad reviewed all 8 consultant service transactions to determine if the costs incurred were adequately supported, allowable, allocable, and reasonable. All of the 8 transactions were incurred by one consultant. During our testing, IAP stated that it had conducted a reasonable check on the service fees for this consultant to ensure the fees were reasonable and competitive. However, IAP did not maintain any documentation to support this reasonable check.”

“IAP did not have policy and procedure for maintaining evidence for procurement on consultant services. IAP’s general practice for procurement of consultant services required a reasonableness check on the consultant’s service fee that are competitive with the market and industry trend but does not require evidence supporting such check to be maintained.”

“Without documentation to support that the costs were reasonable and that supporting documentation demonstrates costs claimed were allocable and applicable, it cannot be readily determined whether or not the cost should be allowed.”

“We recommend that IAP provide documentation to support that the costs were reasonable and allowable for the consultant’s services provided to ACC-RI, or return the \$12,901 to ACC-RI.”

“We recommend that IAP create a policy and procedures that requires evidence of studies to be maintained for the reasonableness of consultant services during procurement.”

IAP Response to Finding 2018-05: IAP’s books and accounting records clearly document that the [REDACTED] of consultant costs at issue were for a total of [REDACTED] of IT software support provided at a cost of [REDACTED] per hour by [REDACTED], a Senior Software Engineer. The cost records are more than adequate to demonstrate that costs claimed have been incurred, are allocable to the contract delivery order, and comply with applicable cost principles. The auditor asserts that the costs are all unsupported and unallowable solely because IAP did not maintain within its files a comparative analysis to show that the [REDACTED] hourly rate paid to the consultant software engineer was “competitive with the market and industry trend.”

IAP operates in a highly-competitive business environment and about [REDACTED]. Accordingly, IAP has no incentive to enter into consultant agreements without first considering the need for the consultant services and the reasonableness of the rates of consultant compensation. Consultant agreements are handled through IAP's legal department and require that a requisition be provided to justify the need for the particular consultant service before any agreement is entered into by IAP.

The consultant process also requires vetting and consideration as to whether a security clearance might be required. During the requisition phase, prior to execution of the consultant agreement, consideration was given to the reasonableness of the [REDACTED] hourly consultant fee by either comparing the consultant fee to wage rates paid in-house for similar expertise or by looking at salary surveys or industry trends. This analysis was done by the HR department as evidenced by the signature of the HR representative on the consultant requisition (see Exhibit E) although a written comparative analysis was not retained.

To avoid any further argument over the reasonableness of the [REDACTED] hourly rate paid to the consultant, IAP has included as Exhibit F, survey data showing that the average salary currently paid for a senior software engineer is over \$61 per hour. Accordingly, IAP sees no basis to conclude that the rate paid to IAP's consultant was unreasonable, unsupported or unallowable. However, IAP does accept the recommendation of the auditor that it should retain evidence of consultant rate reasonableness within its consultant agreement files as well as in the Human Resources department.

The draft report on internal control: The draft report is presented on pages 14 – 16 and addresses the audit of IAP's internal control over financial reporting associated with the SPFS of IAP associated with the subject contract delivery order. The draft describes the planning and performance of audit steps to obtain reasonable assurance about whether the Special Purpose Financial Statement is free from material misstatement. On page 15, the report states, in part:

“However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. We identified two findings reported in the accompanying Schedule of Findings and Questioned Costs as Findings 2018-04 and 2018-05 which are considered to be deficiencies.”

“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.

“Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify one deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2018-03, which we consider to be significant deficiency.”

IAP Response to draft report on internal control: IAP is pleased that the auditor did not identify any deficiencies in internal control that they consider to be material weaknesses. For those instances where the auditor noted deficiencies, IAP has addressed those concerns and planned corrective measures within its individual responses to Findings 2018-03, 2018-04, and 2018-05.

The draft report on compliance: The draft report is presented on pages 17 – 18 and addresses tests of IAP’s compliance with certain provisions of laws, regulations, and the aforementioned Delivery Order. The draft report does not express an opinion on IAP’s compliance, but states, in part:

“The results of our tests disclosed three instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Detailed Audit Findings as Findings 2018-01, 2018-02, and 2018-03.”

IAP Response to draft report on compliance: IAP strongly disagrees with the Findings and has provided its detail response provided above to each of the identified Findings 2018-01, 2018-02, and 2018-03.

The status of prior audit findings: Page 19 addresses steps taken by the Auditor to assure that IAP had taken appropriate actions to address the findings of previous audits/engagements that might have a material effect on the Special Purpose Financial Statements. The Auditor specifically discusses the findings of a DCMA Purchasing System Initial Determination, dated [REDACTED] and how the Auditor reviewed the corrective actions taken by IAP to address two DCMA findings and recommendations.

[REDACTED]

IAP Response to the status of prior findings: The auditor’s review has confirmed that IAP has taken prompt appropriate actions to remediate previously noted deficiencies.

Conclusions:

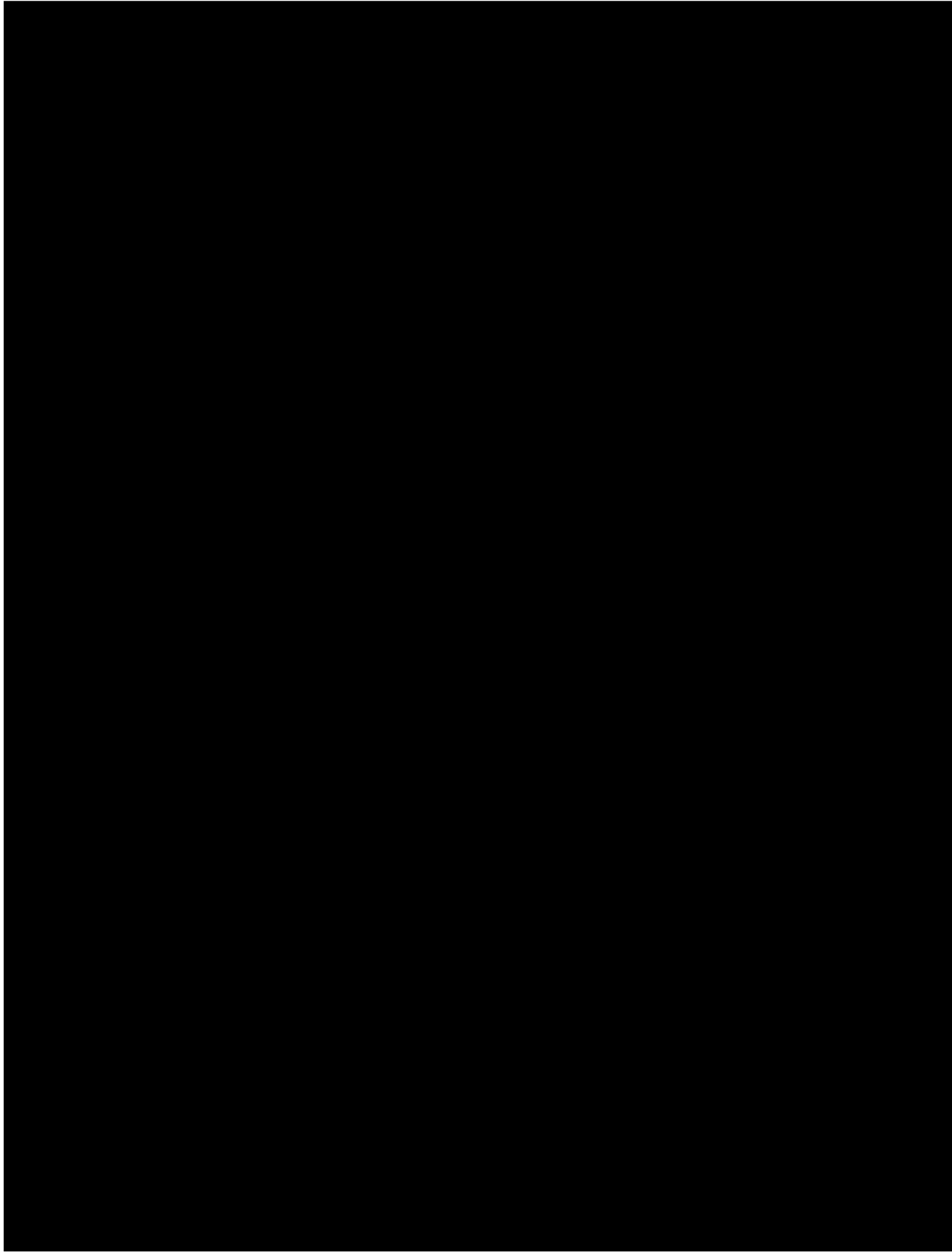
As explained above, IAP concurs with the costs questioned for the inadvertent duplication of a shipping charge which was self-determined and reported prior to fieldwork commencing. However, IAP strongly disagrees that there is a factual basis to consider the remaining costs questioned as ineligible, unsupported, or unallowable.

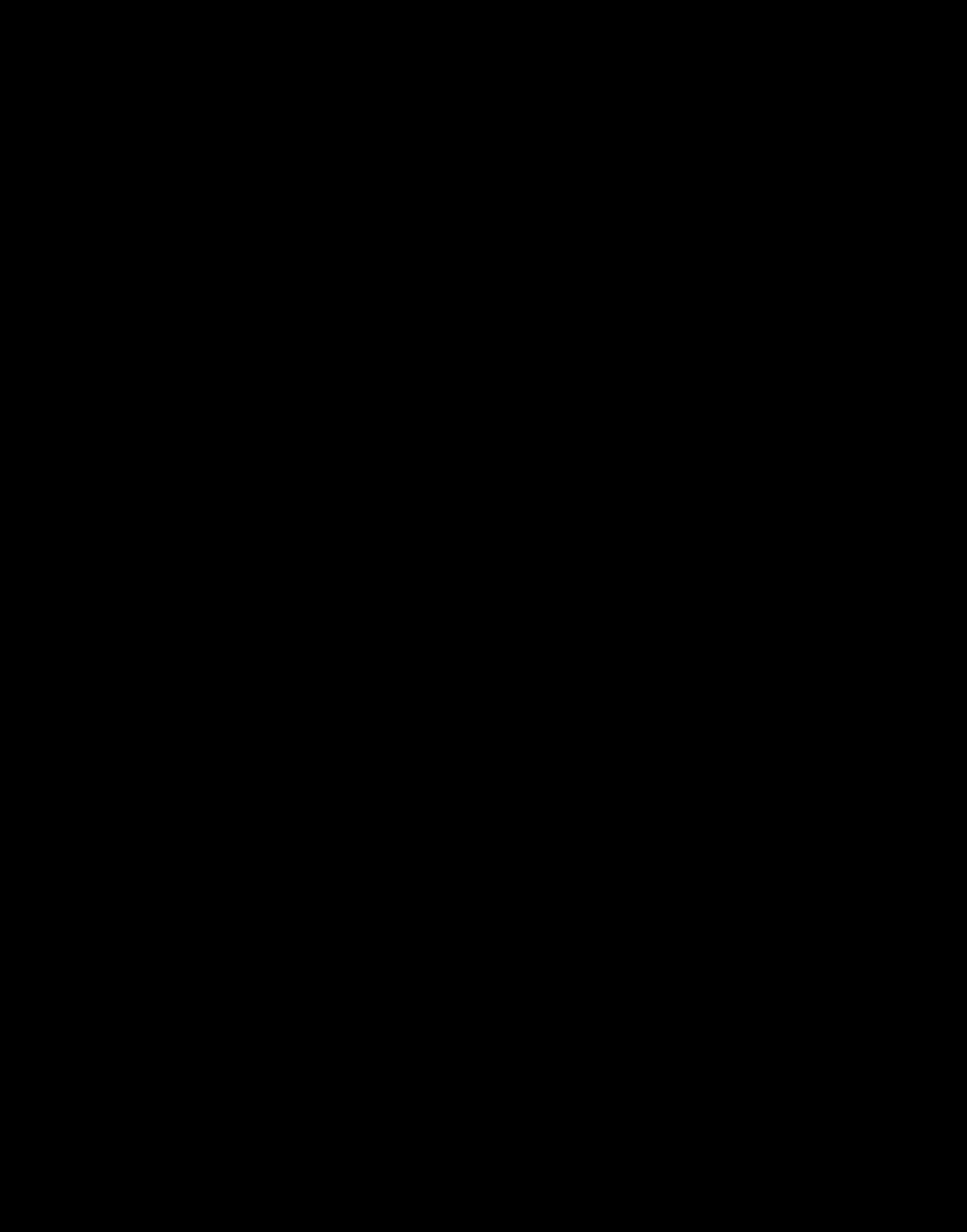
Please contact me directly at (703) 253-2769 or by e-mail at Charles.cosgrove@iapws.com if you have any questions regarding this response.

