

SIGAR

Special Inspector General for Afghanistan Reconstruction

SIGAR 20-39 Financial Audit

Department of State's Antiterrorism Assistance Program in Afghanistan: Audit of Costs Incurred by Alutiiq LLC

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



JUNE
2020

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

The Department of State (State) awarded task orders to Alutiiq Technical Services LLC and Alutiiq Professional Training LLC to support State's Antiterrorism Assistance program and enhance the antiterrorism skills of foreign law enforcement and security officials. The companies are subsidiaries of Alutiiq LLC (Alutiiq).

The first task order's period of performance was March 1, 2014, through February 28, 2015. After 10 modifications, State increased funding from \$2.4 million to \$14.6 million, and extended the end date to August 31, 2016. The second task order's period of performance was September 1, 2016, through February 28, 2017. After 4 modifications, State increased funding from \$2.8 million to \$5.7 million, and extended the end date to August 31, 2017.

SIGAR's financial audit, performed by Williams, Adley & Company-DC LLP (Williams Adley), reviewed a total of \$19,539,320 in costs Alutiiq incurred for both task orders from March 1, 2014, through August 31, 2017. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in Alutiiq's internal controls related to the task orders; (2) identify and report on instances of material noncompliance with the terms of the task orders and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether Alutiiq has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of Alutiiq's Special Purpose Financial Statement (SPFS). See Williams Adley's report for the precise audit objectives.

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

June 2020

Department of State's Antiterrorism Assistance Program in Afghanistan: Audit of Costs Incurred by Alutiiq LLC

SIGAR 20-39-FA

WHAT THE AUDIT FOUND

Williams Adley identified three material weaknesses, one significant deficiency, one deficiency with Alutiiq's internal controls, and four instances of noncompliance with the terms of the task orders. For example, Alutiiq did not have adequate supporting documentation to verify \$5,532,853 in subcontractor labor costs billed to State. The auditors also found that Alutiiq charged \$2,529,760 in danger pay and post hardship differential allowances that were based on a mix of overtime hours worked or hours not worked, which does not comply with State regulations. In a final example, the auditors found that Alutiiq did not have documentation, such as receipts or vendor invoices, for \$687,533 in other direct costs related to subcontractor travel expenses billed to State.

Because of these internal control deficiencies and instances of noncompliance, Williams Adley identified a total of \$8,765,541 in questioned costs. The questioned costs consisted principally of \$6,220,386 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval. Williams Adley also identified \$2,545,155 in ineligible costs—costs prohibited by the task orders, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Labor	\$0	\$5,532,853	\$5,532,853
Other Direct Costs	\$2,545,155	\$687,533	\$3,232,688
Total	\$2,545,155	\$6,220,386	\$8,765,541

Williams Adley did not find any prior audits that had a direct and material impact on the SPFS.

Williams Adley issued a disclaimer of opinion on Alutiiq's SPFS, because the auditors could not obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion.

WHAT SIGAR RECOMMENDS

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

1. Determine the allowability of and recover, as appropriate, \$8,765,541 in questioned costs identified in the report.
2. Advise Alutiiq to address the report's five internal control findings.
3. Advise Alutiiq to address the report's four noncompliance findings.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

June 4, 2020

The Honorable Michael R. Pompeo
Secretary of State

Mr. Ross Wilson
U.S. Chargé d'Affaires for Afghanistan

We contracted with Williams, Adley & Company-DC LLP (Williams Adley) to audit costs incurred by Alutiiq LLC (Alutiiq) under two U.S. Department of State task orders to support the Antiterrorism Assistance program.¹ The program's mission is to enhance the antiterrorism skills of foreign law enforcement and security officials. Williams Adley's audit covered \$19,539,320 charged to the task orders from March 1, 2014, through August 31, 2017. Our contract with Williams Adley required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$8,765,541 in total questioned costs identified in the report.**
- 2. Advise Alutiiq to address the report's five internal control findings.**
- 3. Advise Alutiiq to address the report's four noncompliance findings**

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

Please provide documentation related to corrective actions taken and/or target dates for completion for the recommendations. Send this information to sigar.pentagon.audits.mbx.recommendation-follow-up@mail.mil within 60 days from the issue date of this report.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-168)

¹ The task order numbers are SAQMMA14F0927 and SAQMMA16F5001.

**SPECIAL INSPECTOR GENERAL FOR
AFGHANISTAN RECONSTRUCTION**

Audit F-168

Financial Audit of Costs Incurred

by

Alutiiq, LLC

Under Contract Task Orders

SAQMMA14F0927 & SAQMMA16F5001

For the Period

March 1, 2014 through August 31, 2017

Submitted by



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Transmittal Letter

May 4, 2020

██████████
Chief Financial Officer
Afognak Native Corporation
3909 Arctic Blvd #500
Anchorage AK 99503

Special Inspector General for Afghanistan Reconstruction (SIGAR)
2530 Crystal Drive
Arlington, VA 22202

We hereby provide to you our audit report, which reflects results from the procedures we completed during our audit of Alutiiq, LLC (Alutiiq) contract task orders SAQMMA14F0927 and SAQMMA16F5001 with the United States Department of State (Department of State) to support the Anti-terrorism Assistance (ATA) program.

Within the pages that follow, we provide a summary of the work performed. Following the summary, we provide our Report on the Special Purpose Financial Statement (Statement), Report on Internal Control, and Report on Compliance. We do not express an opinion on the summary, Report on Internal Control, or Report on Compliance.

When preparing our reports, we considered comments, feedback and interpretations provided by Alutiiq and SIGAR, in writing and orally, throughout the audit. Alutiiq's responses to the audit reports and our corresponding auditor analysis are incorporated herein.

Thank you for providing us the opportunity to work with you and to conduct the audit of the Alutiiq contract task orders.

Sincerely,

A handwritten signature in cursive script that reads 'Jocelyn Hill'.

Jocelyn Hill, CPA, CGFM
Partner

WILLIAMS, ADLEY & COMPANY-DC, LLP

Certified Public Accountants / Management Consultants

1030 15th Street, N.W., Suite 350 West • Washington, DC 20005 • (202) 371-1397 • Fax: (202) 371-9161

www.williamsadley.com

Summary

Background

The Department of State, Bureau of Diplomatic Security awarded contract task order number SAQMMA14F0927 to Alutiiq Technical Services, LLC and contract task order number SAQMMA16F5001 to Alutiiq Professional Training, LLC, both subsidiaries of Alutiiq, LLC, to support the Anti-terrorism Assistance (ATA) program. Contract task order SAQMMA14F0927, which is a labor-hour contract, was awarded for \$2.4 million for the period March 1, 2014 through February 28, 2015 plus one option year. After ten modifications, the funding increased to approximately \$14.6 million and the period of performance was extended through August 31, 2016. Contract task order SAQMMA16F5001, which is a time and materials contract, was awarded for \$2.8 million for the period September 1, 2016 through February 28, 2017, plus two option periods. After four modifications, the funding increased to approximately \$5.7 million and the period of performance was extended through August 31, 2017. The total estimated incurred costs for both contract task orders was \$19.5 million.

Table 1: SAQMMA14F0927 Contract Task Order with Modifications

Contract Task Order	Issue Date	Amount Funded (Obligated)	Purpose
Base Year	3/1/2014	\$ 2,446,480	Initial Obligation
Mod 1	6/1/2014	2,700,818	Add fund to continue services
Mod 2	8/22/214	3,628,436	Add Fund and Quantity
Mod 3	1/20/2015	-	Admin Changes
Mod 4	3/1/2015	3,698,919	Add Funding
Mod 5	9/22/2015	1,752,573	Support Afghanistan In-Country Staffing
Mod 6	3/1/2016	105,437	Add and Realign Funding
Mod 7	9/27/2016	328,307	Support Afghanistan In-Country Staffing
Mod 8	12/20/2016	-	Realign in accordance with 105217H9008
Mod 9	5/19/2017	(74,515)	De-obligation in accordance with 105217H9071
Mod 10	9/19/2017	(1,980)	De-obligation in accordance with 105217H9071
Total		\$ 14,584,475	

Table 2: SAQMMA16F5001 - Contract Task Order with Modifications

Contract Task Order	Issue Date	Amount Funded (Obligated)	Purpose
Base Year	9/1/2016	\$ 2,771,042	Initial Obligation
Mod 1	1/30/2017	-	Exercise Option Period 1
Mod 2	3/16/2017	1,677,121	Add Funding
Mod 3	6/15/2017	1,677,121	Add Funding and Exercise Option Period 2
Mod 4	6/11/2018	(443,471)	De-obligation in accordance with 105218H1442
Total		\$ 5,681,813	

Created by the Department of State in 1983, the ATA Program serves as a primary provider of U.S. government antiterrorism training and equipment to 53 active partner nations, building capacity to investigate, detect, deter, and disrupt terrorist activities while bolstering foreign civilian law enforcement counterterrorism skills. Through a blend of training, equipping, mentoring, advising, and consulting partner nations, ATA has successfully delivered services to 100,000+ law enforcement personnel abroad. In 2011, the program expanded its mission to Afghanistan to assist Afghan law enforcement and security officials deal effectively with security challenges within their borders, defend against threats to national and regional stability, and deter terrorist operations across borders and regions.

Alutiiq, LLC, is a wholly owned subsidiary of Afognak Native Corporation, an Alaska Corporation formed under the 1971 Alaska Native Claims Settlement Act. Afognak Native Corporation and Alutiiq, LLC, through their subsidiaries, provide services to both the government and commercial sectors.

Work Performed

The Special Inspector General for Afghanistan Reconstruction (SIGAR) contracted with Williams, Adley & Company-DC, LLP (Williams Adley) to audit costs incurred under contract task orders SAQMMA14F0927 and SAQMMA16F5001 and associated modifications awarded to Alutiiq LLC as indicated in the tables above. Our audit procedures covered \$19,539,320 in total costs incurred for the period March 1, 2014 through August 31, 2017.

Objectives

The following are the objectives of the audit defined by SIGAR:

Audit Objective 1 - Special Purpose Financial Statement

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

Audit Objective 2 - Internal Controls

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

Audit Objective 3 – Compliance

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

Audit Objective 4 - Corrective Action on Prior Findings and Recommendations

Determine and report on whether Alutiiq has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the Statement or other financial data significant to the audit objectives.

Scope

The audit included Department of State contract task orders SAQMMA14F0927 and SAQMMA16F5001 and related modifications executed for revenues applied to and costs incurred during the period between March 1, 2014 and August 31, 2017, as reported on the Statement. This was a close out audit and therefore subject to additional audit procedures. The audit was limited to those matters and procedures pertinent to the contract task orders that have a direct and material effect on the Statement and included an evaluation of the presentation, content, and records supporting the Statement. The following areas were included within the audit program for evaluation:

- i. Administrative Procedures and Fraud Risk Assessment
- ii. Budget Management
- iii. Disbursement and Financial Reporting
- iv. Procurement
- v. Close-out Procedures

Our audit was conducted to form an opinion on the Statement in accordance with the Statement presentation requirements in Note 2 (per Appendixes C and D). Therefore:

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

Methodology

We conducted our audit in accordance with generally accepted auditing standards (GAAS), and generally accepted government auditing standards (GAGAS) as published in the Government Accountability Office's *Government Auditing Standards*. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the Statement of the costs incurred under the contract task orders is free of material misstatement. An audit includes:

- Obtaining an understanding of Alutiiq's internal controls related to the contract task order, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment.

- Examining, on a test basis, evidence supporting the amounts and disclosures presented in the Statement.

To meet the audit objectives, we prepared an audit plan for the engagement.

For audit objective 1, we reviewed transactions for the period from March 1, 2014 through August 31, 2017, subsequent events, and information that may have a significant impact on the Statement for the audit period. We used both statistical and non-statistical sampling techniques to select subcontractor labor, travel, and other direct cost samples to test for allowability of incurred costs, and reviewed procurement records to determine cost reasonableness. The scope of our audit reflects our assessment of control risk and includes tests of incurred costs to provide a reasonable basis for our opinion.

For audit objective 2, we reviewed applicable background materials, including contract task orders, auditee financial progress reports, Department of State regulations, SIGAR's Afghanistan alert letters, audit reports and special program reports, and auditee single audits, performance audits and/or financial statement audits as made available and provided. To gain an understanding of the control environment, we interviewed management and reviewed business processes to determine if critical internal controls were in place that mirrored best practices such as sufficient management oversight of business processes, proper segregation of duties, documented policies and procedures, robust financial management systems, and sufficient monitoring of controls to ensure effective implementation thereof. We assessed the control risk for sampling and testing purposes.

For audit objective 3, we performed compliance testing including, but not limited to: determination of allowable costs under Federal Acquisition Regulation (FAR); validation of indirect cost calculations pursuant to a provisional or final negotiated indirect cost rate agreement; verification of incurred cost eligibility; confirmation of equipment and real property management and disposal in accordance with an approved disposition plan; determination as to whether expenditures complied with the period of availability of the Federal funds; verification that procurement activities complied with full and open competition standards or justification for noncompetitive bids was documented when applicable, and suspension and debarment of the subcontractor or subrecipient was considered in the contract task order decision; and determination that financial reporting was accurate, timely and complete. In addition, we performed testing to assess and determine any potential fraud, abuse and illegal acts. We performed close-out procedures to ensure that: unobligated funds and unliquidated advances in excess of cash were returned to the U.S. Government; final program and financial reports were signed and submitted to the funding agency; and the auditee obtained an approved disposition plan.