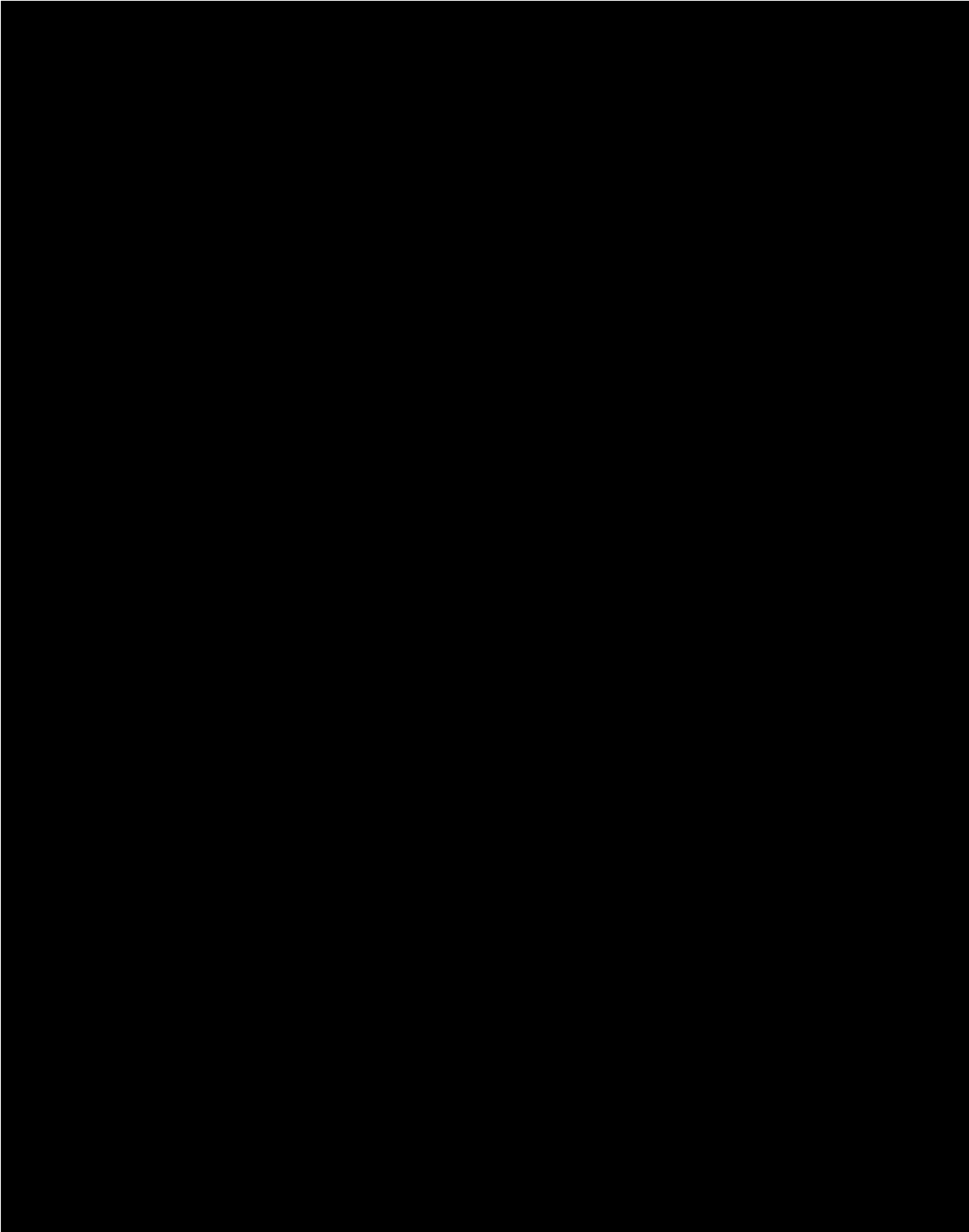
Respectfully,

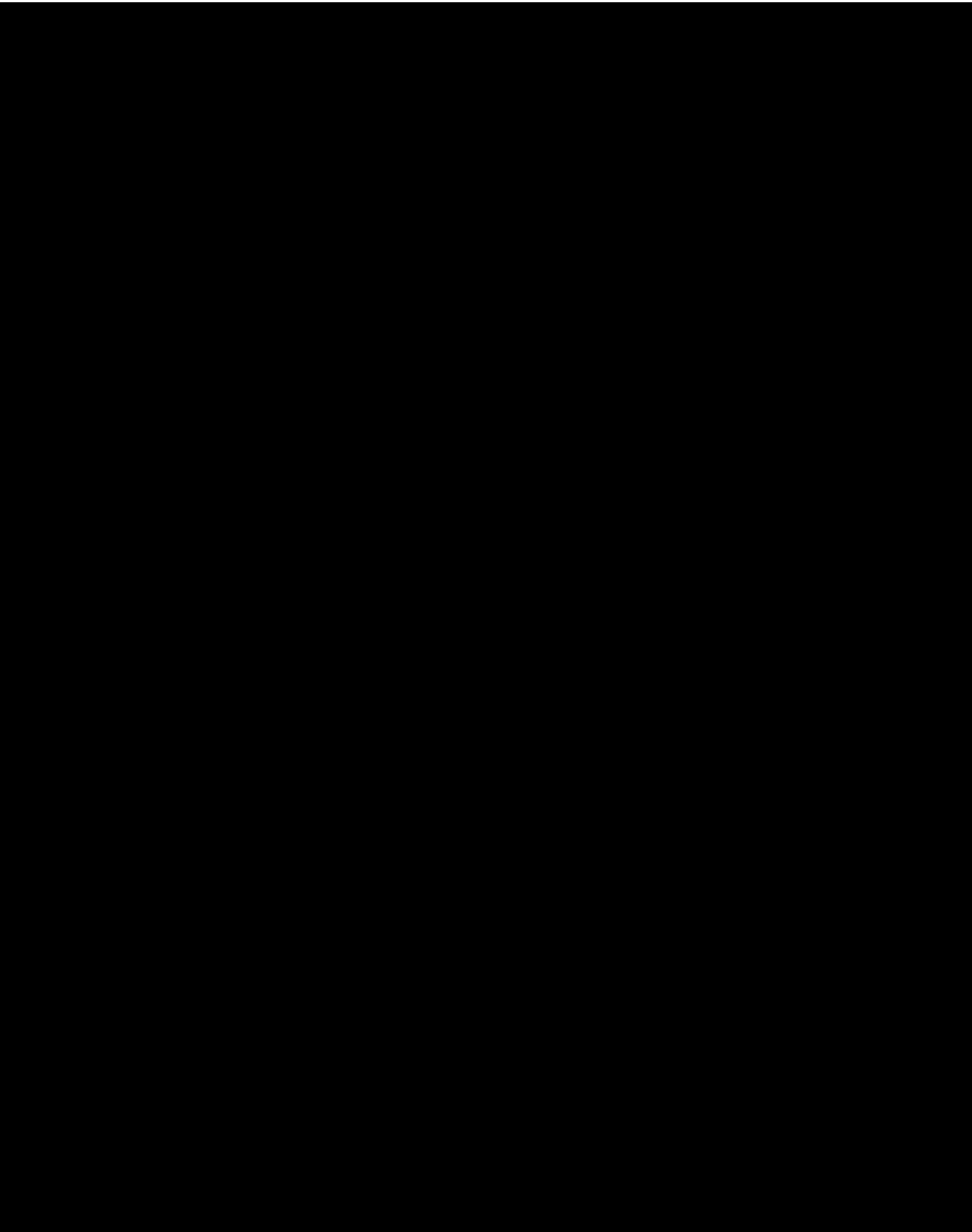
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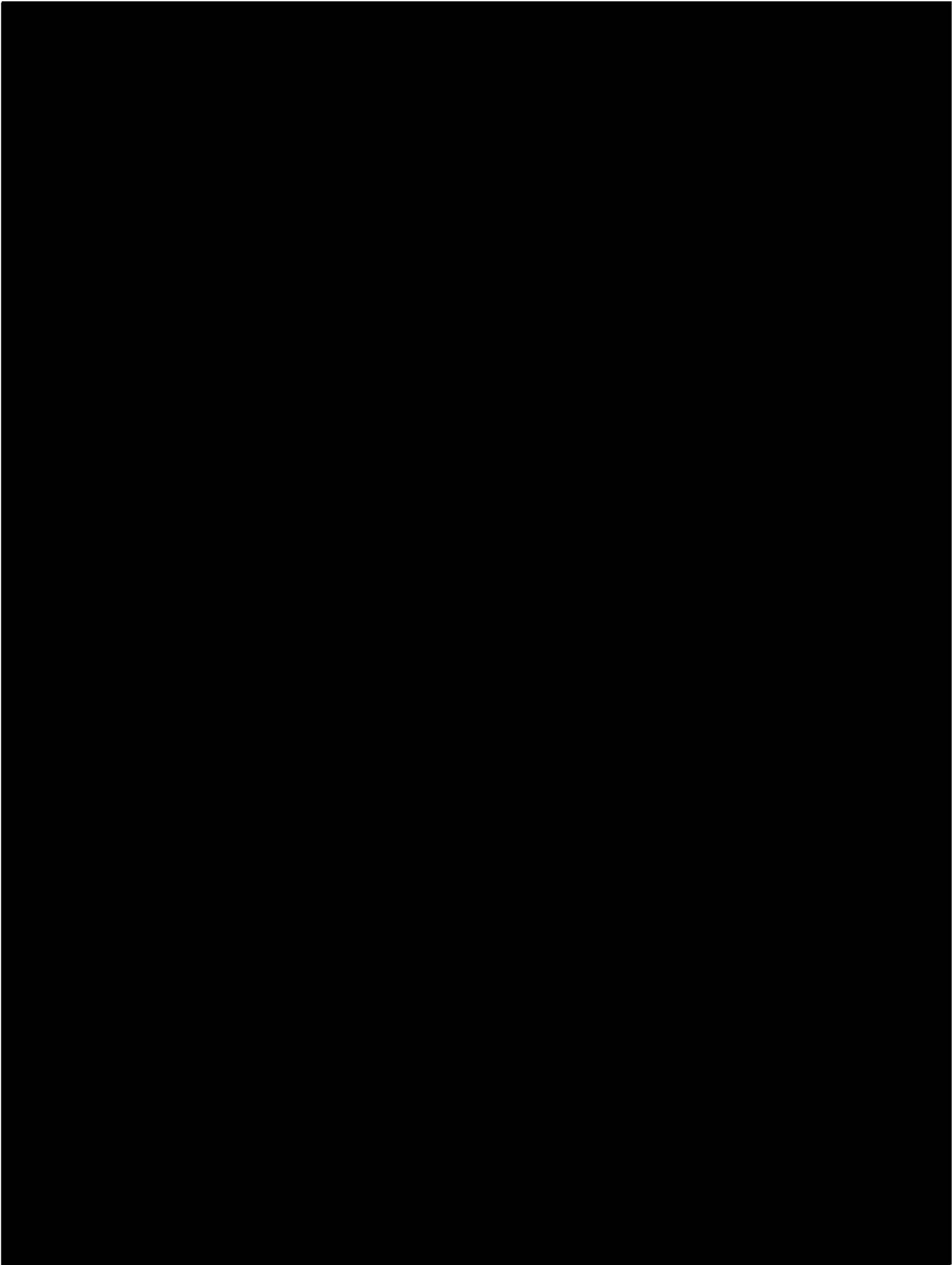
Charles Cosgrove
Chief Financial Officer