For audit objective 4, we requested prior audit reports, reviews, and assessments pertinent to the auditee's activities related to the contract task orders under audit. Based on our inquiries and search of publicly available information, we concluded that there were no prior audits, reviews, or assessments related to the contract task orders under audit

that may have a direct and material impact on the Statement or other financial data significant to the audit objectives as defined by SIGAR.

Summary of Results

We issued a disclaimer of opinion on Alutiiq's Special Purpose Financial Statement because we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

We identified \$8,765,541 in total questioned costs, with \$2,545,155 deemed ineligible and \$6,220,386 unsupported. Ineligible costs are explicitly questioned because they are unnecessary or unreasonable, prohibited by the audited contract task order or applicable laws and regulations, or not related to the contract task order. Unsupported costs are those costs for which Alutiiq was unable to provide sufficient supporting documentation, including evidence of proper approval, for Williams Adley to determine the accuracy and allowability of the costs.

As a result of our audit procedures we identified three material weaknesses, one significant deficiency, and one deficiency in internal controls, as well as four instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Summary of Findings and Questioned Costs

Questioned Costs Classification

Finding #	Description	Material Weakness	Significant Deficiency	Non-Compliance	Internal Control Deficiency	Ineligible Costs	Unsupported Costs	Total Questioned Costs
2019-01	Unsupported Labor Costs	✓		✓		\$ -	\$ 5,532,853	\$5,532,853
2019-02	Unsupported Other Direct Costs	✓				-	687,533	687,533
2019-03	Ineligible Travel Costs		✓	✓		11,770	-	11,770
2019-04	Ineligible Other Direct Costs - Allowances	✓		✓		2,529,760	-	2,529,760
2019-05	Ineligible General and Administrative Calculation				✓	3,625	-	3,625
2019-06	Failure to Document Submission of Report Deliverables			✓		-	-	-
Totals						\$2,545,155	\$ 6,220,386	\$8,765,541

We also considered whether the information obtained during our audit 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.

Status of Prior Audit Findings

We requested prior audit reports, reviews, and assessments pertinent to Alutiiq's activities under contract task orders SAQMMA14F0927 and SAQMMA16F5001. Based on our inquiries and search of publicly available information, we concluded that there were no prior audits, reviews, or assessments related to the aforementioned task orders that may

have a direct and material impact on the Special Purpose Financial Statement or other financial data significant to the audit objectives as defined by SIGAR.

Summary of Management's Comments

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

Alutiiq disagreed with all six findings and recommendations, and all questioned costs. For Findings 2019-02 and 2019-04, Alutiiq asserts that it conducted its own reconciliation of sample invoices and determined that questioned costs it identified were too small to justify further examination.

Our rebuttal to management comments is detailed in Appendix B of this report.

Attachments

The auditor's reports are supplemented by five attachments:

- Appendix A - Management's Response to the Findings and Recommendations
- Appendix B - Auditor's Response to Management Comments
- Appendix C - Special Purpose Financial Statement of Alutiiq Technical Services, LLC
- Appendix D - Special Purpose Financial Statement of Alutiiq Professional Training, LLC
- Appendix E - Combined ATS and APT Special Purpose Financial Statement



Independent Auditor's Report on the Special Purpose Financial Statement

██████████
Chief Financial Officer
Afognak Native Corporation
3909 Arctic Blvd #500
Anchorage AK 99503

Special Inspector General for Afghanistan Reconstruction (SIGAR)
2530 Crystal Drive
Arlington, VA 22202

We were engaged to audit the Special Purpose Financial Statement ("Statement") of Alutiiq, LLC (Alutiiq) and the related notes to the Statement, with respect to the United States Department of State contract task orders SAQMMA14F0927 and SAQMMA16F5001 for the period March 1, 2014 through August 31, 2017.

Management's Responsibility for the Special Purpose Financial Statement

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

Auditor's Responsibility

Our responsibility is to express an opinion on this Statement based on conducting the audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Because of the matter described in the Basis for Disclaimer of Opinion paragraph below, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The costs incurred by Alutiiq's subcontractor totaled \$19,480,526, which represents over 96 percent of the total costs incurred under contract task orders SAQMMA14F0927 and SAQMMA16F5001. Alutiiq did not develop control procedures, such as subcontractor monitoring and preservation of source documents, to ensure accountability of costs incurred and compliance with requirements to maintain such records. The lack of subcontractor monitoring hindered Alutiiq's ability to obtain adequate supporting documentation to validate subcontractor invoices. As a result, we were unable to determine the allowability of \$6,220,386 in costs charged to the Department of State.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on Alutiiq's Special Purpose Financial Statement.

Basis of Accounting

The special purpose financial statement has been prepared on the accrual basis of accounting. Expenses are recognized following the cost principles in Title 48, Part 31 of the Code of Federal Regulations, wherein certain types of expenses are not allowable and are limited as to reimbursement.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our reports, dated January 9, 2020, on our consideration of Alutiiq's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this Independent Auditor's Report in considering the results of our audit.

Report on Supplementary Information

We were engaged for the purpose of forming an opinion on the Statement as a whole. The accompanying supplementary information included in Appendixes C, D and E are presented for the purposes of additional analysis and is not a required part of the Statement. Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph it is inappropriate to and we do not express an opinion on the supplementary information referred to in Appendixes C, D, and E.

Restriction on Use

Our report is intended solely for the information and use of Alutiiq, Department of State, and SIGAR, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

Williams, Adley & Company-DC, LLP

Washington, D.C.
January 9, 2020

Alutiiq, LLC
Special Purpose Financial Statement
March 1, 2014 to August 31, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs (QCs)</u>			<u>Notes¹</u>
			<u>Ineligible</u>	<u>Unsupported</u>	<u>Total QCs</u>	
<u>Revenues</u>						
SAQMMA14F0927	\$ 14,584,474	\$ 14,584,474				
SAQMMA16F5001	\$ 5,681,813	\$ 5,681,813				
Total Revenue	\$ 20,266,287	\$ 20,266,287				
<u>Costs Incurred</u>						
Labor	\$ 13,280,063	\$ 13,280,063	\$ -	\$ 5,532,853	\$ 5,532,853	A
ODCs	\$ 6,986,224	\$ 6,986,224	\$ 2,545,155	\$ 687,533	\$ 3,232,688	B
Total Costs Incurred	\$ 20,266,287	\$ 20,266,287	\$ 2,545,155	\$ 6,220,386	\$ 8,765,541	
Outstanding	\$ -	\$ -				

See Appendix E on page 48 for the Combined Worksheet of Alutiiq, LLC for the Task Order Contracts SAQMMA14F0927 and SAQMMA16F5001.

¹ The Notes to the Special Purpose Financial Statement are an integral part of the Statement.

Alutiiq, LLC
Notes to the Special Purpose Financial Statement²
For the Period March 1, 2014 to August 31, 2017

Note 1. Background Information

Alutiiq, LLC is a wholly owned subsidiary of Afognak Native Corporation, an Alaska Native Corporation (ANC) formed under the 1971 Alaska Native Claims Settlement Act. Alutiiq, LLC, headquartered in Anchorage, Alaska, with several offices nationwide, is defined as an ANC in accordance with Federal Regulation 13 CFR 124.3. Afognak Native Corporation is headquartered in Kodiak, Alaska and, as an ANC, has distinct obligations to its Shareholders, the indigenous people of Afognak Island. Alutiiq, LLC was formed in December 1999 as a wholly owned subsidiary of Afognak under ANCSA. Today, Afognak, Alutiiq, and their subsidiaries have nearly 5,000 employees in almost all 50 states, several territories and countries worldwide, and they provide a variety of services to the federal government.

Alutiiq Technical Services, LLC (ATS) and Alutiiq Professional Training LLC (APT) are subsidiaries of Alutiiq, LLC.

ATS offers live, virtual, and constructive training program coordination and management; curriculum development; instructional systems design; SME consulting services; monitoring and evaluation engagement; exercise planning and design; and general human capital management services while Alutiiq Professional Training, LLC (APT) provides products and professional services to Federal customers and private sector partners. APS offers a variety of capabilities with experience in law enforcement training and security support services; facility security training; force protection, mission assurance, and anti-terrorism program support; professional project management; engineering services; and other professional services.

See Appendix C on page 42 for the Alutiiq Technical Services (ATS), LLC Special Purpose Financial Statements and notes for the Task Order Contract SAQMMA14F0927.

See Appendix D on page 45 for the Alutiiq Professional Training (APT), LLC Special Purpose Financial Statements and notes for the Task Order Contract SAQMMA16F5001.

² The Notes to the Special Purpose Financial Statement are the responsibility of Alutiiq's management.

Alutiiq, LLC
Notes to the Questioned Costs Presented on the
Special Purpose Financial Statement³

Note A: Questioned Costs – Labor

Finding 2019-01 questions \$5,532,853 in labor costs because Alutiiq did not retain supporting documentation for subcontractor invoices, nor did Alutiiq have a subcontractor monitoring process to verify retention of proper documentation. As a result, Alutiiq did not have the documentation, such as timesheets, to support labor disbursements sampled, nor was it able to obtain the necessary documentation during our audit.

Task Order Number	Unsupported Labor Questioned Costs
SAQMMA14F0927	\$ 3,370,009
SAQMMA16F5001	2,162,844
Total	\$ 5,532,853

Note B: Questioned Costs – Other Direct Costs

Finding 2019-02 questions \$687,533 in other direct costs because Alutiiq did not retain supporting documentation for subcontractor invoices, nor did Alutiiq have a subcontractor monitoring process to verify retention of proper documentation. As a result, Alutiiq was not in possession of the documentation to support other direct costs disbursements sampled, nor was it able to obtain the necessary documentation during our audit.

Finding 2019-03 questions \$11,770 because Alutiiq did not implement effective policies and procedures for review of travel costs in accordance with Federal Travel Regulations to ensure allowability, reasonableness, and proper approval when necessary.

Finding 2019-04 questions \$2,529,760 because Alutiiq did not have a subcontractor monitoring process that included adequate internal controls related to the review of subcontractor invoicing to ensure that ineligible Danger Pay and Post Hardship Differential allowances were not charged to the contract task orders funded by the Department of State.

³ Alphabetic notes to the questioned costs presented on the Special Purpose Financial Statement were developed by and are the responsibility of the auditor.

Finding 2019-05 questions \$3,625 because Alutiiq did not implement a review process to ensure that the correct direct cost amount was used when calculating G&A costs under the contract task orders funded by Department of State.

The total amount of other direct costs questioned is \$3,232,688.

Task Order Number	Ineligible ODCs	Unsupported ODCs	Total ODCs Questioned Costs
SAQMMA14F0927	\$ 2,046,426	\$ 572,596	\$ 2,619,022
SAQMMA16F5001	\$ 498,728	\$ 114,937	\$ 613,665
Total	\$ 2,545,155	\$ 687,533	\$ 3,232,688

Note: Small differences in totals are due to rounding.



Independent Auditor's Report on Internal Control

██████████
Chief Financial Officer
Afognak Native Corporation
3909 Arctic Blvd #500
Anchorage AK 99503

Special Inspector General for Afghanistan Reconstruction (SIGAR)
2530 Crystal Drive
Arlington, VA 22202

We were engaged to audit the Special Purpose Financial Statement ("Statement") and related notes to the Statement, 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, by Alutiiq, LLC (Alutiiq), under United States Department of State contract task orders SAQMMA14F0927 and SAQMMA16F5001 for the period March 1, 2014 through August 31, 2017. We have issued our report thereon dated January 9, 2020 with a disclaimer of opinion due to our inability to obtain sufficient appropriate audit evidence.

Internal Control Over Financial Reporting

In planning and performing our audit of the Statement, we considered Alutiiq's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of Alutiiq's internal control. Accordingly, we do not express an opinion on the effectiveness of Alutiiq's internal control.

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 Alutiiq's Statement 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. 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.

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. Given these limitations, material weaknesses may exist that have not been identified. We did note three material weaknesses in internal control as defined above and described in Findings 2019-01, 2019-02, and 2019-04, one significant deficiency in internal control as defined above and described in Finding 2019-03, and one internal control deficiency as defined above and described in Finding 2019-05 in the attached Schedule of Findings and Questioned Costs.

Alutiiq's Response to the Findings

Alutiiq's response to the findings identified in our audit is included verbatim in Appendix A. Alutiiq'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 results of that testing, and not to provide an opinion on the effectiveness of Alutiiq's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Alutiiq's internal control. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

This report is intended for the information of Alutiiq, Department of State, and SIGAR. 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.