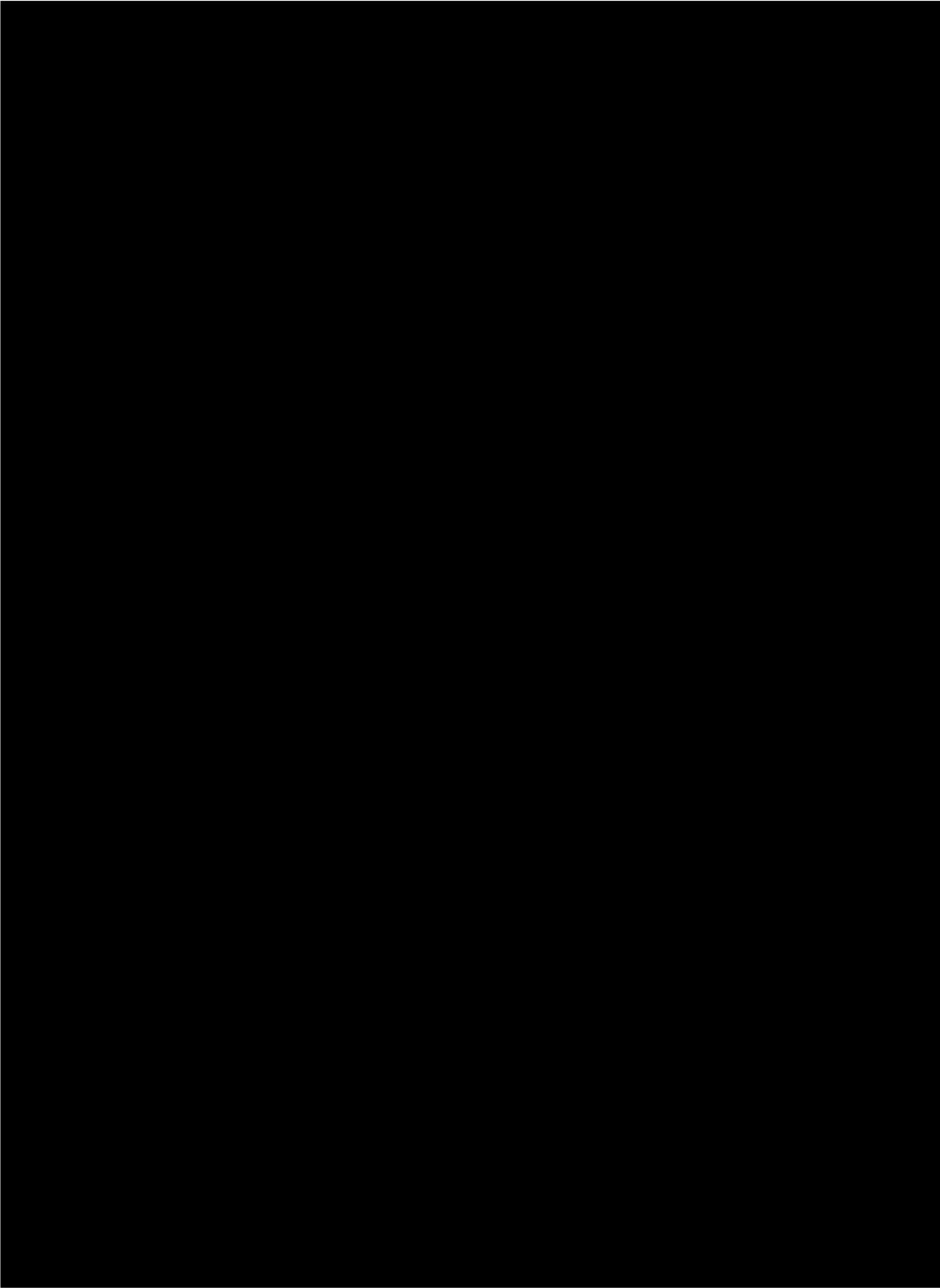




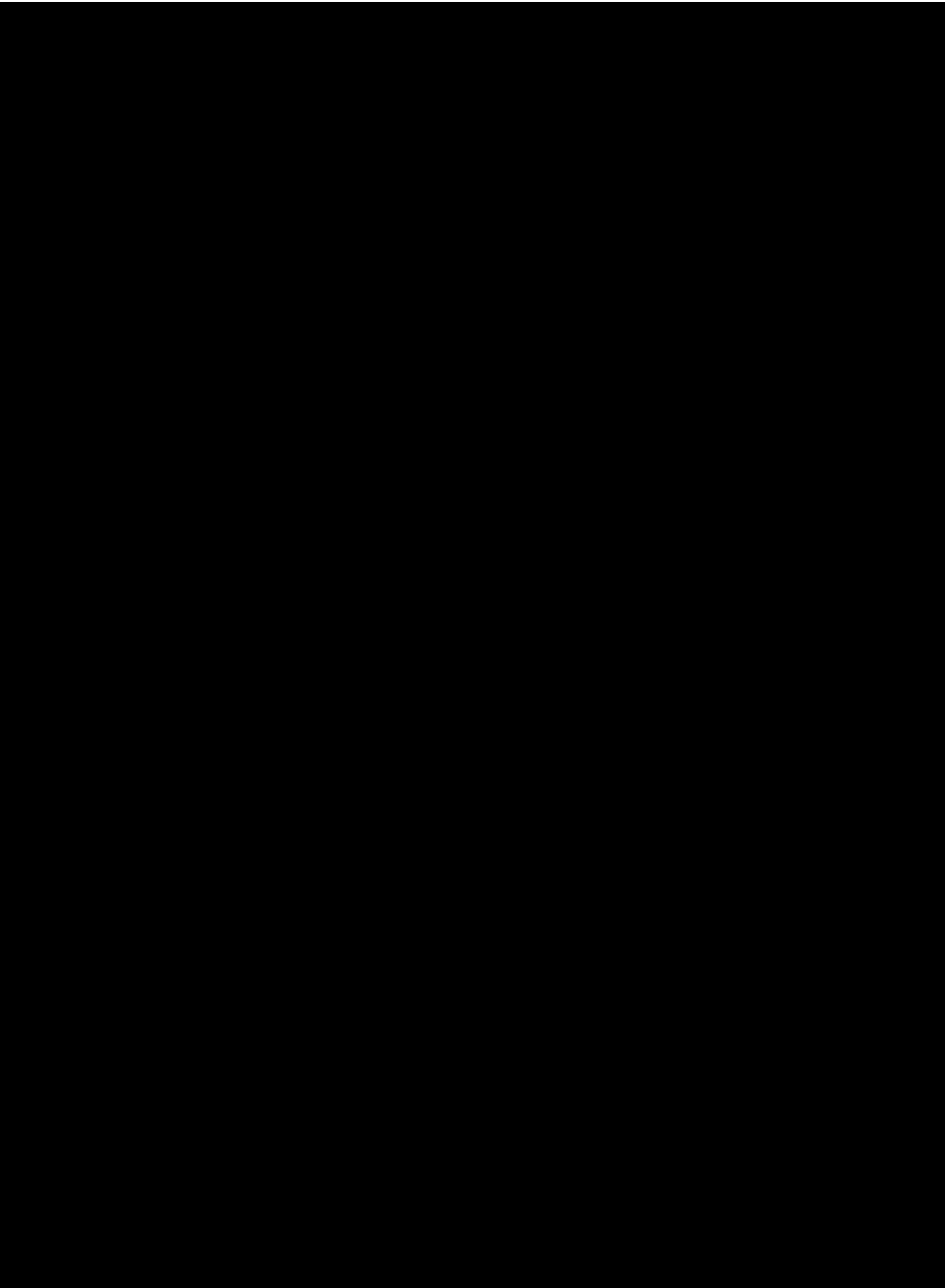


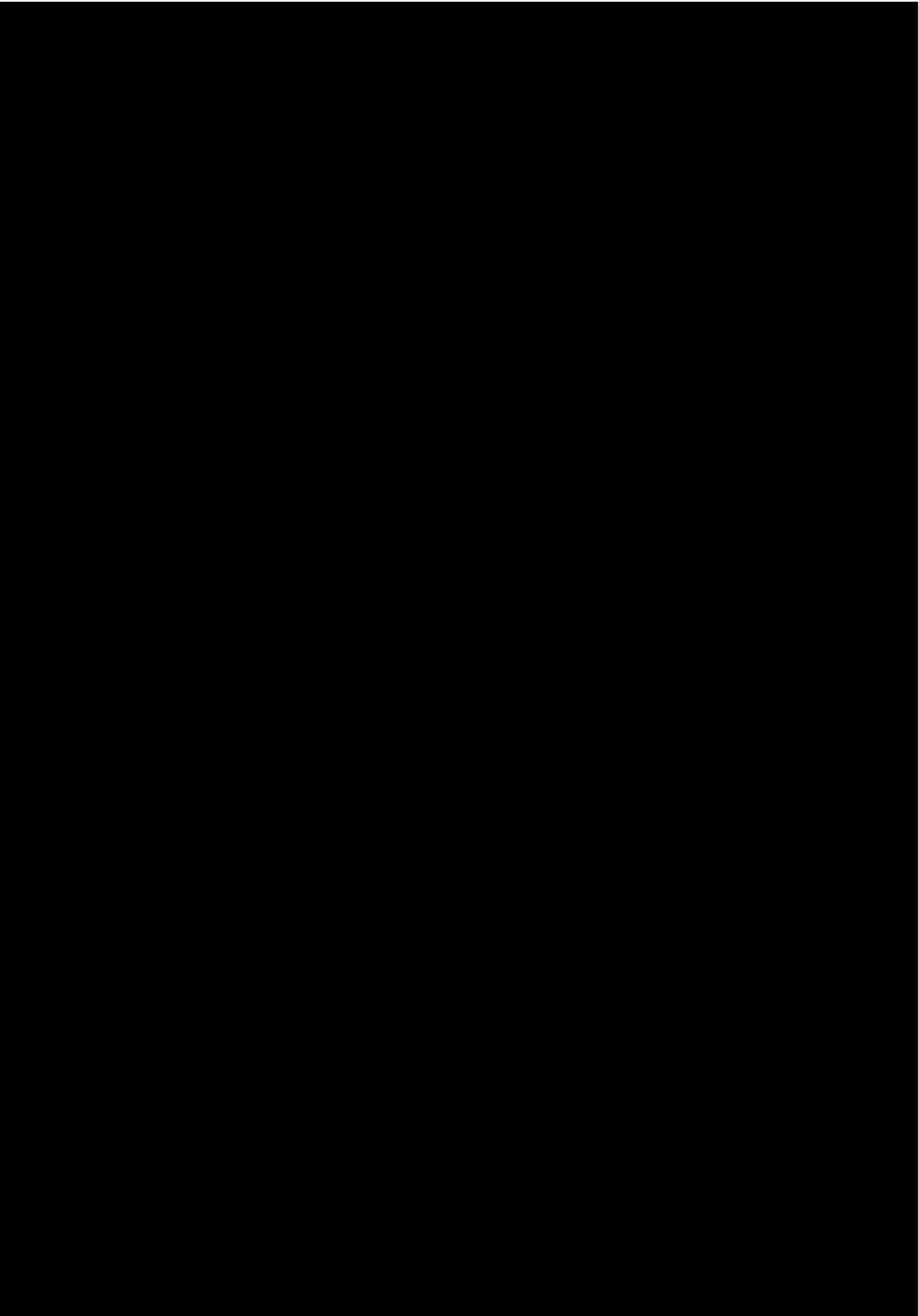


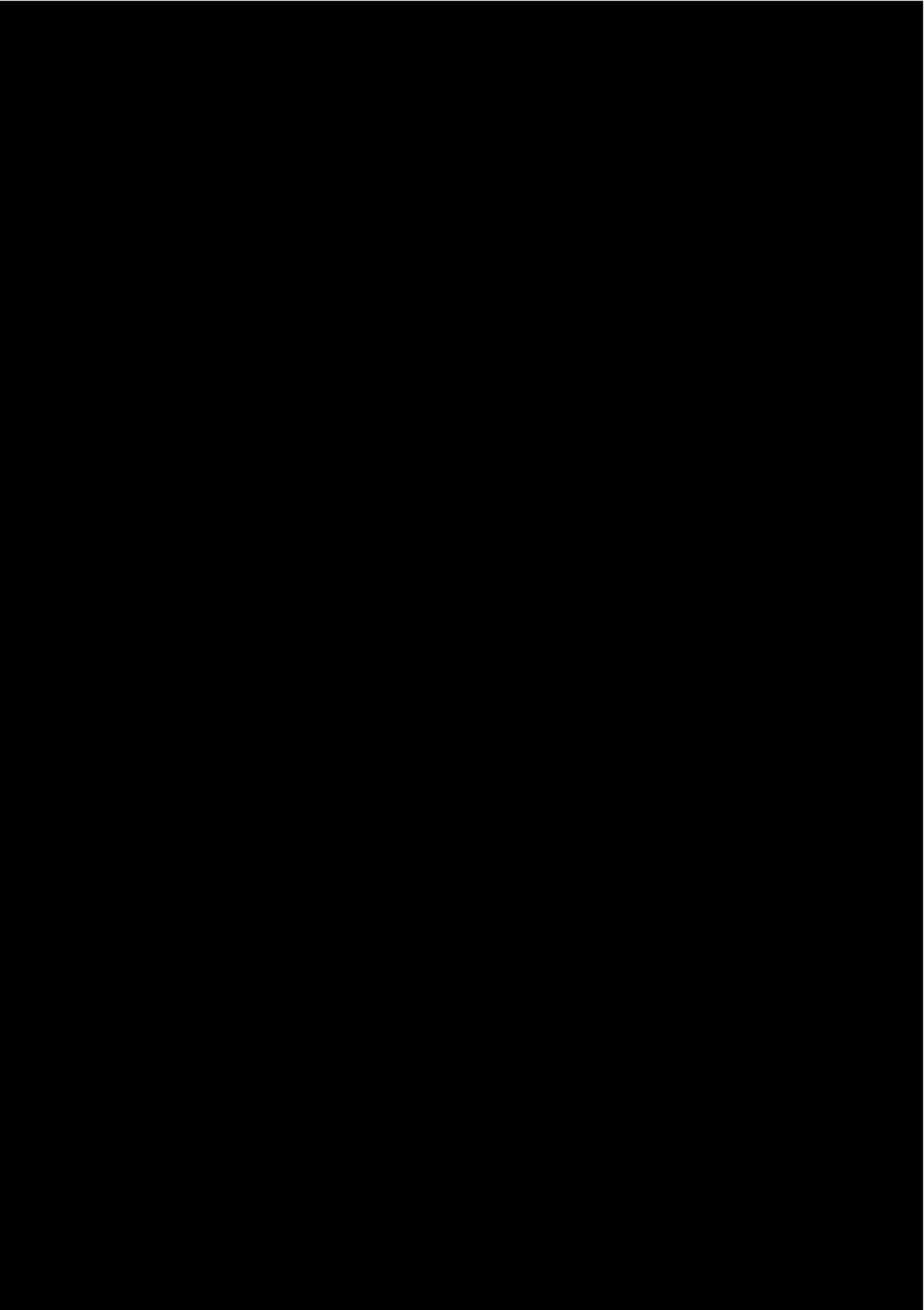


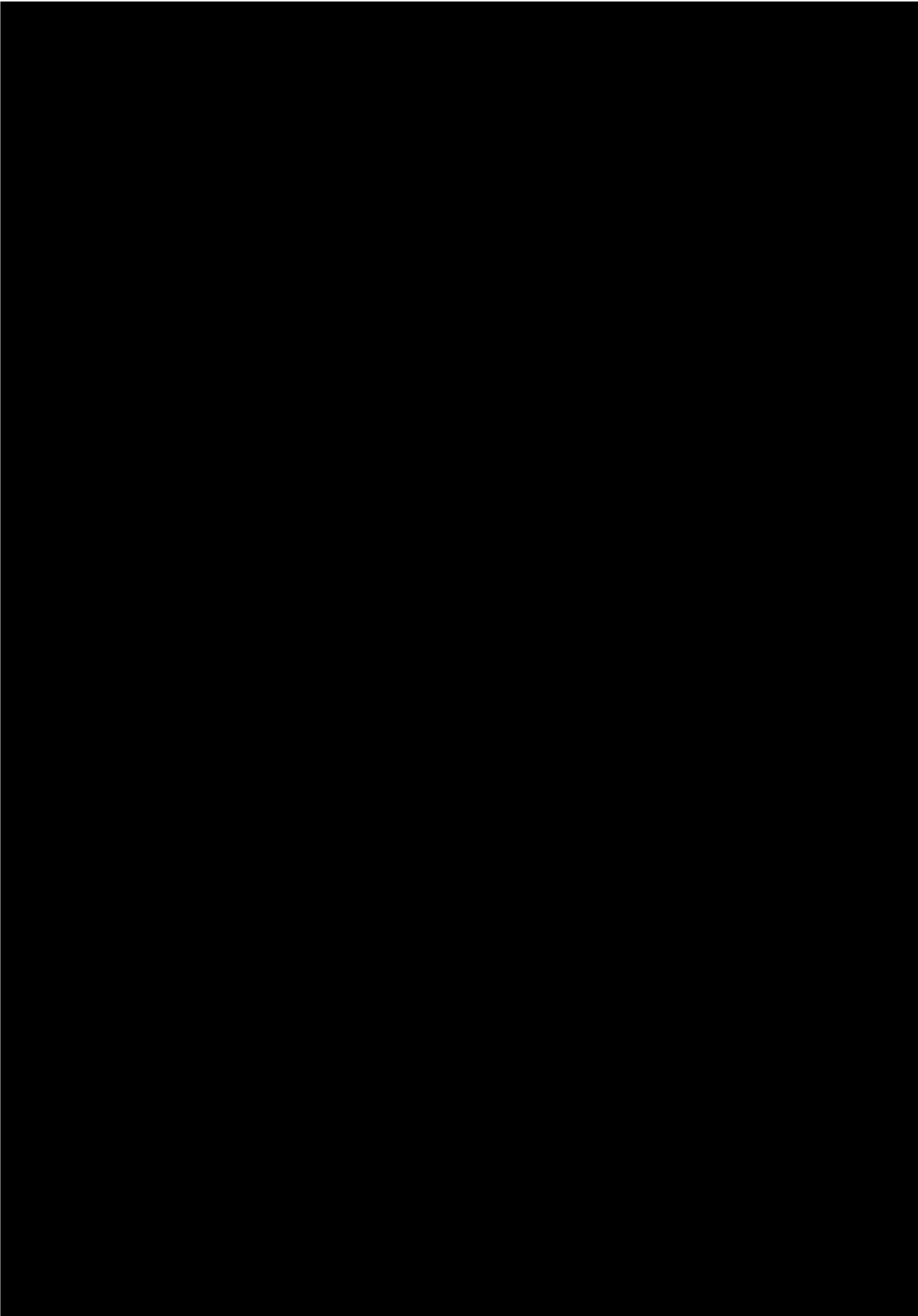










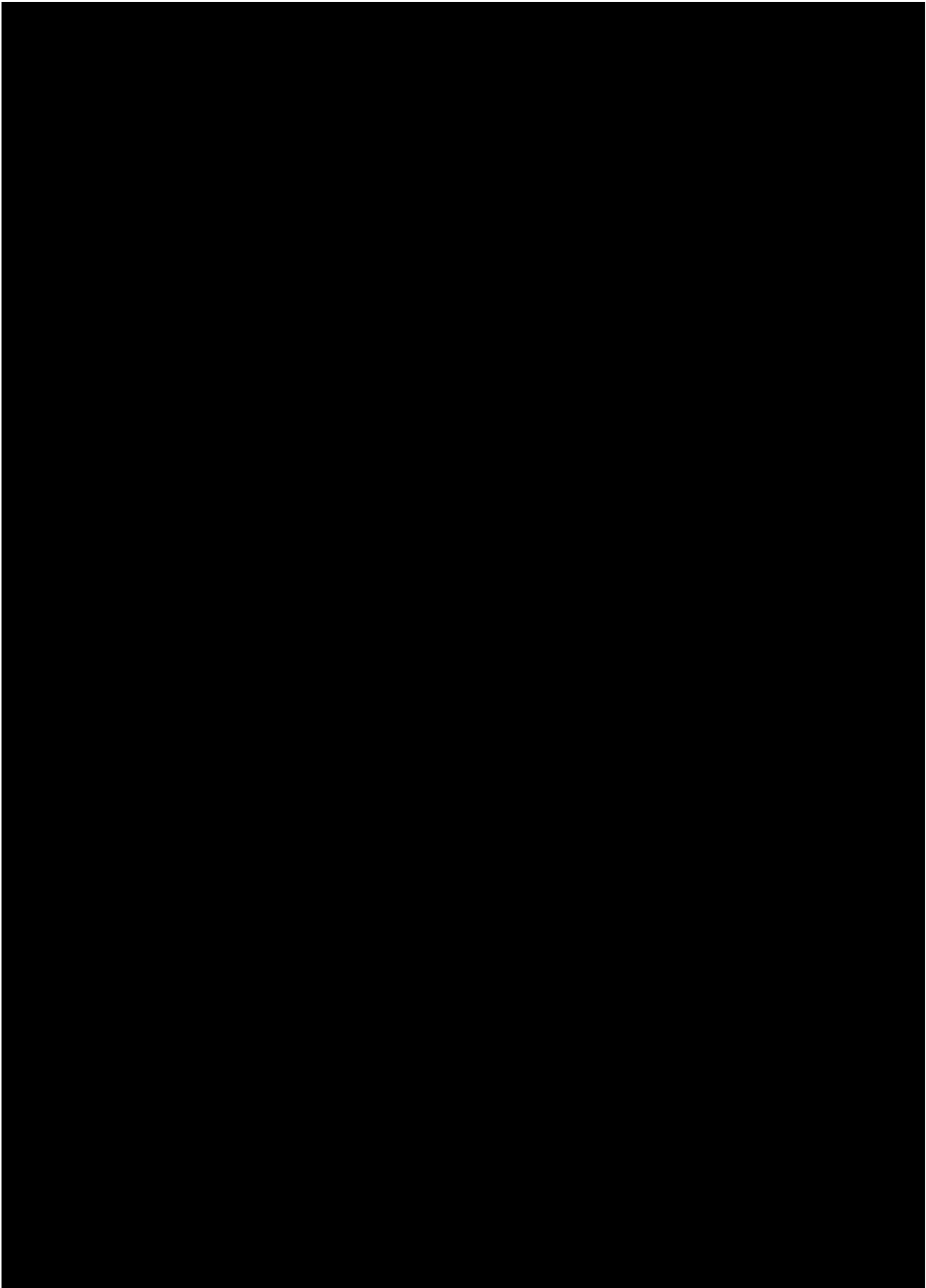


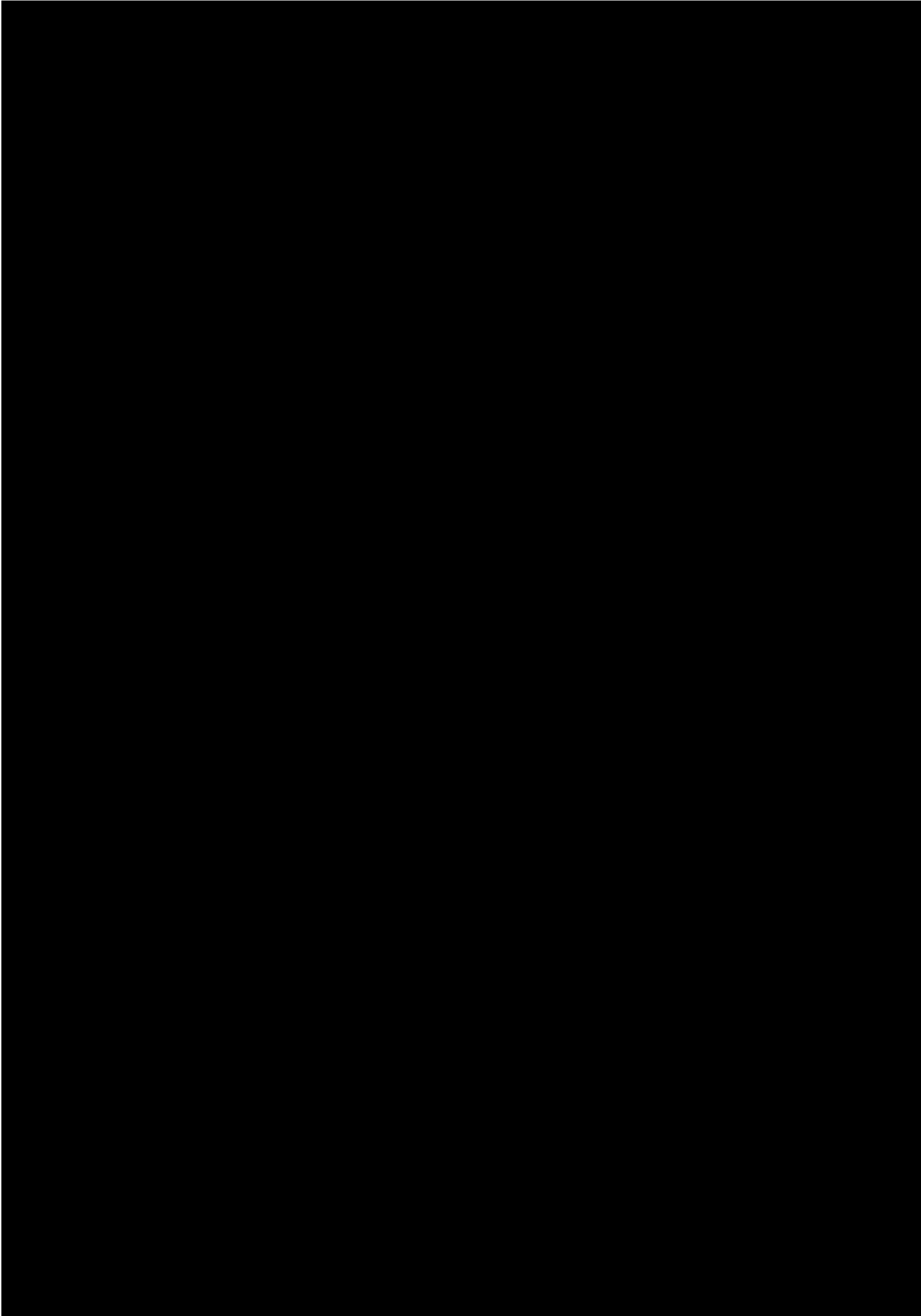