Williams, Adley & Company-DC, LLP

Washington, D.C.
January 9, 2020



Independent Auditor's Report on Compliance

██████████
Chief Financial Officer
Afognak Native Corporation
3909 Arctic Blvd #500
Anchorage AK 99503

Special Inspector General for Afghanistan Reconstruction (SIGAR)
2530 Crystal Drive
Arlington, VA 22202

We were engaged to audit the Special Purpose Financial Statement ("Statement") and related notes to the Statement, 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, by Alutiiq, LLC (Alutiiq), under United States Department of State contract task orders SAQMMA14F0927 and SAQMMA16F5001 for the period March 1, 2014 through August 31, 2017. We have issued our report thereon dated January 9, 2020 with a disclaimer of opinion due to our inability to obtain sufficient appropriate audit evidence.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Alutiiq's Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and task orders, 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. During testing we considered whether potential fraud or abuse⁴ has occurred or is likely to have occurred and based on documentation obtained we did not find evidence of fraud or abuse that is required to be reported to SIGAR. However, the results of our tests disclosed four instances of noncompliance as described in Findings 2019-01, 2019-03, 2019-04, and 2019-06 in the Schedule of Findings and Questioned Costs, which are required to be reported under *Government Auditing Standards*.

⁴ Because the determination of abuse is subjective, auditors are not required to provide reasonable assurance of detecting abuse.

Alutiiq's Response to the Finding

Alutiiq's response to the finding identified in our audit is included verbatim in Appendix A. Alutiiq'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 Alutiiq's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Alutiiq's compliance. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

This report is intended for the information of Alutiiq, Department of State, and SIGAR. 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.

Williams, Adley & Company-DC, LLP

Washington, D.C.
January 9, 2020

Schedule of Findings and Questioned Costs

Finding 2019-01: Unsupported Labor Costs

Nature of Finding: Material Weakness in Internal Control and Non-Compliance

Condition: We were unable to determine proper approvals of hours worked and validate the labor hours charged to each contract task order because Alutiiq did not obtain or retain documentation to support \$5,532,853 in subcontractor labor costs incurred under two contract task orders. Consequently, Alutiiq was unable to provide us with required support for those costs.

We identified questioned costs related to the unsupported labor that include the subcontractor's general and administrative (G&A) costs applied to the labor hours as follows:

Task Order Number	Invoiced Hours	Hours Supported by Timesheets	Unsupported Hours	Labor Amount Invoiced	Labor Amount Supported	Total Questioned Costs
SAQMMA14F0927	39,865	2,085	37,780	\$3,539,844	\$169,835	\$3,370,009
SAQMMA16F5001	23,765	-	23,765	2,162,844	-	2,162,844
Total	63,630	2,085	61,545	\$5,702,688	\$169,835	\$5,532,853

Criteria: Pursuant to 48 CFR 31.201-2, Determining allowability:

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

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

(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.”

Attachment 002 of Contract Task Order SAQMMA14F0927

“Provide time and attendance as support along with any additional support information timely with invoice submissions”

Alutiiq, *Finance Manual*, Control of Records

“For the effective operation of the finance department, including evidence of conformity to requirements, records shall remain legible, readily identifiable and retrievable and that files and records management procedures should define the controls needed for the identification, storage, protection, retrieval, retention time and disposition of records.”

Alutiiq, *Project Control Roles and Responsibilities*, Accounts Payable (AP)

“Once Project Control receives an invoice from a vendor / subcontractor, they ensure that all the appropriate backup documentation is included.”

Alutiiq, *Financial Manual*, Cost Accounting

“The cost of a particular product or service can be determined by direct measurement, specific assignment, or by a systematic and rational allocation of a portion of a pool of like kind costs to goods produced, services provided, or to specific contracts or projects that used the resources that caused the costs to be incurred. To be effective and profitable an organization should accumulate, distribute, monitor, and evaluate cost information during each accounting period.”

Alutiiq, *Financial Manual*, Accuracy

“All transactions should be supported by documentary evidence, which becomes part of the accounting records.”

Cause: Alutiiq did not have proper controls in place to ensure adherence to federal requirements and its internal policy related to accounting for costs and maintaining records to support amounts billed to the government. Additionally, Alutiiq did not have a subcontractor monitoring process to verify retention of proper documentation to support costs incurred and invoiced to Alutiiq. As a result, Alutiiq did not have the documentation to support the labor disbursements sampled, nor was it able to obtain the necessary documentation during our audit.

Effect: Alutiiq cannot properly account for a material amount of labor costs charged to its contract task orders.

Without proper controls in place to ensure adherence to federal requirements and its internal policy related to accountability for costs and maintenance of supporting documentation, there is an increased risk of waste, fraud, and abuse of U.S. Government funds. Specifically, the Department of State may have overpaid for services supporting Afghan reconstruction activities or paid for services that were not performed.

Questioned Cost: \$5,532,853 in unsupported subcontractor labor costs

Recommendation: We recommend that Alutiiq:

1. Develop controls to ensure adherence to federal requirements and its internal policy related to accounting for costs and maintaining records so that such records may be made available when requested.
2. Develop policies and procedures for monitoring subcontractor labor costs to include validation of billed labor.
3. Provide the Department of State with adequate supporting documentation, such as timesheets, for the \$5,532,853 in subcontractor labor costs that have been questioned as unsupported under contract task orders SAQMMA14F0927 and SAQMMA16F5001 or reimburse the Department of State for those amounts for which supporting documentation cannot be provided.

Finding 2019-02: Unsupported Other Direct Costs

Nature of Finding: Material Weakness in Internal Control

Condition: Alutiiq could not provide documentation supporting \$687,533 in subcontractor other direct costs (ODCs) charged to two contract task orders. During testing we noted that 7 out of 70 ODC samples, and 19 out of 23 ODC samples related specifically to subcontractor travel, were unsupported. We were unable to validate the subcontractor charges and determine eligibility under each contract task order. We calculated unsupported subcontractor ODCs as follows:

Questioned Costs Related to Unsupported Other Direct Costs

Task Order Number	Occurrences/ Total Sample	Unsupported ODCs
SAQMMA14F0927	5/70	\$252,834
SAQMMA16F5001	2/70	58,997
Total	7/70	\$311,831

Questioned Costs Related to Unsupported Travel-Specific Other Direct Costs

Task Order Number	Occurrences/ Total Sample	Unsupported Travel	Sub G&A Over Unsupported Travel	Total Questioned Costs
SAQMMA14F0927	15/23	██████	██████	\$319,762
SAQMMA16F5001	4/23	██████	██████	55,940
Total	19/23	██████	██████	\$375,702

Total Questioned Other Direct Costs

Other Direct Costs	\$311,831
Travel-Specific Other Direct Costs	375,702
Total	\$687,533

Criteria: Pursuant to 48 CFR 31.201-2, Determining allowability:

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

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

(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.”

48 CFR 31.205–46(3)(iv), Travel costs:

“Documentation to support actual costs incurred shall be in accordance with the contractor’s established practices, subject to paragraph (a)(7) of this subsection, and provided that a receipt is required for each expenditure of \$75.00 or more. The approved justification required by paragraph (a)(3)(ii) and, if applicable, paragraph (a)(3)(iii) of this subsection must be retained.”

FAR 42.202(e) Assignment of contract administration

“(2) The prime contractor is responsible for managing its subcontracts...”

Alutiiq, *Project Control Roles and Responsibilities*, Accounts Payable (AP)

“Once Project Control receives an invoice from a vendor / subcontractor, they ensure that all the appropriate backup documentation is included.”

Alutiiq, *Finance Manual*, Control of Records

“For the effective operation of the finance department, including evidence of conformity to requirements, records shall remain legible, readily identifiable and retrievable and that files and records management procedures should define the controls needed for the identification, storage, protection, retrieval, retention time and disposition of records.”

Alutiiq, *Financial Manual*, Accuracy

“All transactions should be supported by documentary evidence, which becomes part of the accounting records.”

Alutiiq, *Financial Manual*, Cost Accounting

“The cost of a particular product or service can be determined by direct measurement, specific assignment, or by a systematic and rational allocation of a portion of a pool of like kind costs to goods produced, services provided, or to specific contracts or projects that used the resources that caused the costs to be incurred. To be effective and profitable an organization should accumulate, distribute, monitor, and evaluate cost information during each accounting period.”

Cause: Alutiiq did not have proper controls in place to ensure compliance with federal requirements and internal policy related to accounting for subcontractor costs and maintaining records to support amounts billed to the government. For example, Alutiiq did not have a subcontractor monitoring process to verify retention of proper documentation to support costs incurred and invoiced to Alutiiq. Also, Alutiiq did not provide adequate

guidance to employees on what is and is not acceptable documentation to support such costs. As a result, Alutiiq did not have the documentation to support the subcontractor ODC disbursements sampled, nor was it able to obtain the necessary documentation during our audit.

Effect: Alutiiq cannot properly account for a significant amount of other direct costs charged to its contract task orders.

Without proper controls in place to ensure compliance with federal requirements and internal policy related to accountability for costs and maintenance of supporting documentation, there is an increased risk of waste, fraud, and abuse of U.S. Government funds. Specifically, the Department of State may have paid for ineligible costs or costs for services or products that were not delivered.

Questioned Cost: \$687,533 in unsupported subcontractor costs.

Recommendation: We recommend that Alutiiq:

1. Strengthen controls to ensure adherence to federal requirements and internal policy related to accounting for subcontractor costs by maintaining adequate records to support amounts billed to the government. Such procedures should include examples of proper documentation for different types of costs and require validation of billed ODCs to ensure that source documents are retained and made available when requested.
2. Provide the Department of State with adequate supporting documentation, such as receipts, vendor invoices, receiving and inspection reports, and debit and credit memoranda for the \$687,533 in other direct costs that have been questioned as unsupported under contract task orders SAQMMA14F0927 and SAQMMA16F5001, or reimburse the Department of State for those amounts for which supporting documentation cannot be provided.

Finding 2019-03: Ineligible Other Direct Costs - Travel

Nature of Finding: Significant Deficiency in Internal Control and Non-Compliance

Condition: During disbursement testing, we reviewed a sample of \$641,522 of \$1,142,188 in travel expenditures within the other direct costs line item and noted 11 of 23 instances where Alutiiq billed ineligible travel costs without justification or prior approval for the cost. We noted the following exceptions and questioned costs:

- a) 3 instances where first and business class airfare was billed
- b) 5 instances where ineligible meals and incidentals were billed
- c) 3 instances where travel costs unrelated to the contract task orders was billed

Task Order Number	Occurrences/ Total Sample	Ineligible Airfare	Ineligible Meals & Incidentals	Ineligible Unrelated Costs	Subcontractor G&A on Ineligible Costs	Total Questioned Costs
SAQMMA14F0927	5/23	██████	\$ -	██████	██████	\$ 8,086
SAQMMA16F5001	6/23	-	██████	██████	██████	\$ 3,684
Total	11/23	██████	██████	██████	██████	\$ 11,770

Criteria: Pursuant to 48 CFR 31.201-2, Determining allowability:

“(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.”

48 CFR 31.205-46 (a), Travel costs:

“(6) The maximum per diem rates referenced in paragraph (a)(2) of this subsection generally would not constitute a reasonable daily charge - (i) When no lodging costs are incurred; and/or (ii) On partial travel days (e.g., day of departure and return).”

“(7) Costs shall be allowable only if the following information is documented- (i) Date and place (city, town, or other similar designation) of the expenses; (ii) Purpose of the trip; and (iii) Name of person on trip and that person’s title or relationship to the contractor.”

48 CFR 31.205-46(b), Travel costs:

“Airfare costs in excess of the lowest priced airfare available to the contractor during normal business hours are unallowable except when such accommodations require circuitous routing, require travel during unreasonable hours, require excessively prolonged travel, result in increased cost that would offset transportation savings, are not reasonably adequate for the physical or medical needs of the traveler, or are not reasonably available to meet mission requirements. However, in order for airfare costs in excess of the above airfare to be allowable, the applicable condition(s) set forth above must be documented and justified.”

Alutiiq, *Financial Manual, Accuracy*

“All transactions should be supported by documentary evidence, which becomes part of the accounting records.”

Alutiiq, *Project Control Roles and Responsibilities, Accounts Payable (AP)*

Once Project Control receives an invoice from a vendor / subcontractor, they ensure that all the appropriate backup documentation is included.”

Alutiiq, *Travel Policy, 4.2.2.3 Coach, Business and First-Class fares*

“Airline tickets will be issued using the lowest priced airfare in coach class based on the FAR regulations as discussed in Section 4.2.2.1.”

Alutiiq, *Travel Policy, 4.2.2.4 ANC Travelers with a Disability or Special Need*

“The use of first or business class accommodations may be authorized only when necessary to accommodate an employee’s disability or special need. The employee’s condition must be substantiated in writing by a competent medical authority and submitted to your Human Resources department.”

Cause: Alutiiq billed the contract task orders potentially ineligible subcontractor travel and travel related costs, without first obtaining approval from the Department of State or justification for the cost, because it lacked a comprehensive review process to identify such problematic costs.

Effect: Lack of effective controls over enforcement of travel regulations hindered Alutiiq’s ability to identify ineligible travel costs prior to incurring and billing them to the Department of State. As a result, there is an increased risk of waste, fraud, and abuse of U.S. Government funds.

Questioned Cost: \$11,770 in ineligible travel costs.