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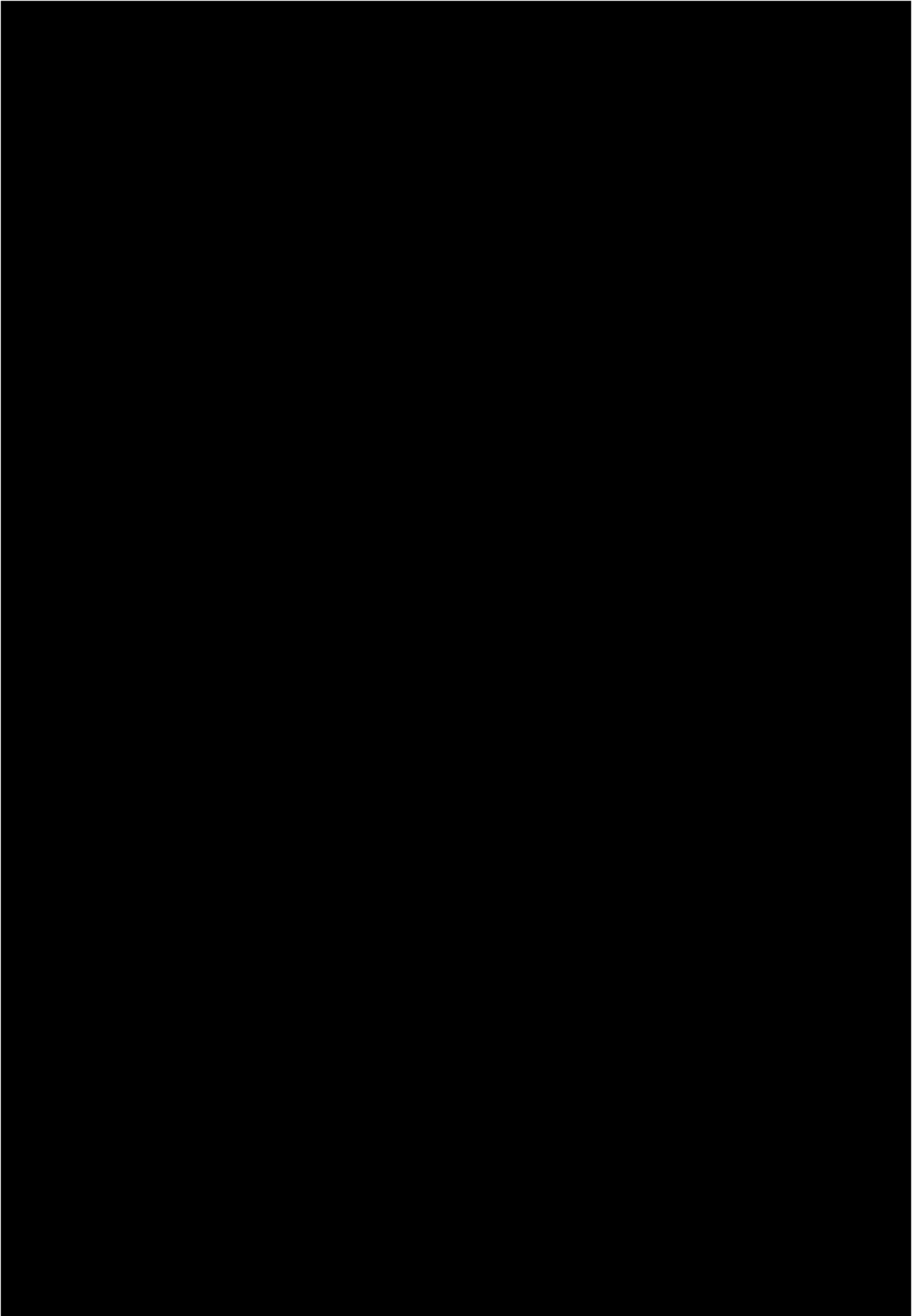
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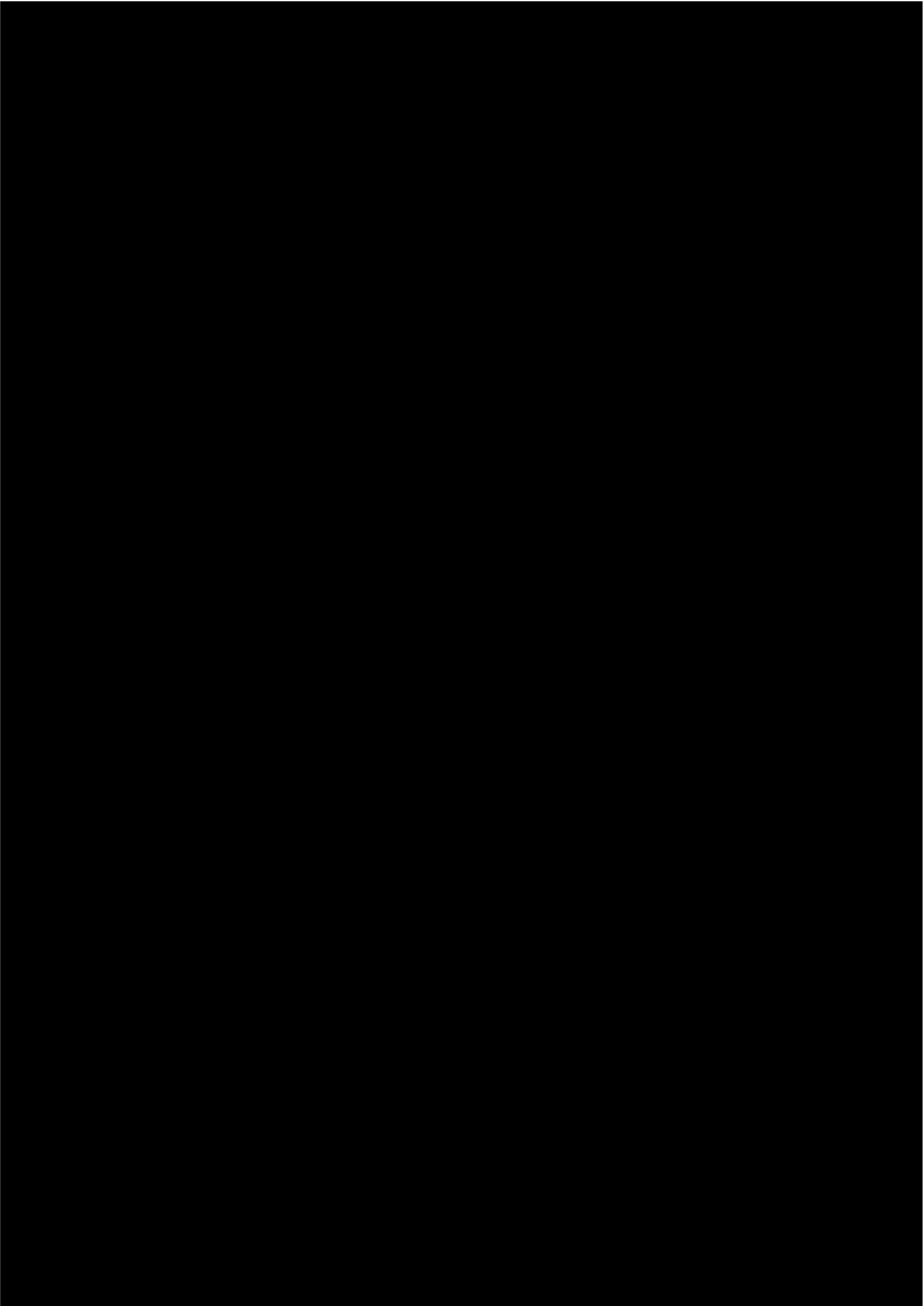
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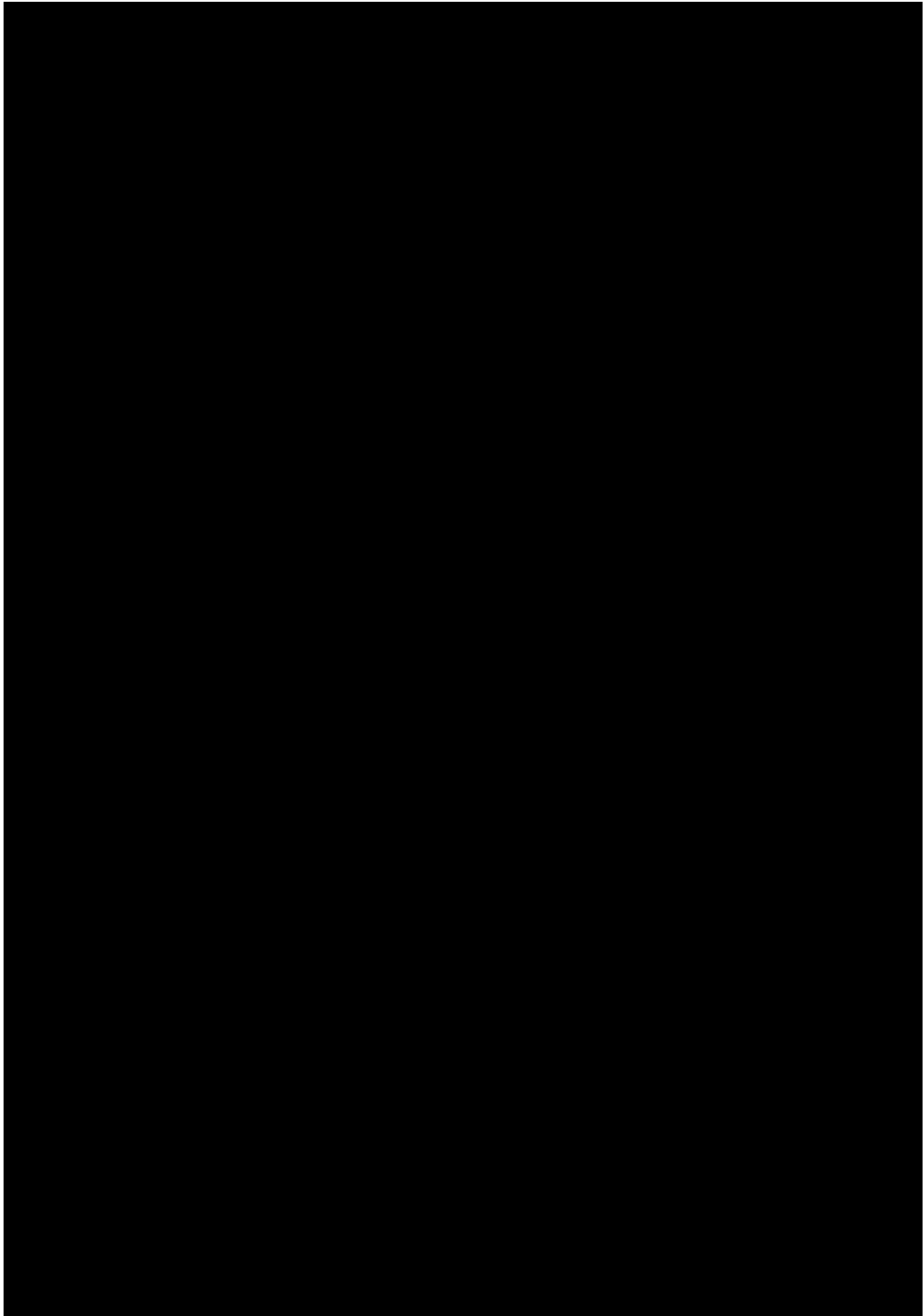
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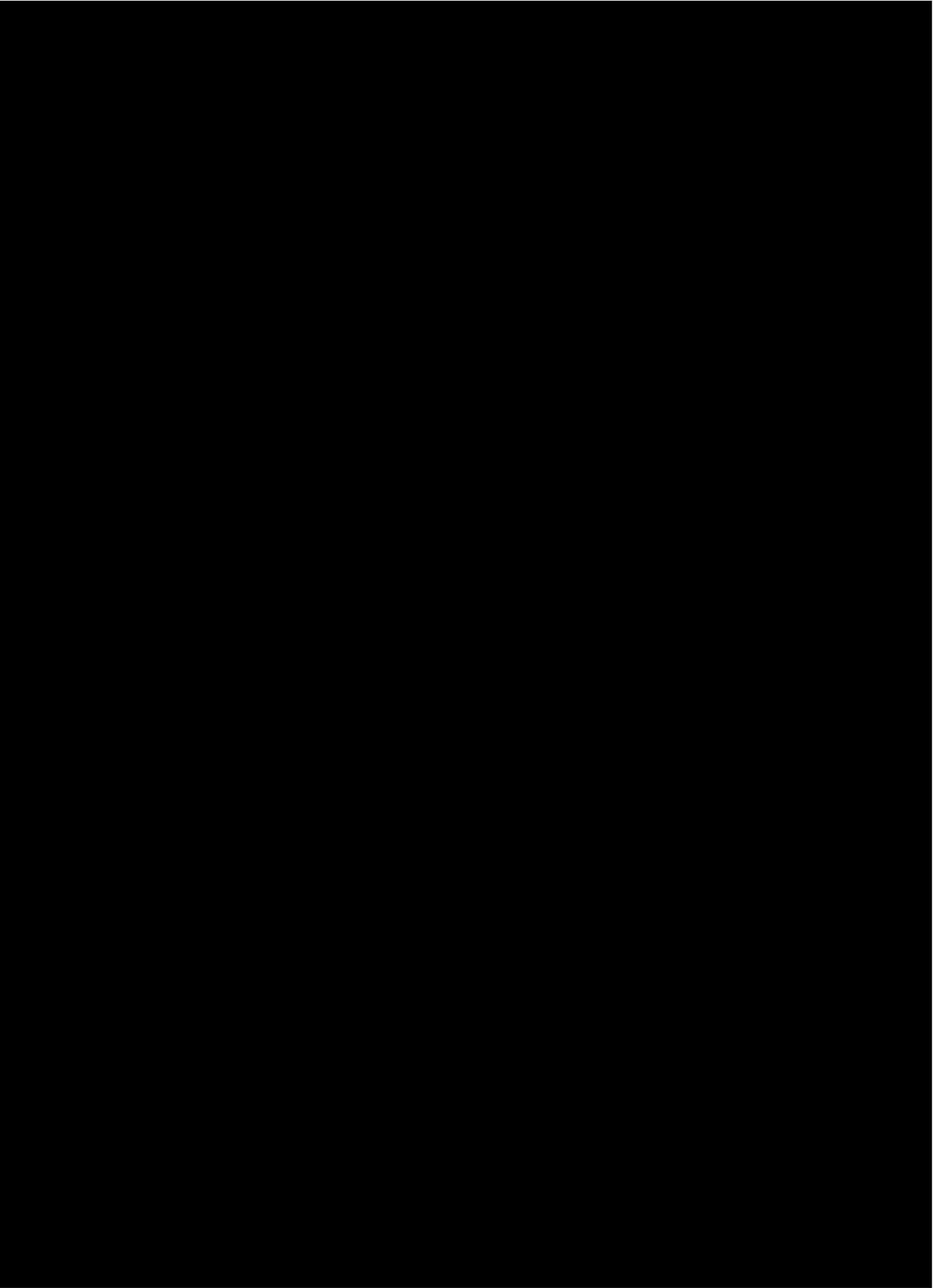