Recommendation: We recommend that Alutiiq:

1. Develop and implement a comprehensive review process for subcontractor invoices to ensure that only allowable, reasonable, and approved costs are charged to the contract task orders in accordance with Federal Travel Regulations.

2. Provide the Department of State with adequate documentation to support the eligibility of questioned travel costs billed to contract task orders SAQMMA14F0927 and SAQMMA16F5001, or reimburse the Department for the portion of \$11,770 that remains ineligible.

Finding 2019-04: Ineligible Other Direct Costs – Allowances

Nature of Finding: Material Weakness in Internal Control and Non-Compliance

Condition: Alutiiq charged ineligible Danger Pay and Post Hardship Differential allowances to contract task orders SAQMMA14F0927 and SAQMMA16F5001 in 63 out of 70 instances during our testing of disbursements. The Danger Pay and Post Hardship Differential allowances were based on overtime hours worked or no hours worked which is a violation of the Department of State's Standardized Regulations governing allowances. We noted the following exceptions and questioned costs:

- 59 instances where overtime hours were improperly used to calculate allowance
- 41 instances where allowances were paid without basic compensation hours worked

Task Order Number	Ineligible Calculation: Overtime	Ineligible Calculation: No Basic Compensation	Total Questioned Costs
SAQMMA14F0927	\$ 861,085	\$ 1,174,760	\$ 2,035,845
SAQMMA16F5001	\$ 448,943	\$ 44,972	\$ 493,915
Total	\$ 1,310,028	\$ 1,219,732	\$ 2,529,760

In some of the sample transactions tested, we noted instances of both ineligible danger pay for overtime hours and ineligible danger pay with no compensation. The tables below provide an example where an allowance was paid based on overtime hours, and an allowance was paid when no compensation was earned, respectively.

Example	Category	Basic Pay Rate	Danger Pay Rate	Max Allow %	Reg Hrs.	OT Hrs.	Allow Hrs. Paid	Sample Amt Paid ⁵	Ineligible Amount ⁶
1	Overtime	█	█	█	█	█	█	\$3,851.40	\$2,200.80

⁵ The sample amount paid is based on the regular hours plus overtime hours multiplied by the Danger Pay Rate of █

⁶ The ineligible amount corresponds to the overtime hours multiplied by the Danger Pay Rate of █

Example	Category	Basic Pay Rate	Danger Pay Rate	Max Allow %	Reg Hrs. ⁸	OT Hrs.	Allow Hrs. Paid	Sample Amt Paid	Ineligible Amount ⁷
2	No Hours	██████	██████	██████	-	-	310	-	\$5,685.40

Criteria: Department of State Standardized Regulations (DSSR)

DSSR 040(K)(3), Definitions:

Basic compensation means the rate of compensation fixed:... “administratively in conformity with rates paid by the Government for work of a comparable level of difficulty and responsibility in the continental United States, before any deduction is made and without taking into consideration any additional compensation such as overtime pay, night pay differential, hazard differential, extra pay for work on holidays, post differential, and allowances; except that for teachers defined in subsection n, hereof, basic compensation means the rate of compensation fixed by the military departments of the Department of Defense for the position held by an individual (including any appropriate increments for having completed a higher level of academic preparation) before any deduction is made and exclusive of all allowances, differentials, or other additional compensation.”

DSSR 655, Danger Pay Allowance on Detail:

“Employees on detail at a danger pay post may be granted the danger pay allowance at the prescribed rate for all days of detail at such post except for days of absence from the post in a post or area not designated for the danger pay allowance. Note: Danger Pay is paid only for hours for which basic compensation is paid.”

Alutiiq, Financial Manual, Accuracy

“All transactions should be supported by documentary evidence, which becomes part of the accounting records.”

Alutiiq, Project Control Roles and Responsibilities, Accounts Payable (AP)

“Once Project Control receives an invoice from a vendor / subcontractor, they ensure that all the appropriate backup documentation is included.”

⁷ The ineligible amount corresponds to the allowance hours paid multiplied by the Danger Pay Rate of ██████.

⁸ Regular hours are zero because no compensation was earned.

Cause: Alutiiq did not have a subcontractor monitoring process related to the review of subcontractor invoicing to ensure that only allowable Danger Pay and Post Hardship Differential allowances are charged to contract task orders funded by the Department of State.

Effect: Lack of effective monitoring controls increases the risk that the U.S. Government will be improperly billed.

Questioned Cost: \$2,529,760 in ineligible Danger Pay and Post Hardship Differential allowances billed to the Department of State.

Recommendation: We recommend that Alutiiq:

1. Reimburse the Department of State \$2,529,760 for ineligible Danger Pay and Post Hardship Differential allowances or provide to the Contracting Officer documentation supporting why the billed amounts were appropriate and should be allowed.
2. Develop and implement policies and procedures to ensure that Danger Pay and Post Hardship Differential allowances are computed using only basic compensation which excludes allowances, differentials, and overtime.

Finding 2019-05: Ineligible General and Administrative Cost Calculation

Nature of Finding: Internal Control Deficiency

Condition: Alutiiq treated the subcontractor's general and administrative (G&A) costs as direct cost and applied an additional G&A rate to its calculation of travel costs under two Department of State contract task orders SAQMMA14F0927 and SAQMMA16F5001. The calculation of ineligible G&A costs questioned is shown below by contract task order:

Subcontractor Costs	SAQMMA14F0927	SAQMMA16F5001
Travel and G&A Costs Invoiced by Subcontractor		
Travel Costs	████████	████████
General and Administrative Costs	████████	████████
Total Subcontractor Travel and G&A	\$806,570	\$335,617
G&A Charged to Department of State by Alutiiq		
Total Subcontractor Travel and G&A	\$806,570	\$335,617
Estimated Average G&A Billed	████████	████████
G&A Charged to Department of State by Alutiiq	████████	████████
Auditor's G&A Recalculation		
Subcontractor Travel Costs	\$753,804	\$313,661
Estimated Average G&A Billed	████████	████████
Recalculated G&A	████████	████████
Ineligible G&A Costs Billed by Alutiiq	████████	████████
Total Questioned Cost		\$3,625

Criteria: 48 CFR 31.203 (b), Indirect costs:

"(b) After direct costs have been determined and charged directly to the contract or other work, indirect costs are those remaining to be allocated to intermediate or two or more final cost objectives. No final cost objective shall have allocated to it as an indirect cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included as a direct cost of that or any other final cost objective."

Alutiiq, *Project Control Roles and Responsibilities*, Accounts Payable (AP)

"Once Project Control receives an invoice from a vendor / subcontractor, they ensure that all the appropriate backup documentation is included."