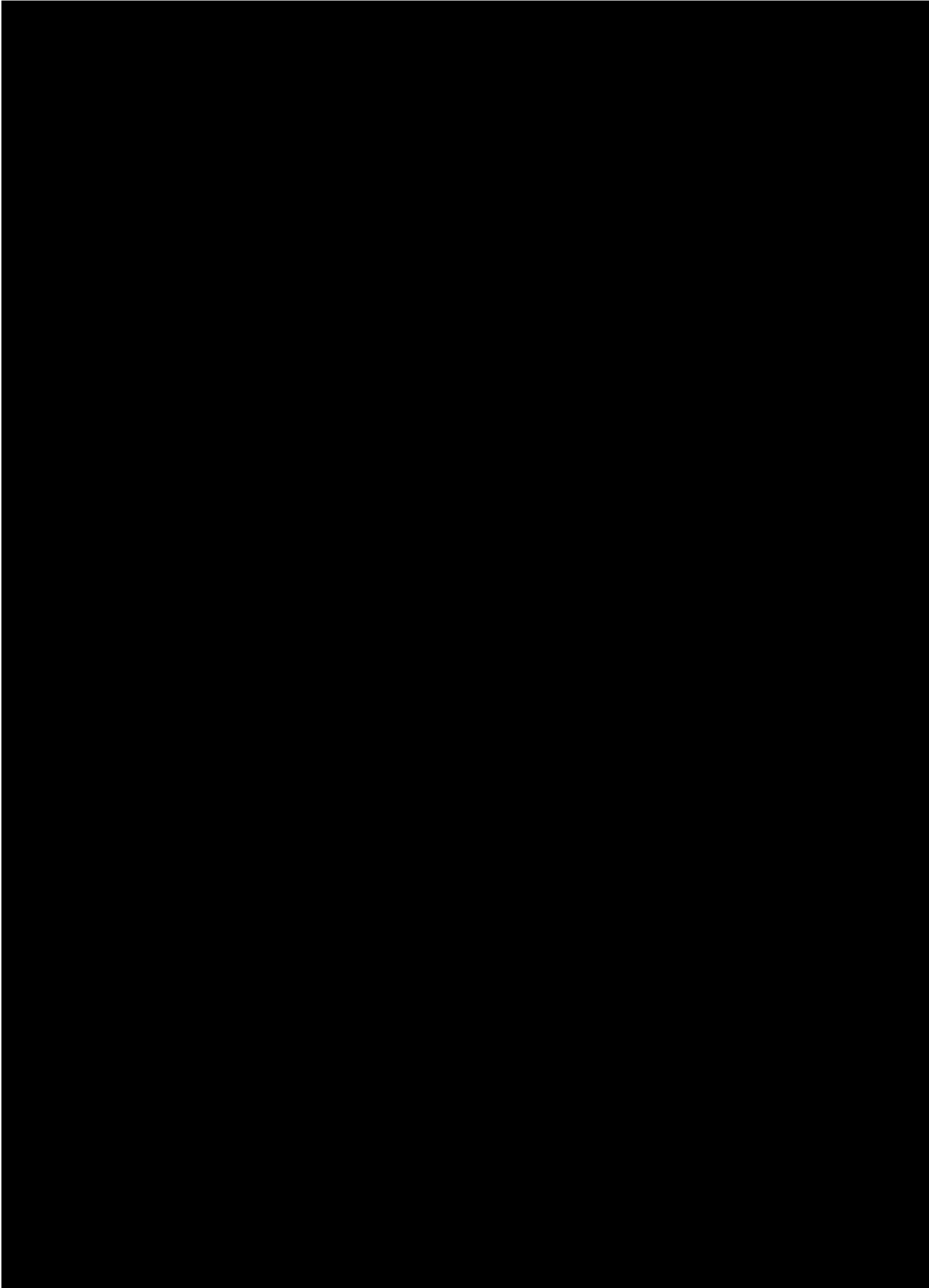


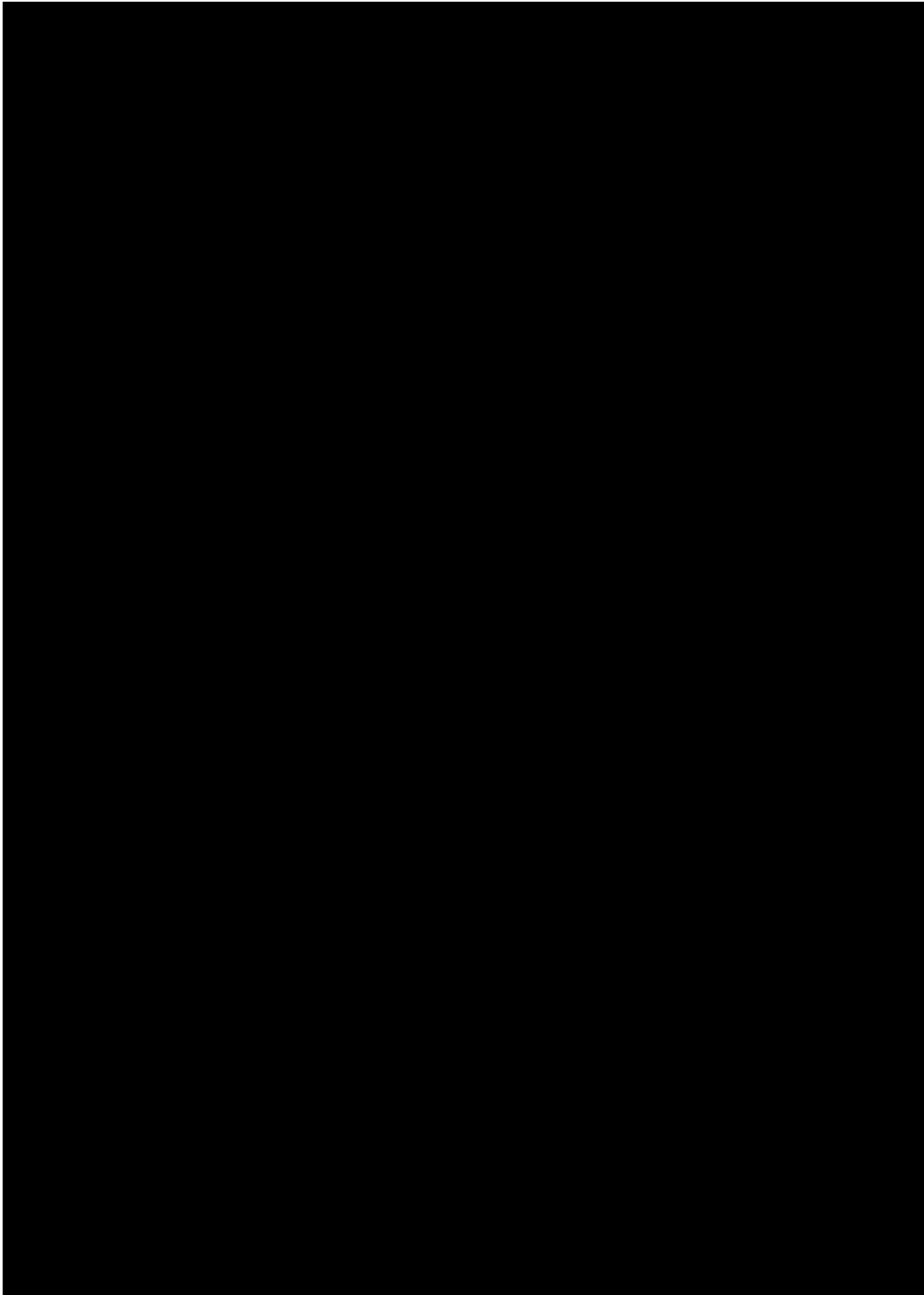


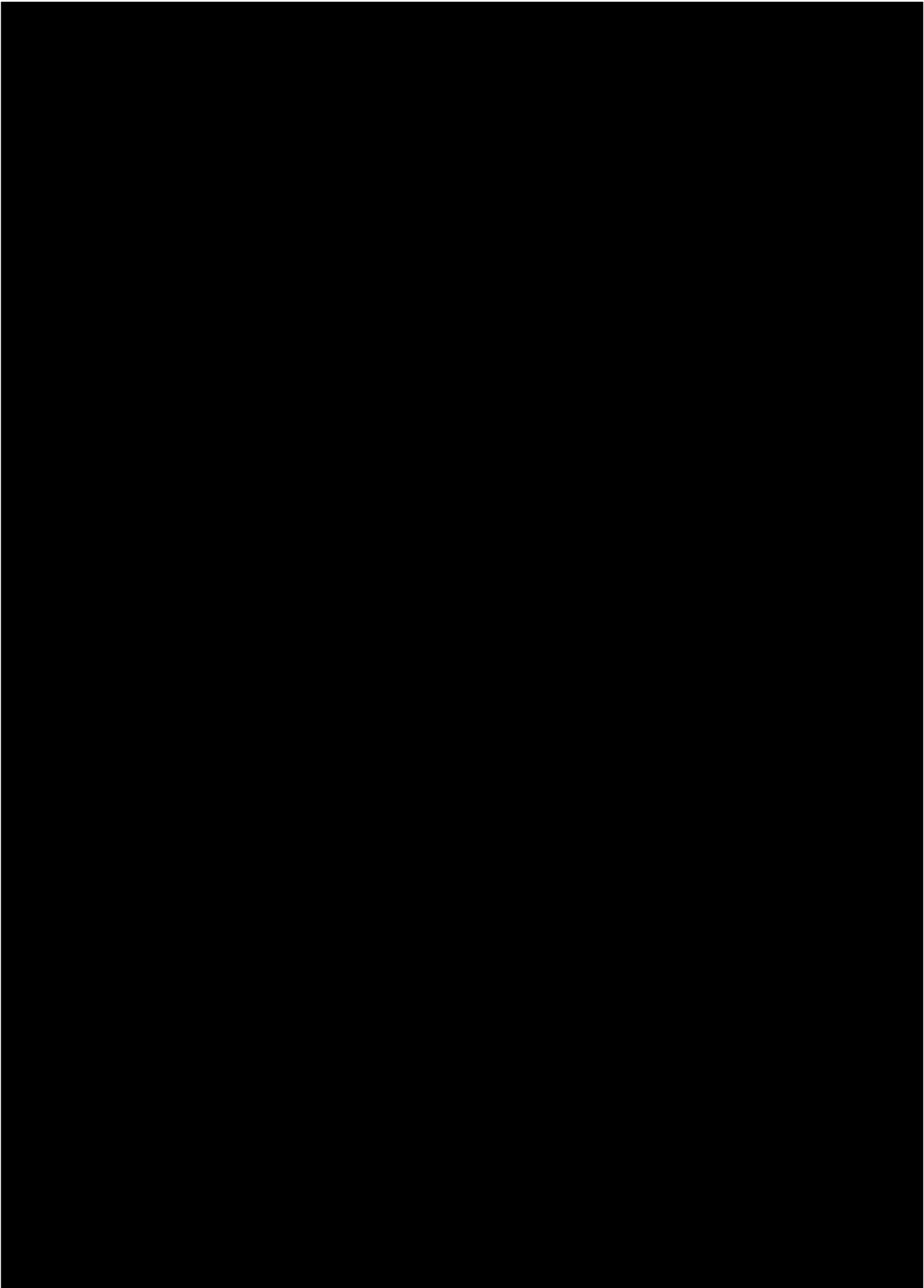


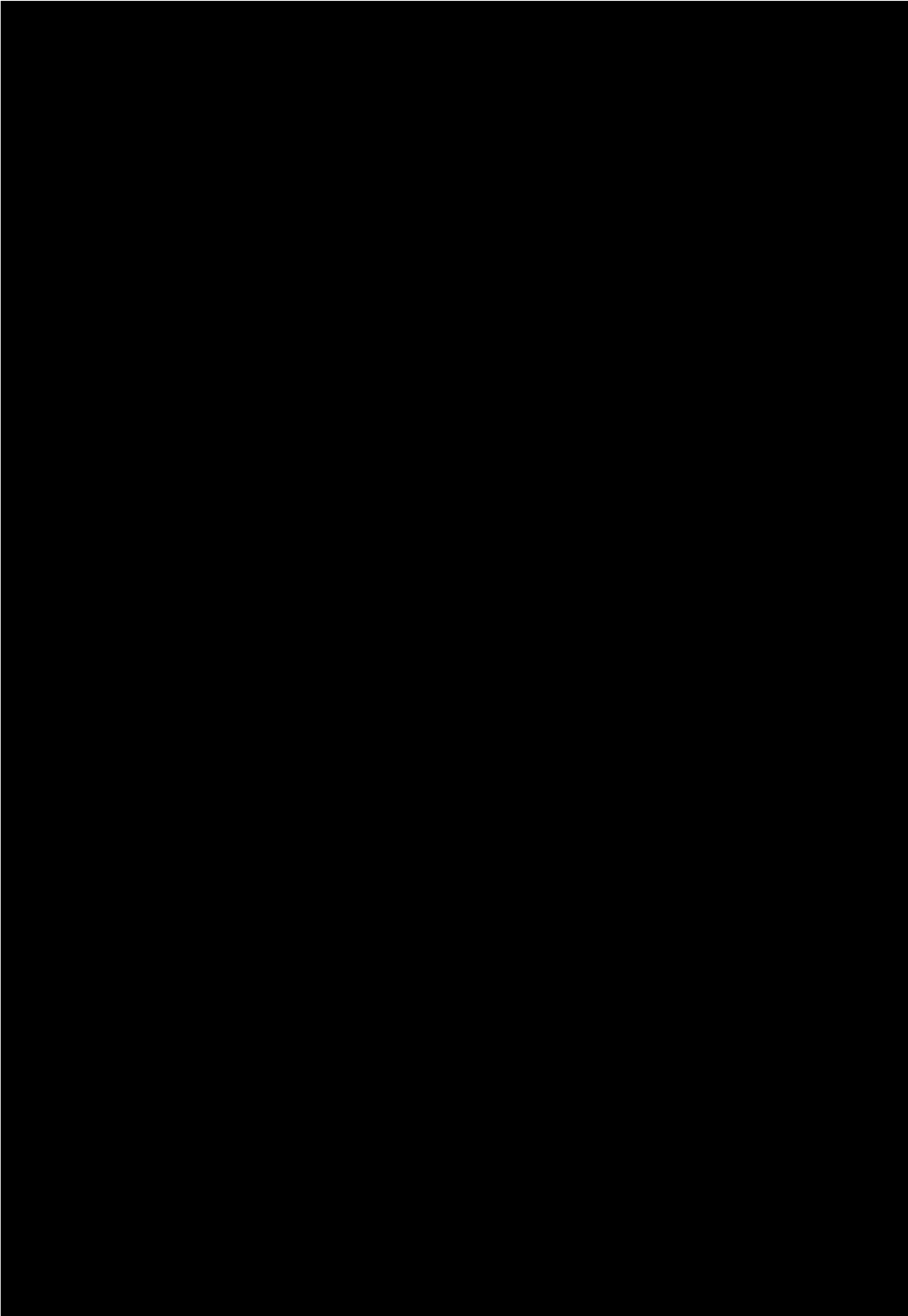


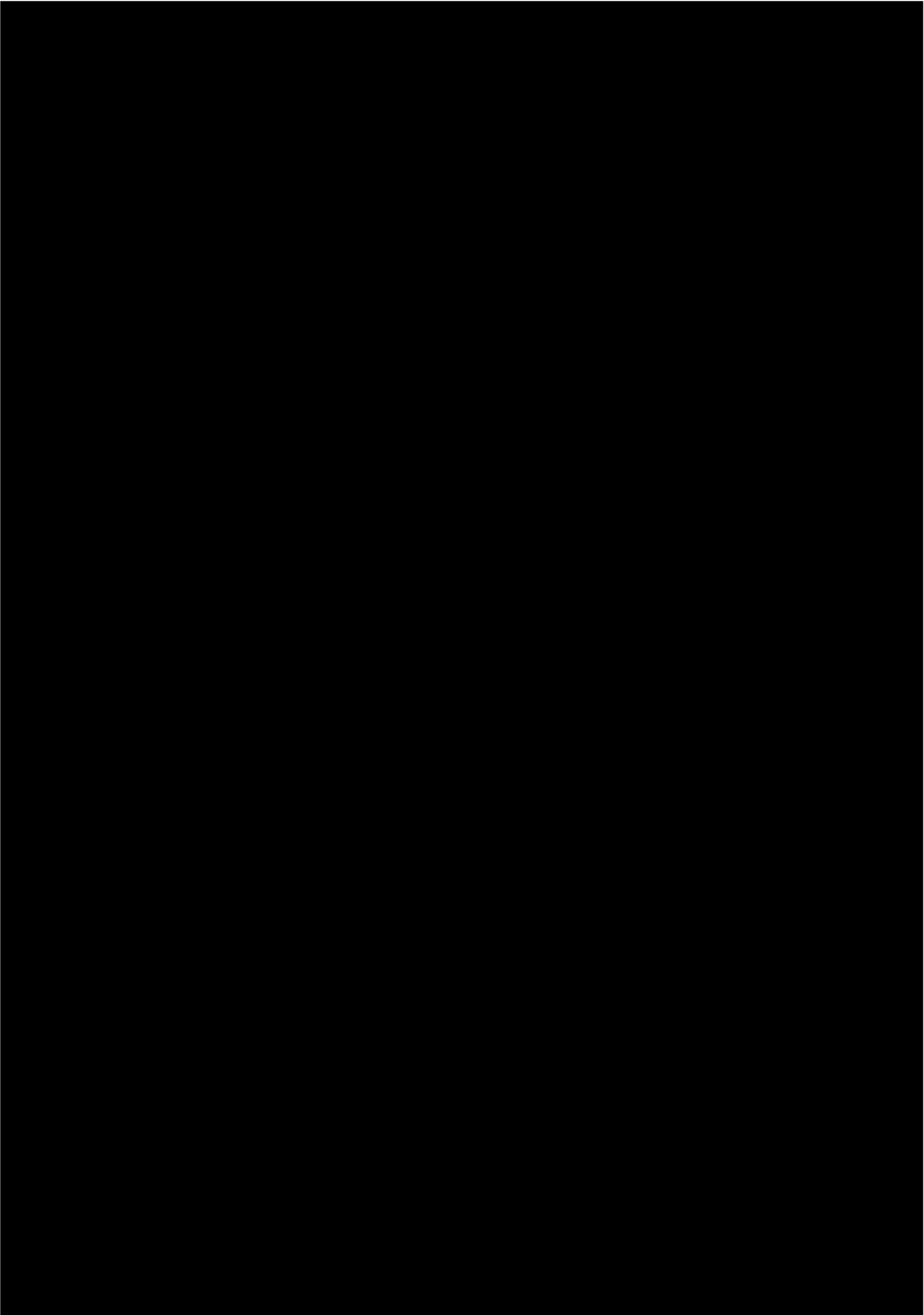


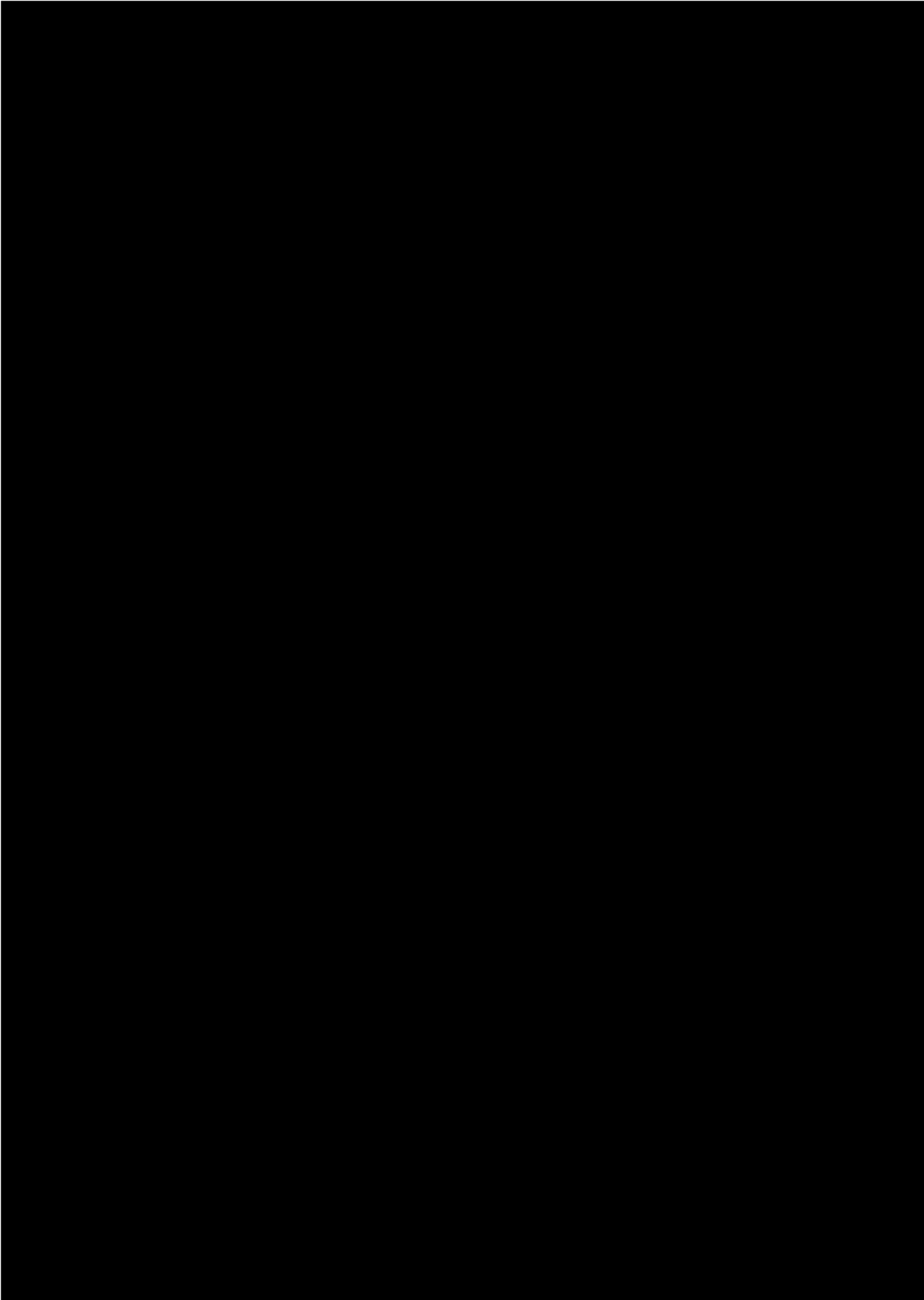


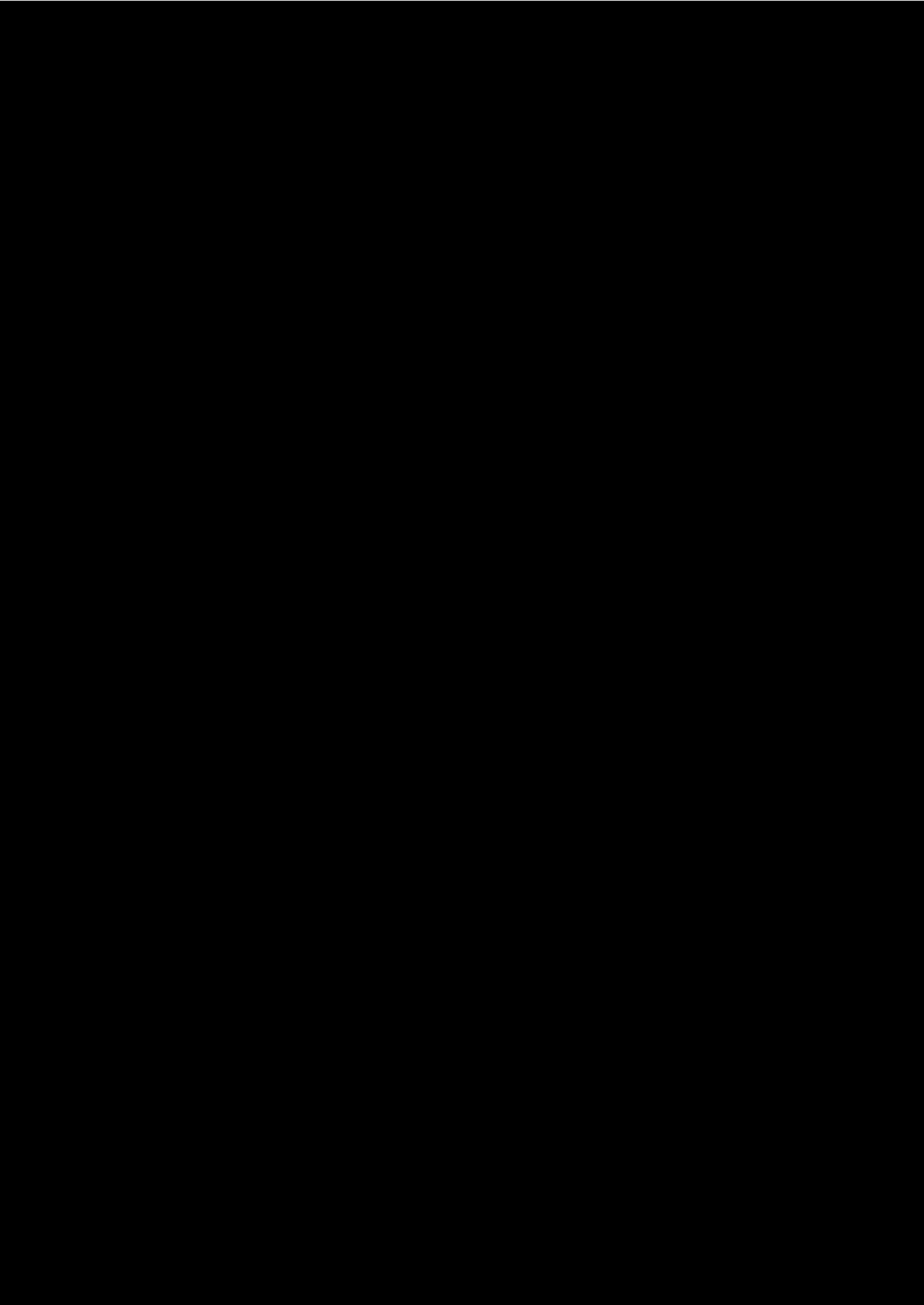


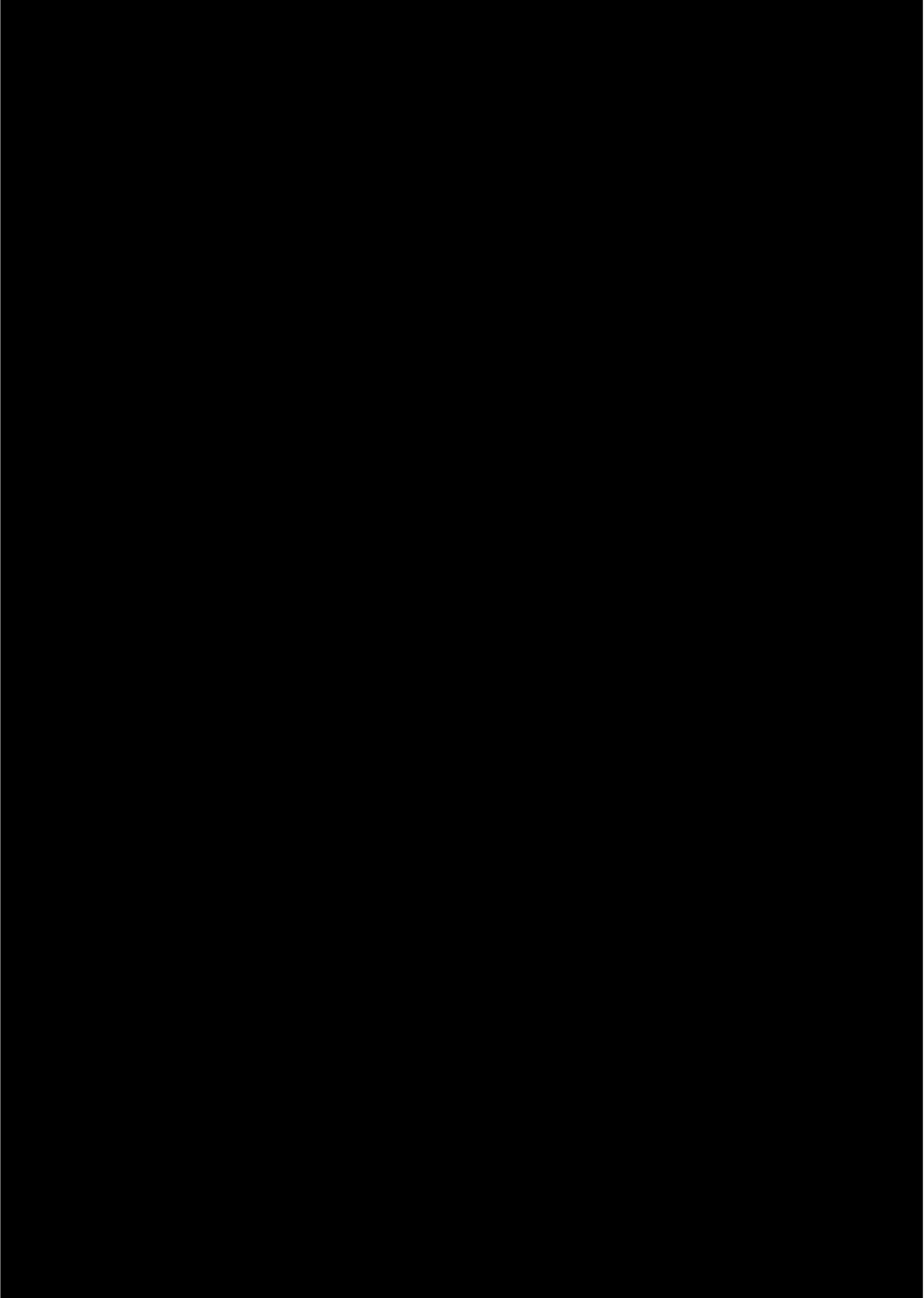


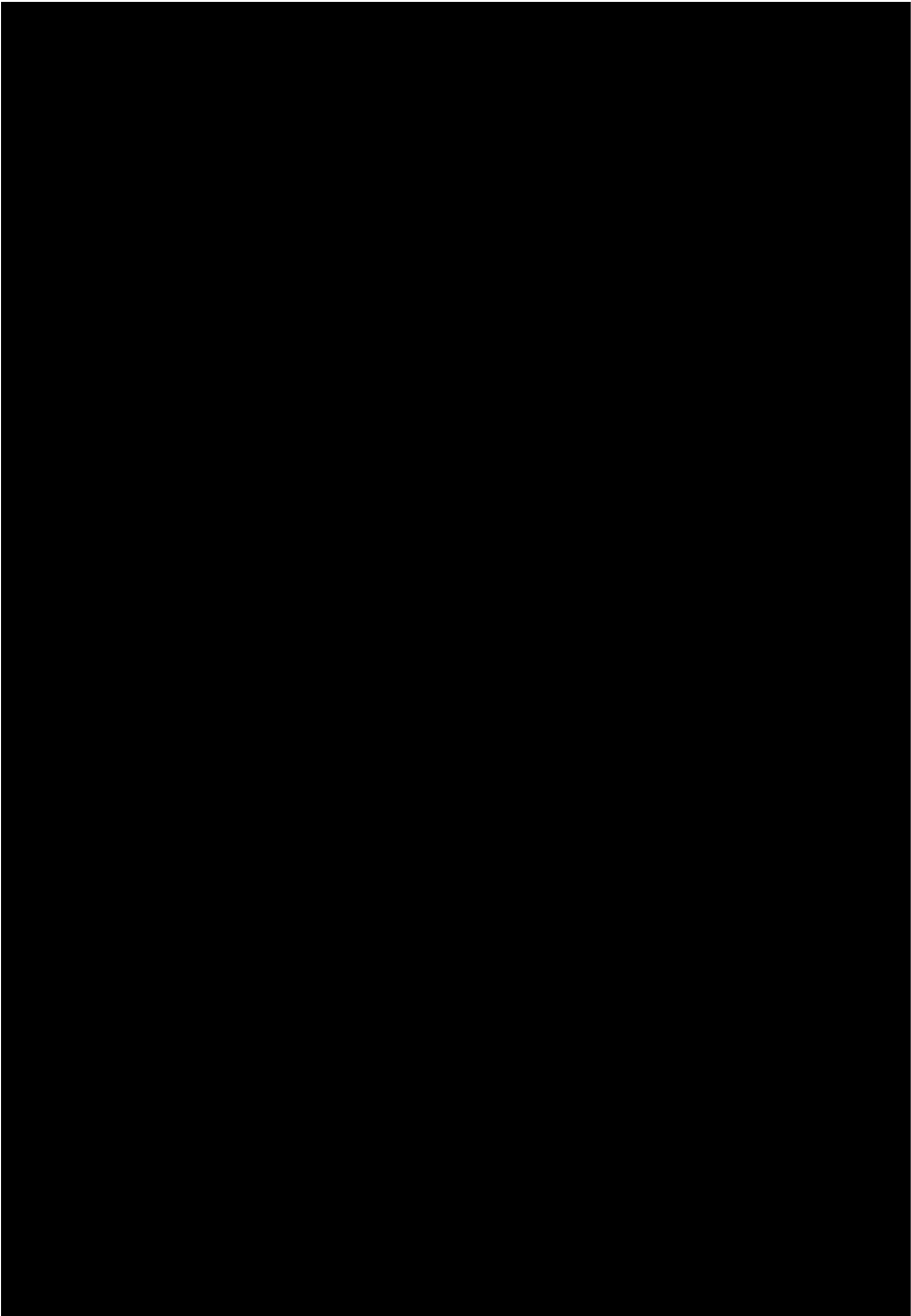


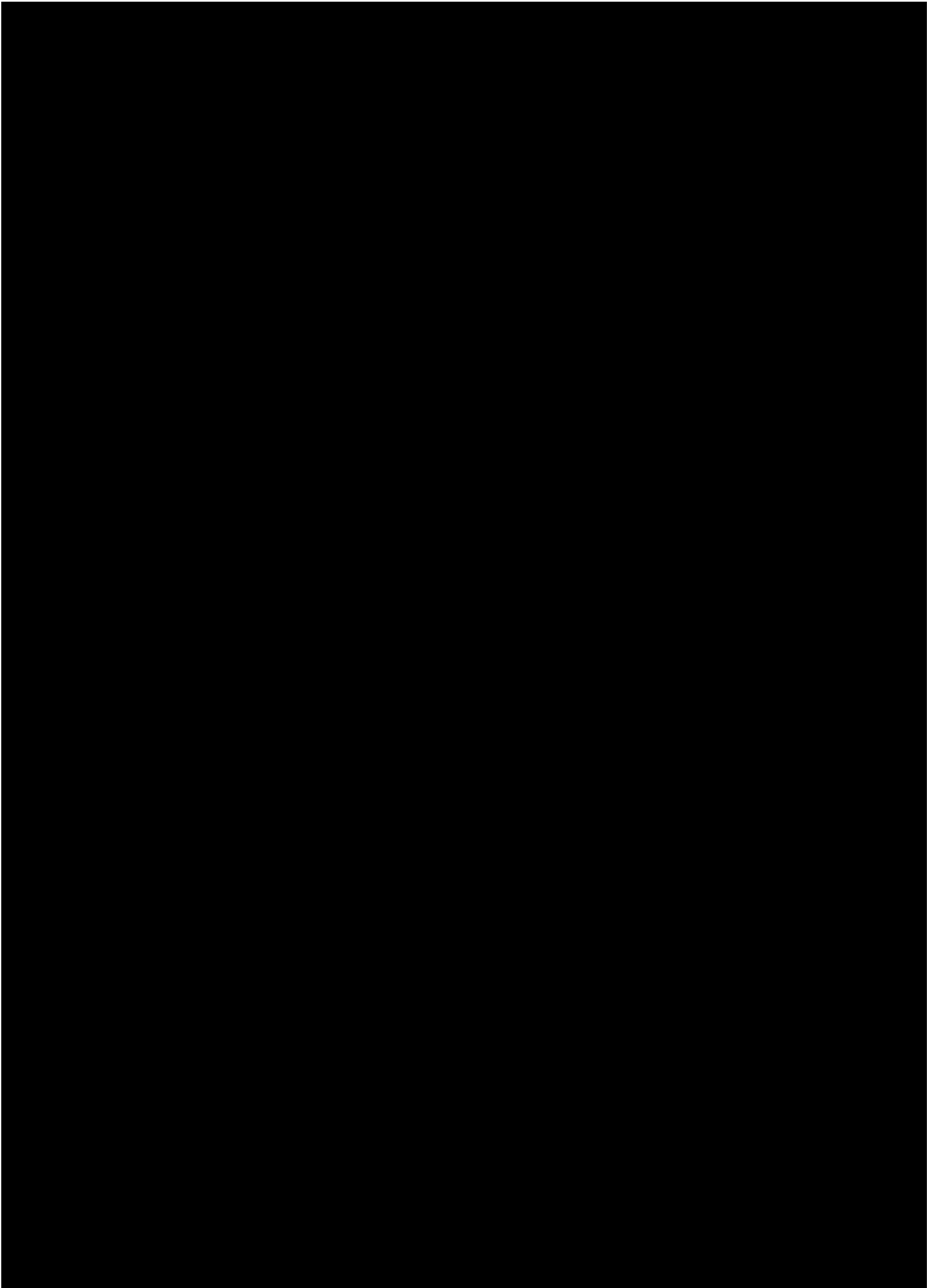


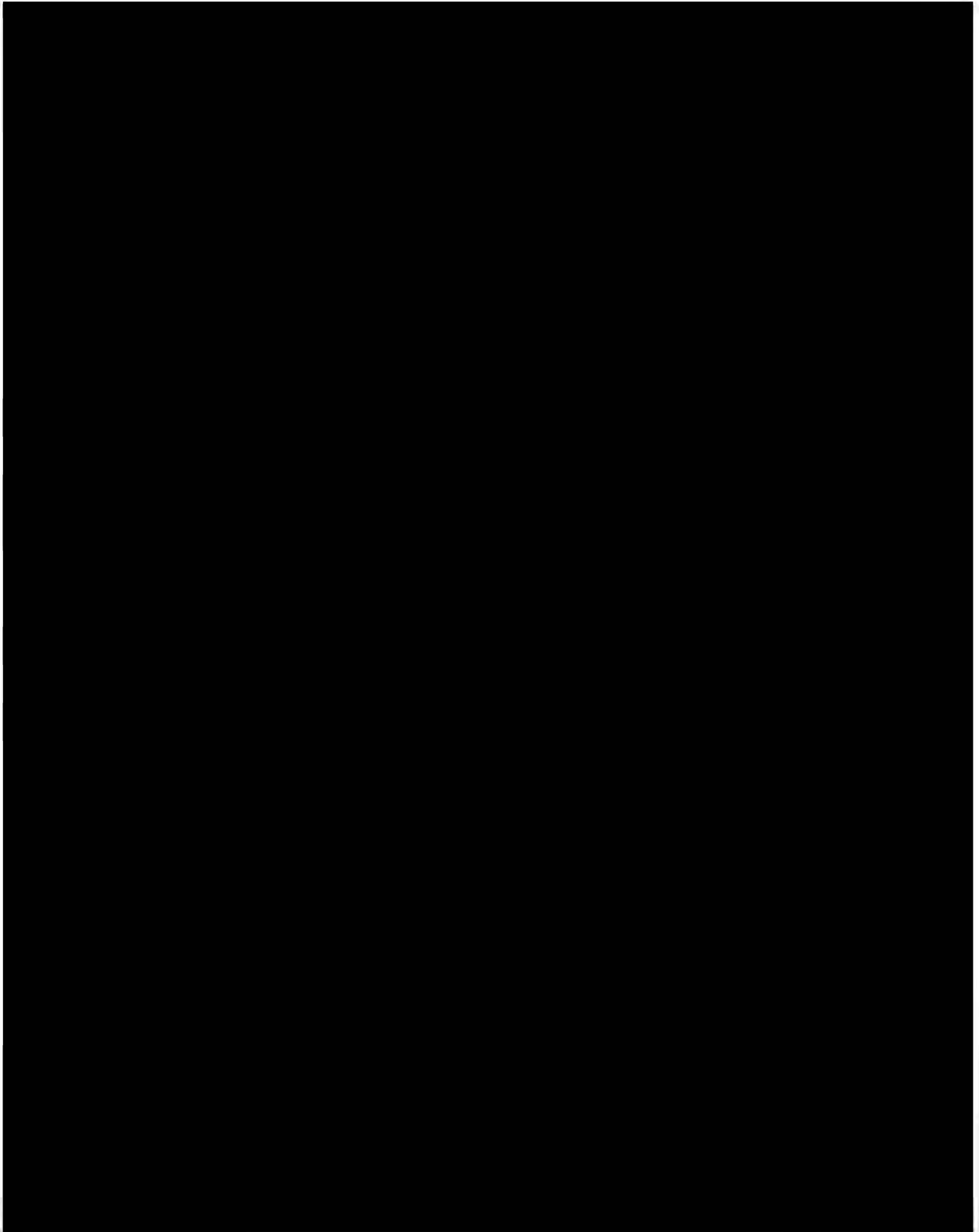


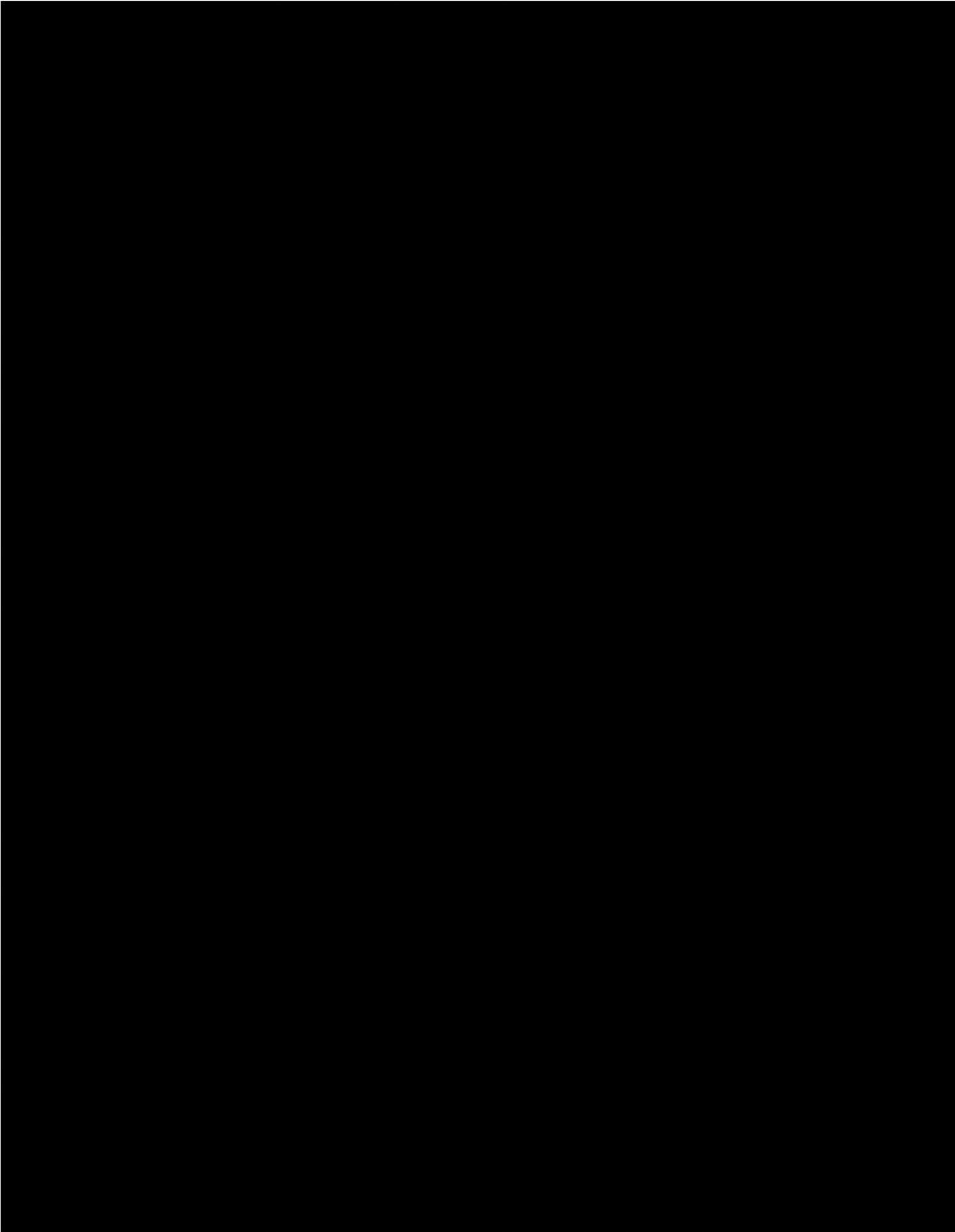


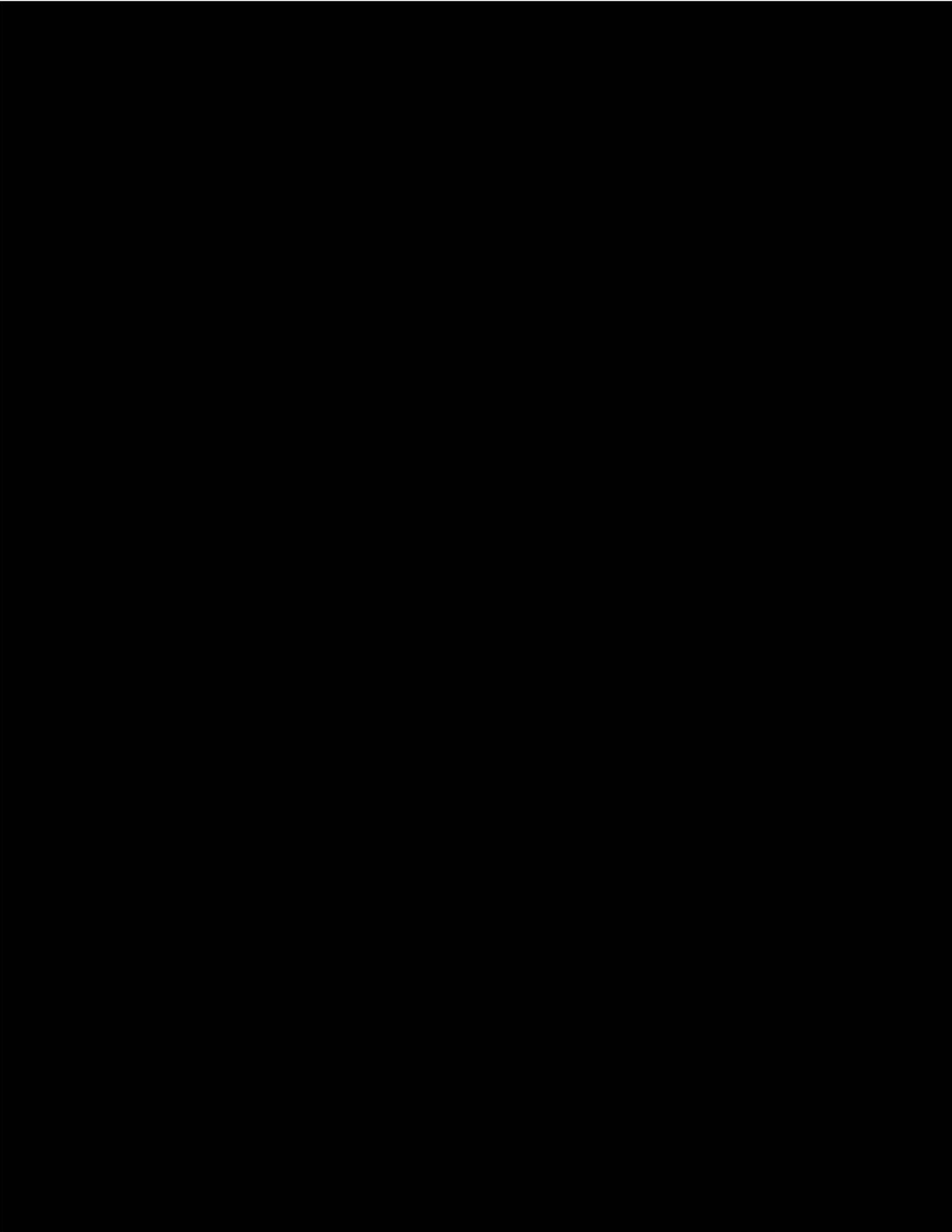


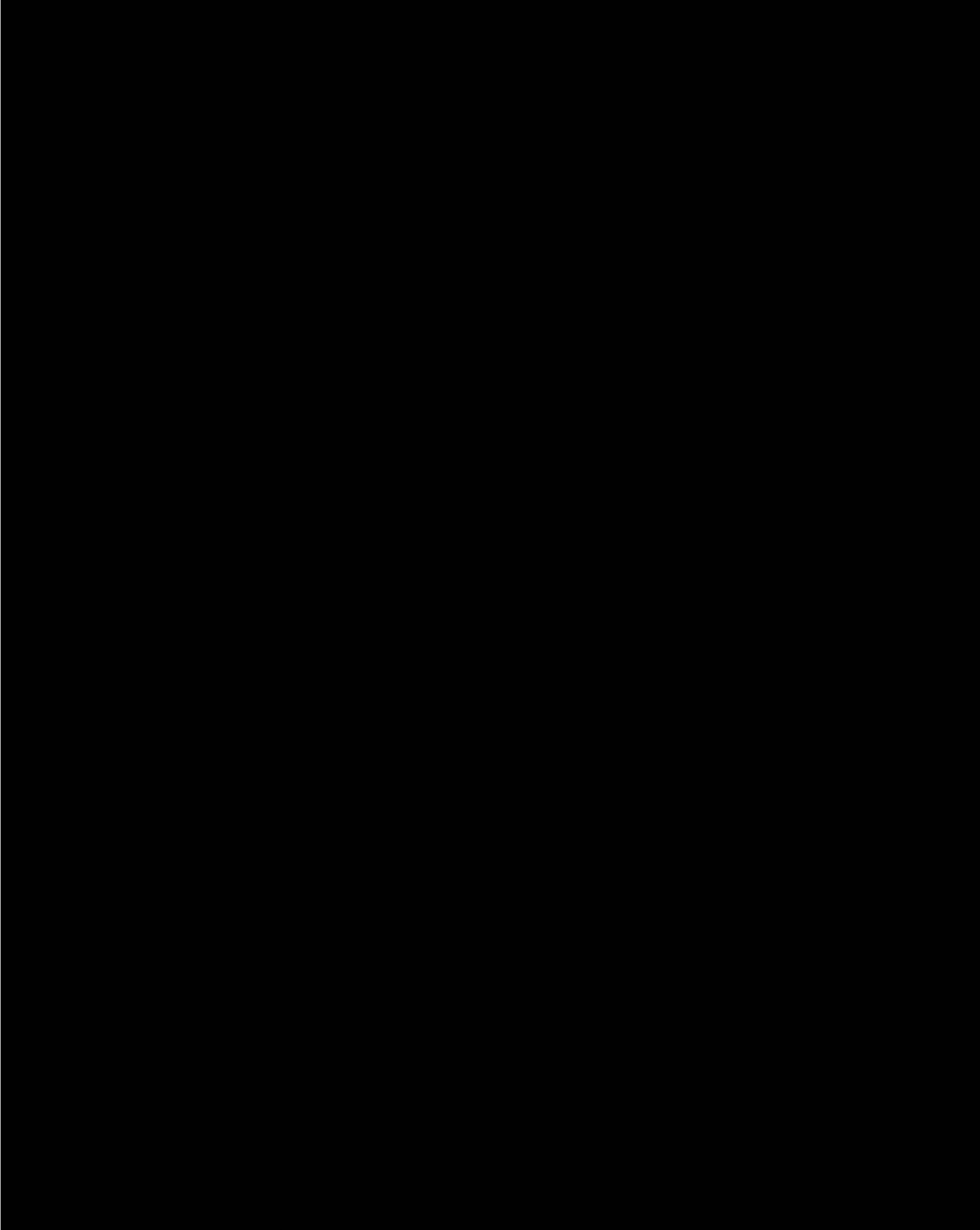


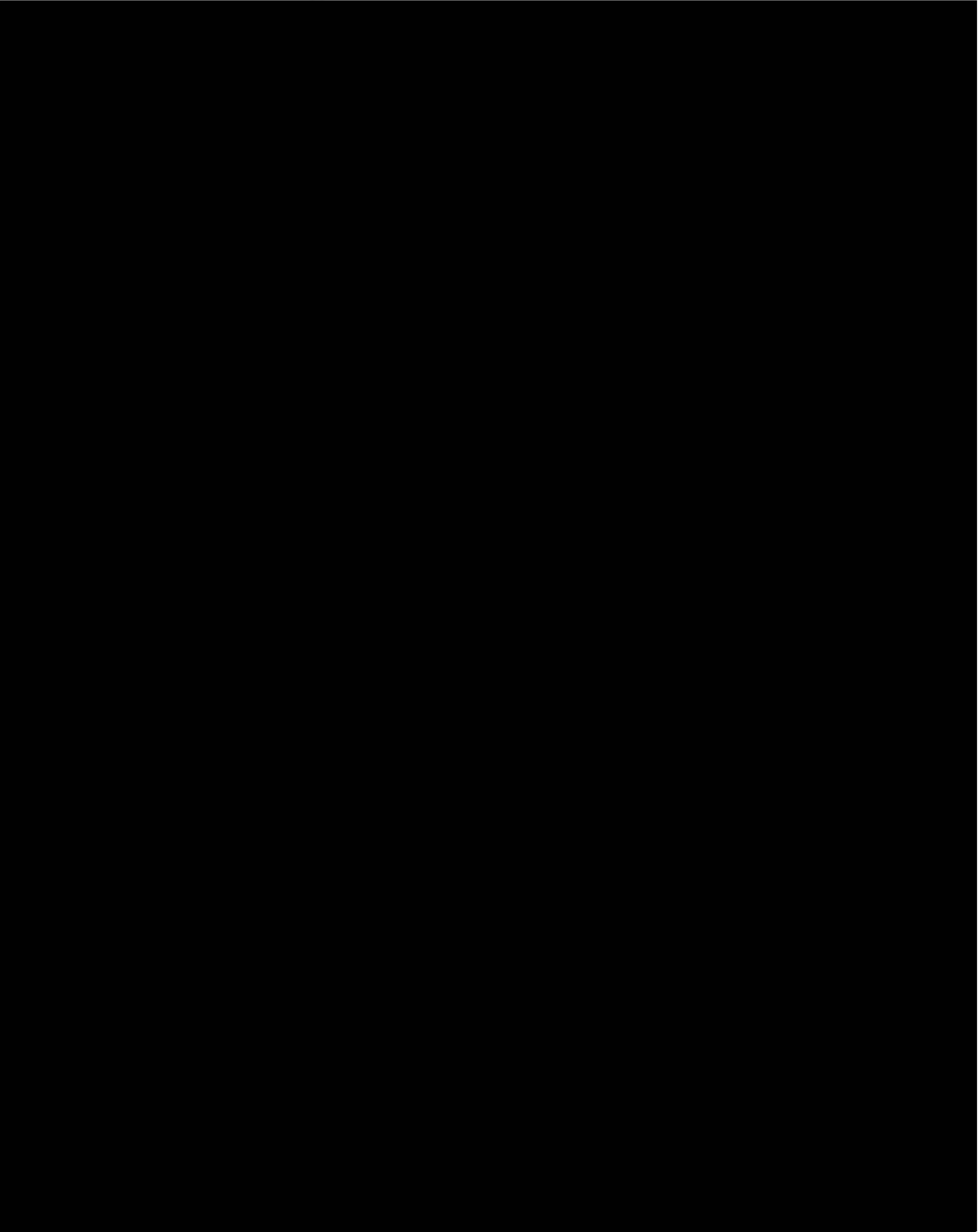


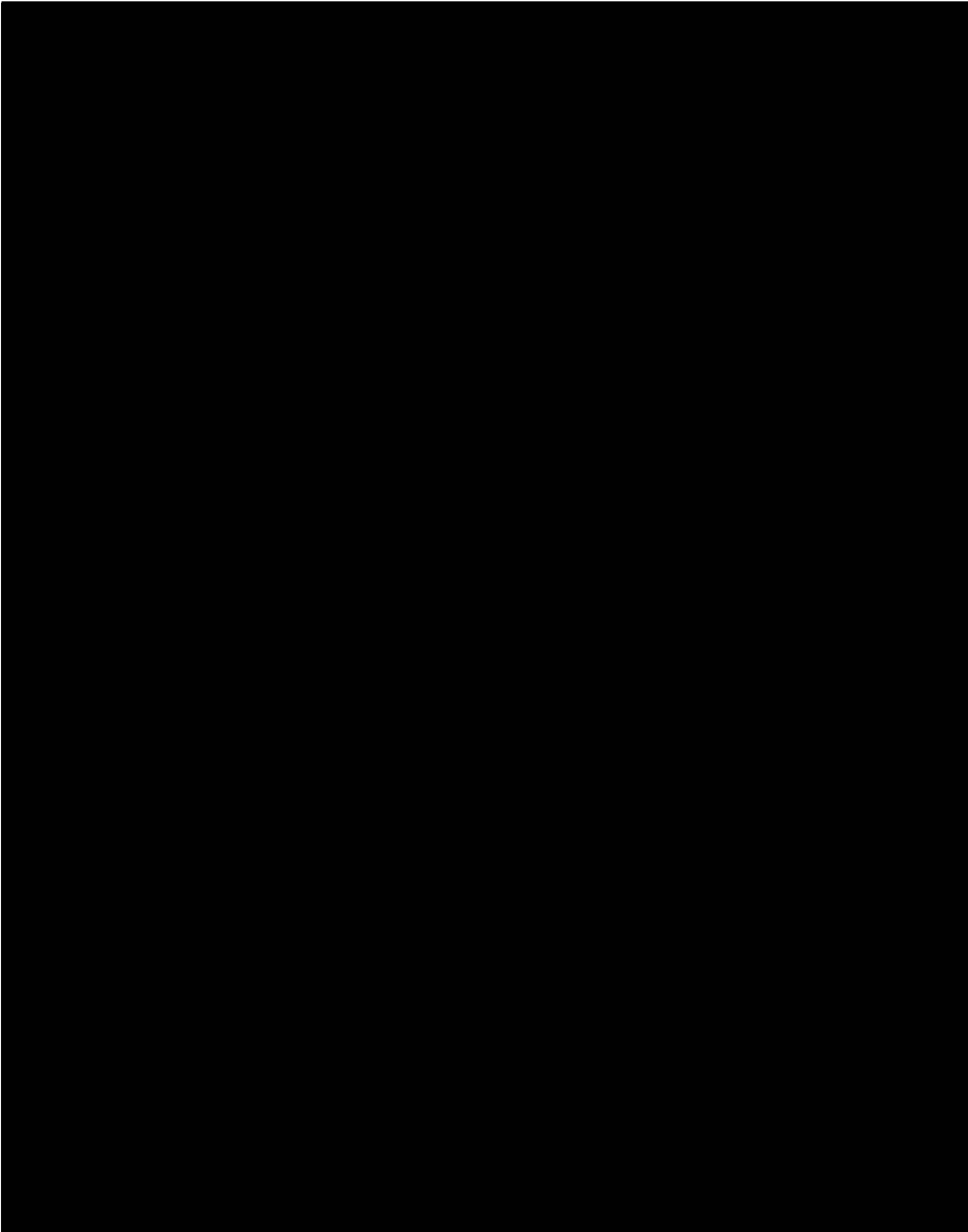


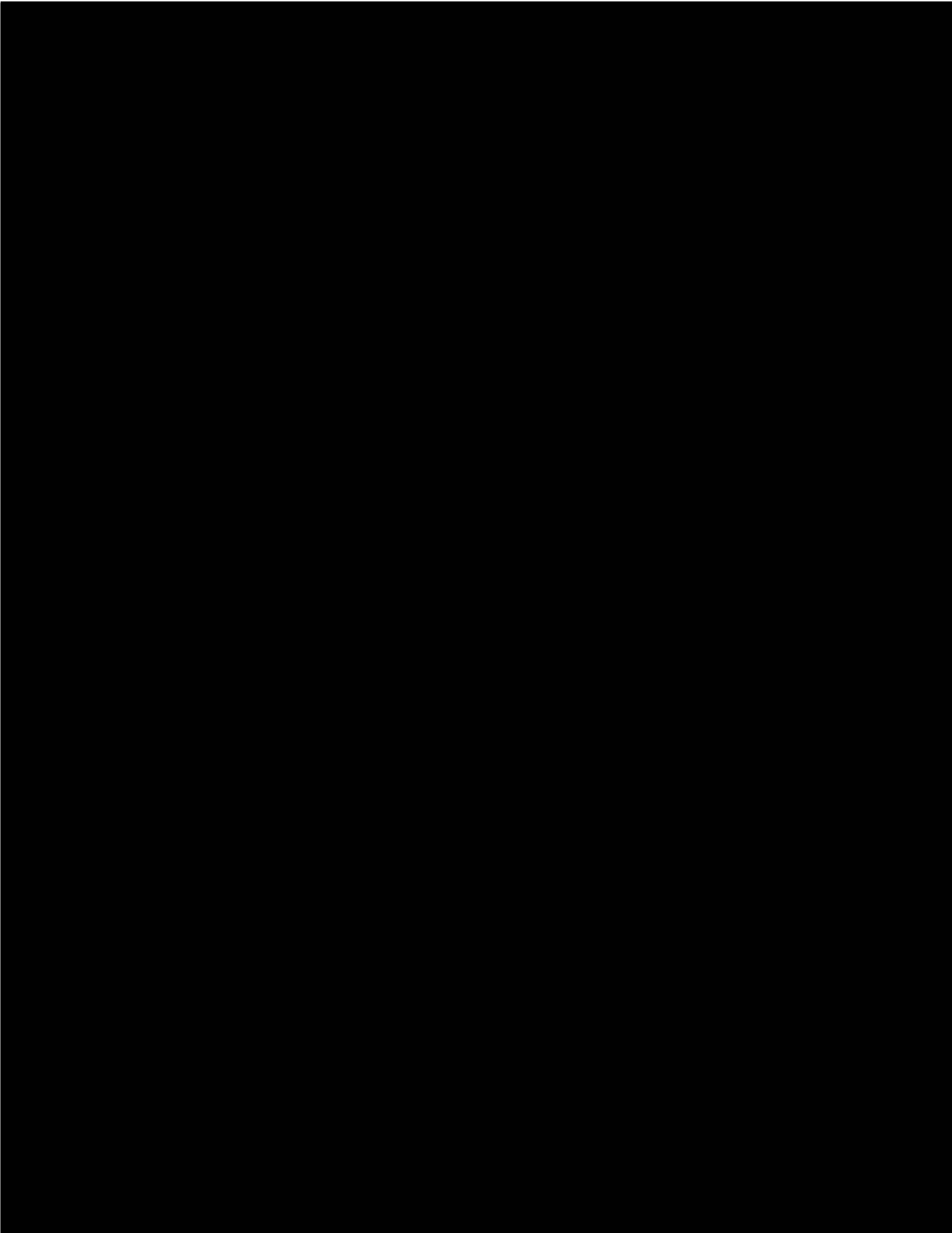


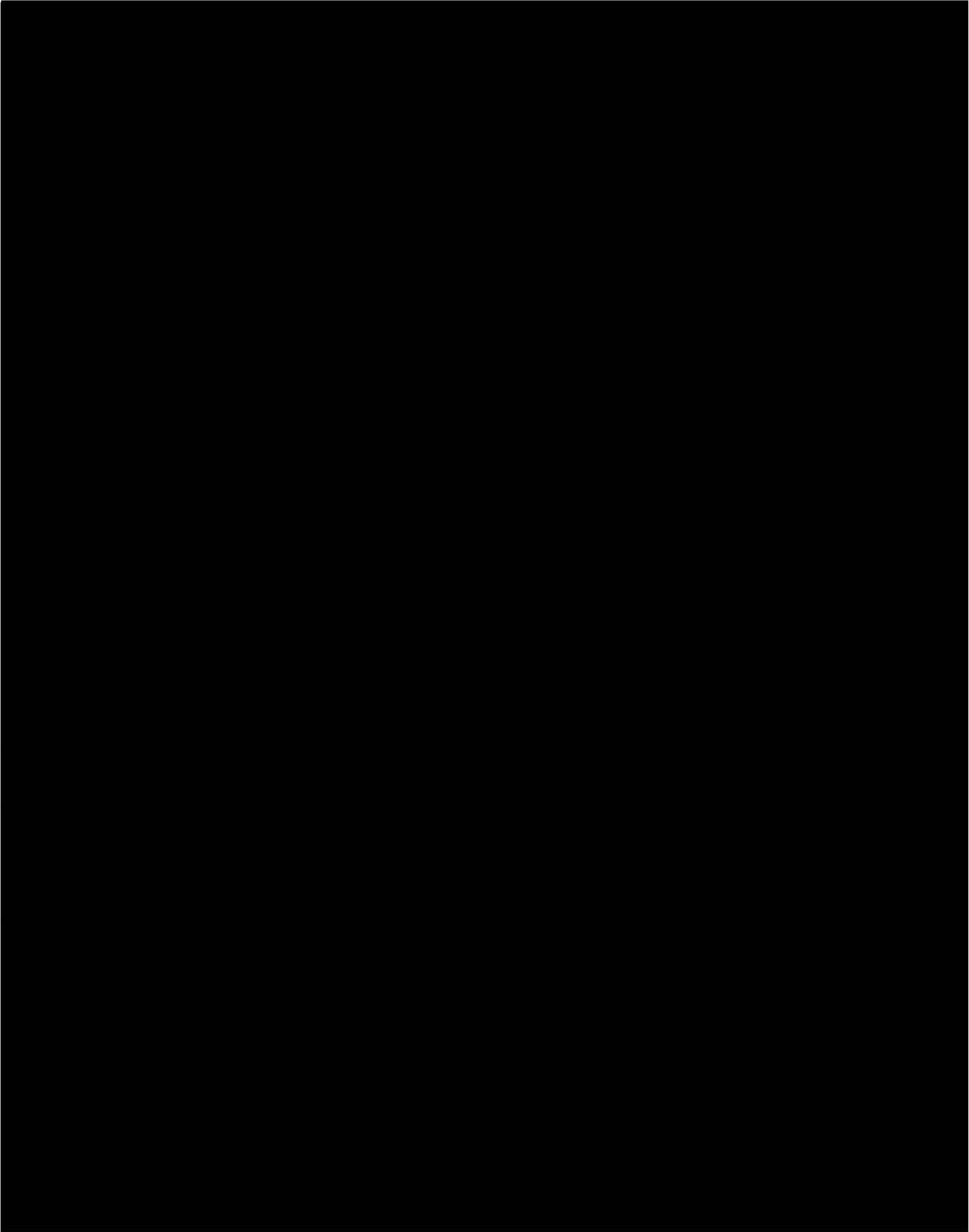


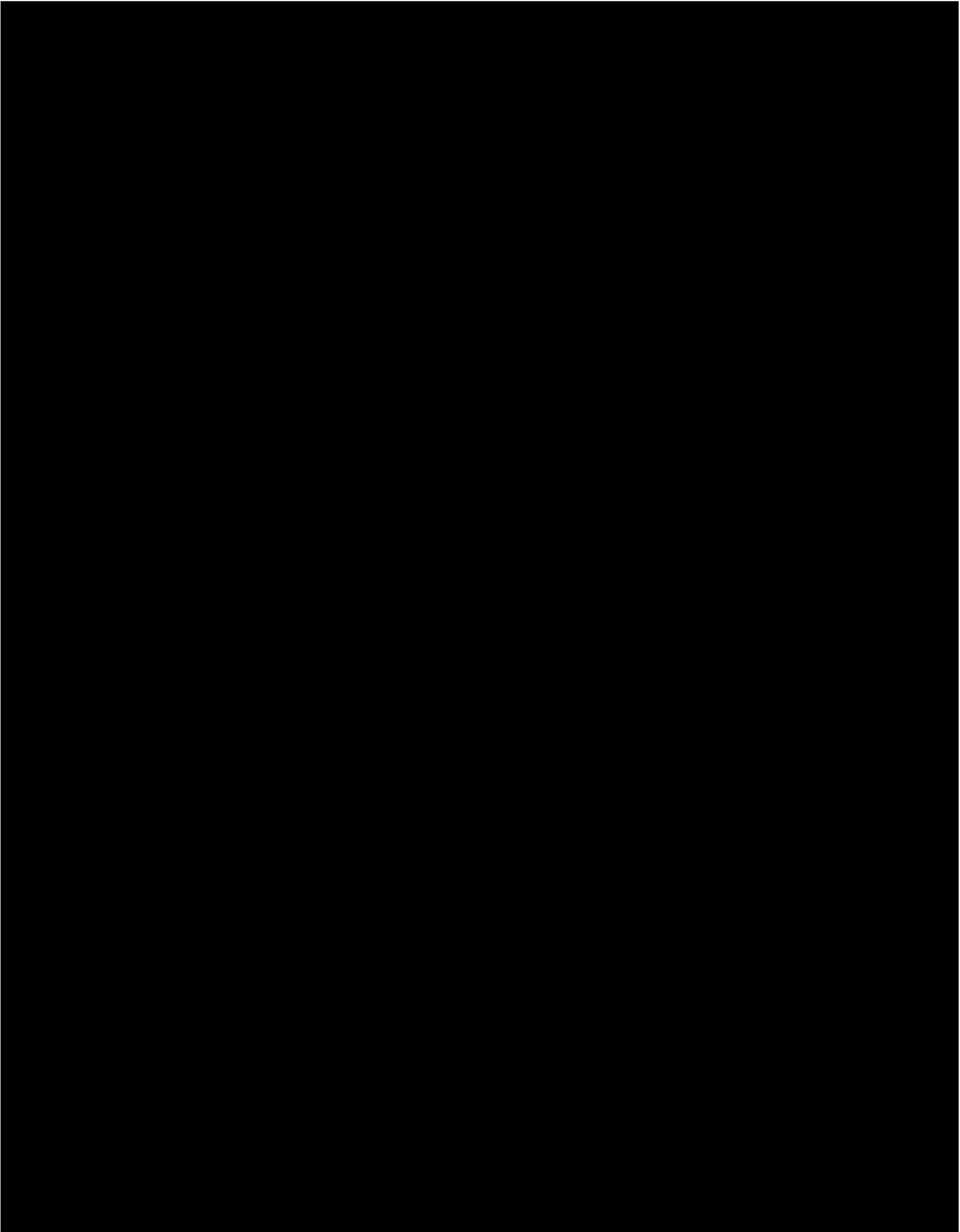


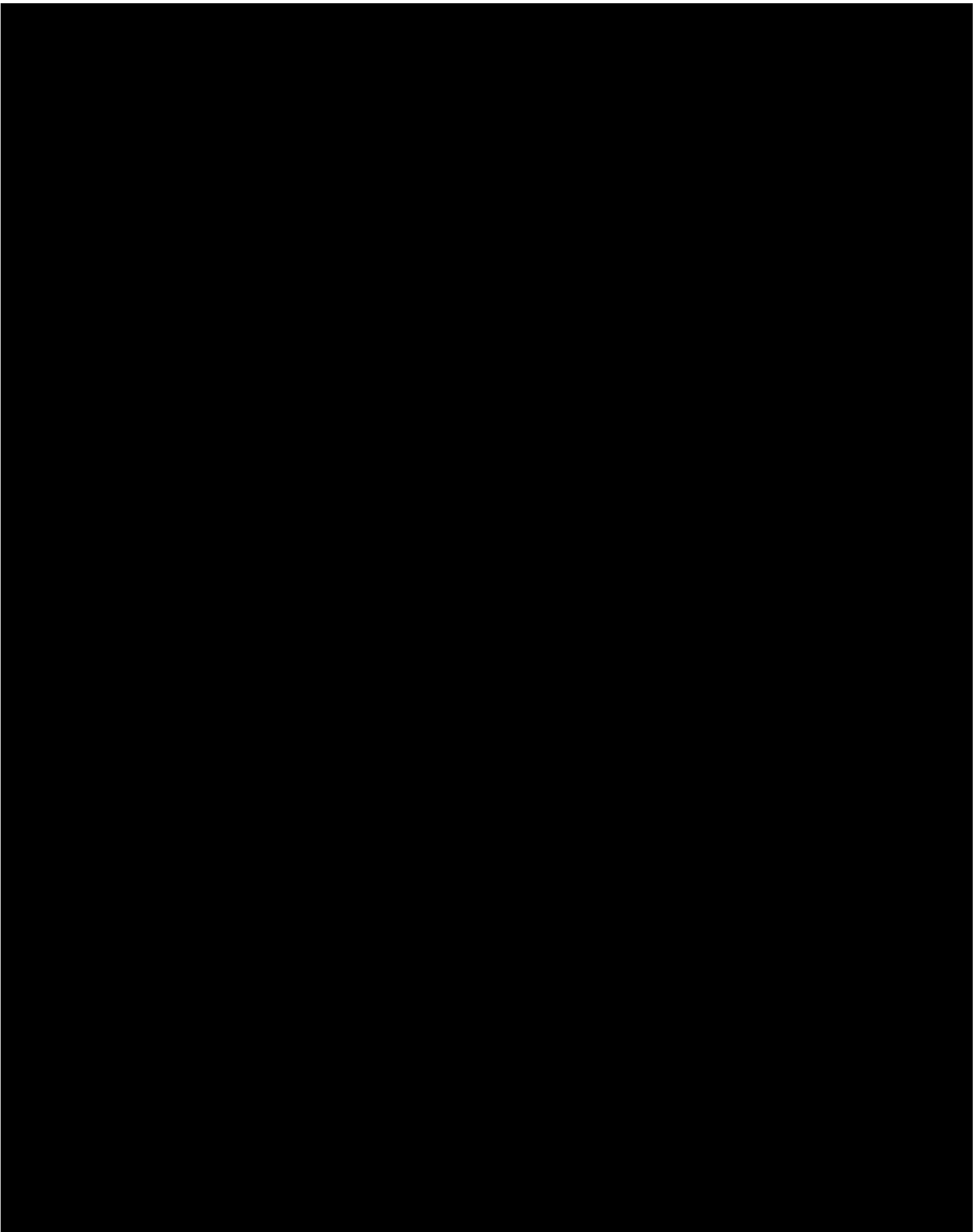












IAP WORLDWIDE SERVICES, INC.

Financial Audit of Costs Incurred under
Contract No. W52P1J-13-D-0107, Delivery Order 0003
For the Period May 12, 2016 through July 31, 2018

Auditor's Rebuttal to IAP's Responses to the Audit Report

IAP agreed with 1 of the 5 findings (Finding 2018-04) and disagreed or partially disagreed with the other 4 findings and recommendations. We have reviewed management's responses and provided the following rebuttals to which IAP disagreed with the findings.

- 2018-01: IAP disagrees with the findings and recommendations by stating that they in fact did meet the employee qualification requirements as stated in the Performance Work Statement ("PWS"). The criteria section of the PWS requirements states the following:

"1. The Contractor shall provide SMEs that are certified according to industry standard, as applicable to proposed vendor equipment:

a. Network Engineers require Certified Cisco Network Professional (CCNP) or Cisco Certified Network Associate (CCNA). At a minimum one (1) SME will be certified as a CCNP.

b. System Administrators require current Microsoft Certified System Engineer (MCSE) or Microsoft Certified Solutions Associate (MCSA) certification. VMWare Certified Professional (VCP), or Microsoft virtualization certification equivalent. At a minimum, one (1) SME will be certified as a MCSE. Certification will match the software being installed.

c. Information Assurance (IA) Manager is required to have at a minimum one (1) of the following - Certified Information Systems Security Professional (CISSP), Information Systems Security Certified Practitioner (SSCP), Global Information Assurance Certification (GIAC), Global Systems and Network Auditor (GSNA). Certification in Operating System (OS) technology administration desired (MCSE, Red Hat Certified Engineer (RHCE), etc.)."

IAP Response: IAP's interpretation of the above requirements is that as long as the Network Engineer, Systems Administrator, and Information Assurance Manager have at least one SME with a CCNP or at least one SME with a MCSE, the requirement was met

Auditor's Rebuttal: It is clear that IAP still does not correctly interpret this requirement. IAP cited that as long as one SME has a CCNP and one SME has a MCSE, the requirement was met, which is not the case. The requirements clearly stated, for example, that for a Network Engineer, it is required to have a CCNP or a CCNA. In addition to this requirement, at minimum one SME will be a CCNP. The requirement is clear that all Network Engineers must be required to have either a CCNP or a CCNA and at minimum one of the Network Engineer must be a CCNP. Similarly, interpretation of the requirements for System Administrators and Information Assurance

Managers should be applied in the same manner. Accordingly, our finding, identified questioned costs and recommendations remain unchanged.

IAP Response: IAP also stated that management had never confirmed that the employees did not have the certifications required.

Auditor Rebuttal: During our audit, we had reviewed the resumes for the three IAP employees in question and did not see the required certifications included in their resume. We had asked management if these employees had the required certifications and, if so, provide a copy if they do. Management had never provided any further evidence that the employees had the required certifications. As such, this portion of the finding condition, identified questioned costs, and recommendations remains unchanged.

IAP Response: IAP further described in detail the three IAP employees in question that their title and responsibilities does not state they were either a Network Engineer or System Administrator and does not assume any duties of a Network Engineer and System Administrator.

Auditor's Rebuttal: As stated in the condition of Finding 2018-01 in our Finding and Recommendation section of this report, we reviewed the complete list of IAP employees and none of the employees' title was a Network Engineer and System Administrator. However, these three employees' job titles are either Director of System Engineer or Senior System Engineer. Their job responsibilities were to maintain and support the NOC/JOC network which was the same responsibilities for a Network Engineer and/or System Administrator as required in PWS. As such, our finding, identified questioned costs, and recommendations remain unchanged.

- 2018-02: IAP partially disagrees with the findings and recommendations by stating that although they did not obtain the background checks and medical clearance documentation prior to the deployment, IAP confirmed all IAP employees were vetted. Due to the nature and timing of the contract, deploying personnel support on the project was conducted in a phased approach. Personnel was subjected to multiple layers of screening and vetting prior to performing on the project site. This work required access to a non-U.S. facility and entailed extensive clearance processes. IAP had conducted and provided a recent background check on two of the three employees. IAP also does not believe that one of the employees required medical clearance since the employee started out as a 30 days assignment. The second employee was hired in country and completed the medical clearance during his Rest and Recuperation ("R&R").

Auditor's Rebuttal: As required in the terms of the contract, all employees deployed must have background checks and medical clearances completed prior to deployment. Since IAP concurred that they did not obtain background checks and medical clearances for these employees prior to deployment, IAP is in violation with the terms of the contract. Also, we have requested and provided sufficient time to IAP during fieldwork to provide further evidence of completed background checks and medical clearances, even if they were done recently during the audit. However, IAP indicated that they would not be able to provide any further evidence. Finally, there were no requirements in the terms of the contract that stated if an employee started out as a 30 days assignment and then was changed to long term, medical clearance was not required. As such, our finding, identified questioned costs, and recommendations remain unchanged.

- 2018-03: IAP partially disagrees with the findings and recommendations. IAP acknowledges that the timecards for the employees in question were entered in advance of the end of the period.

However, due to the extenuating circumstances and challenging work site, the employees might not always have access or sporadic internet access which resulted in some instances where the employees requested the supervisor to enter the time on their behalf. As required by IAP's timekeeping policy, each of the identified employees had certified the accuracy of their time charges and the certified time charges were appropriately reviewed by IAP supervisors before entry into IAP's labor distribution. In all selected samples, time was certified as accurate by the individual employees and the responsible supervisors and charged to the appropriate cost objectives. Accordingly, IAP believes there is no basis to conclude that the costs at issue are unallowable or not allocable to the contract delivery order.

Auditor's Rebuttal: Time entered and approved in advance to the end of the period brings doubt on the validity of the time certified. As stated in IAP's time keeping policy, time must be entered and approved after the end of the period to ensure time certified was accurate. As such, auditors cannot readily determine if the time entered was accurate and the cost associated with these employee's labor hours are in questioned.

IAP also stated that due to hostile environment, employees might not always have access to internet and request the supervisor to enter time on their behalf. This brings more concern on the controls surrounding the timekeeping system of IAP if other employees and/or their supervisor can enter time on their behalf. It is not clear based on this response if the supervisor can actually enter time for the employee in IAP's timekeeping system or how the supervisor enter time on the employee's behalf. This was not brought to the Auditor's attention during our internal control testing. We request IAP to provide further explanation as to why IAP timekeeping system can allow other employees/supervisors to enter time on the employee's behalf. IAP should provide further clarification during the corrective action phase with the funding agency. As such, our finding, identified questioned costs, and recommendations remain unchanged.

- 2018-05: IAP disagrees with the findings and recommendations. IAP asserts that they went through a competitive analysis of the consultant's rate prior to entering into the consultant agreement. The analysis was done by their Human Resources ("HR") department and evidenced by the signature of the HR representative. Also, IAP provided a recent market survey to demonstrate that the consultant's rates were competitive.

Auditor's Rebuttal: As stated in the criteria of this finding, FAR required the following:

FAR 31.201-2, *Determining allowability*, states:

"(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."

Although the IAP HR representative certified that the price reasonableness analysis was conducted, it's still a violation of the FAR requirement since evidence of support to such analysis was not maintained. The auditor reviewed the recent market survey provided by IAP. The survey was conducted in 2019 and a rate for the Senior Software Engineer that was only based in U.S. The auditor found that this evidence does not justify the price reasonableness because 1) the actual service was performed by the consultant in 2017 which was two years ago. Due to inflation

and other economic factors, a 2019 market survey cannot demonstrate that the consultant's rates were reasonable and competitive; and 2) the market survey was for a position that was based in the U.S. However, it does not identify what the rate for this position was while working in Afghanistan. As such, our finding, identified questioned costs, and recommendations remain unchanged.

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- 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

Public Affairs Officer

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