Cause: Alutiiq's internal controls related to review of subcontractor invoices were not sufficiently sophisticated to detect and prevent improper calculation of G&A costs applied to travel under the contract task orders funded by the Department of State.

Effect: Lack of effective controls over the proper calculation of eligible G&A costs increases the risk that the U.S. Government will be improperly billed.

Questioned Cost: \$3,625 in ineligible G&A costs billed to the Department of State.

Recommendation: We recommend that Alutiiq:

1. Assess its policies and procedures related to subcontractor management and design more specific controls to deter Alutiiq from charging the Government for ineligible G&A costs.
2. Reimburse the overbilled amount of \$3,625 to the Department of State related to the incorrect calculation of G&A costs on subcontractor travel.

[Finding 2019-06: Failure to Document Submission of Report Deliverables](#)**Nature of Finding:** Non-Compliance

Condition: Alutiiq did not document its submission of any progress and monthly activity reports to the Department of State for contract task orders SAQMMA14F0927 and SAQMMA16F5001 for the period March 1, 2014 through August 31, 2017.

Criteria:

Task Order SAQMMA14F0927 Line Items Description Section

“Deliverables: Progress Reports on Performance Electronic (E-mail) As Needed, or requested by the CO or the COR CO or COR. [...] Monthly Activity Reports Electronic (E-mail) Monthly CO and COR, Incident Reports Electronic (E-mail) As Needed, or at the discretion of vendor, CO and COR Disruption of Delivery Schedule Reports Phone and (Email) As soon as disruption is known. CO and COR, Final Activity Report Electronic (Email) In conjunction with Final Invoice Submission COR and CO”

Task Order SAQMMA16F5001 Section C Statement of Work

“All deliverables/reporting as stipulated in the Contract SOW remain in effect”

Alutiiq, *Finance Manual*, Control of Records

“For the effective operation of the finance department, including evidence of conformity to requirements, records shall remain legible, readily identifiable and retrievable and that files and records management procedures should define the controls needed for the identification, storage, protection, retrieval, retention time and disposition of records.”

Cause: Alutiiq did not have internal controls in place to ensure that supporting documentation related to the submission of program and financial report deliverables was maintained for Department of State contract task orders and readily available for review by oversight or audit personnel.

Effect: Without program and financial reports from Alutiiq, Department of State may have been unable to fully monitor Alutiiq’s performance under the contract task orders and make informed decisions on how to mitigate potential programmatic and compliance concerns.

Questioned Cost: None.

Recommendation: We recommend Alutiiq implement adequate controls to ensure that appropriate supporting documentation related to submission of program and financial report deliverables is maintained and readily available for review in accordance with the task orders and regulations.

Appendix A – Management’s Response to Findings and Recommendations

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3909 Arctic Boulevard, Suite 500
Anchorage, Alaska 99503

April 15, 2020

By Email: [REDACTED]

[REDACTED]
Williams, Adley & Company-DC, LLP
1030 15th Street, N.W., Suite 350 West
Washington, DC 20005Re: Audit F-168
Appendix A, Management’s Response to Findings and Recommendations

Dear [REDACTED]

On behalf of Alutiiq, LLC, I submit Appendix A, Management’s Response to Findings and Recommendations, and a Summary of Management’s Comments.

Summary of Management’s Comments

The Williams Adley draft audit report questions \$8,765,541 in costs from contract task orders SAQMMA14F0927 and SAQMMA16F5001, nearly half the total costs incurred by Alutiiq, LLC (“Alutiiq”) subsidiaries Alutiiq Technical Services, LLC (“ATS”) and Alutiiq Professional Training, LLC (“APT”) (collectively “Alutiiq”) in support of the State Department’s flagship Afghanistan Anti-Terrorism Assistance (“ATA”) program during the March 1, 2014 to August 31, 2017 timeframe subject to the audit. Nearly two-thirds of the questioned costs, \$5,532,853, are labor costs the audit report deems “unsupported” by “timesheets.” Audit Report at 17. In fact, all labor costs were supported by timesheets; however, the auditors evidently object to the form they take, which was accepted by the State Department. As the accompanying declarations show, there is no reason to question the timesheets’ reliability; on the contrary, they were generated by personnel in Afghanistan with direct knowledge of time and attendance due to the fact that they lived and worked side by side with the personnel whose attendance they recorded on a tiny post accessible only by helicopter for most of the period in question. The hours ATA personnel were authorized to bill, moreover, were entirely regular during their rotations in country, 10 hours a day for instructors and logisticians, 11 for leads and managers, regardless of the hours they actually worked, which were typically longer.

An additional \$2,529,760 in questioned costs consist of \$1,310,028 of post hardship differential and danger pay allowances that the audit report deems ineligible and \$1,219,732 that the audit report alleges are unrelated to corresponding labor hours. The audit report contends that allowances were improperly applied to overtime hours, but this contention reflects a fundamental misunderstanding of both fact and law. The regular workweek for the ATA Afghanistan program was never 40 hours, as the Contracting Officer and Contracting Officer’s Representative (“COR”) have acknowledged; from the very beginning it was 60 hours or more, depending on position. Alutiiq’s subcontractor, [REDACTED]

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██████████ which became ██████████ upon their merger during the period in question (collectively ██████████) billed hours over 40 at a different, typically lower, "OT" rate to save the government money because fringe benefits were spread across the first 40 hours. No overtime premium of time and a half was ever applied to "OT" hours. The Armed Services Board of Contract Appeals ("ASBCA") has upheld the application of danger pay to more than 40 hours in virtually identical circumstances. More to the point, the State Department has acknowledged that this was the accepted practice in an email rescinding a memo limiting post hardship differential and danger pay to 40 hours per week after an uproar by ATA instructors. As for the \$1,219,732 in allowances allegedly applied without any corresponding basic compensation, Alutiiq's reconciliation of sample invoices found that all but \$44,601.36 (less than four percent) relate to labor costs billed in four other invoices.

Alutiiq has found that much of the remaining \$702,928 in questioned costs are properly accounted for with available documentation. Although Alutiiq's subcontractor was unable to locate all the records Alutiiq requested by the time this audit was conducted, Alutiiq was nonetheless able, in the time it was given to respond to the draft audit report, to find support for all but \$168,639.65 of the \$699,303 in questioned other direct costs ("ODCs"). Accordingly, of the \$8,765,541 total questioned costs, Alutiiq has already shown that at least \$8,548,674.99 (98 percent) are allowable and properly supported – and this despite the difficulty of obtaining additional documentation at this date from its subcontractor's successor, ██████████. As for the remaining two percent, Alutiiq deemed some items too small at this stage to justify further investigation in the time permitted; however, Alutiiq is not conceding that these costs were properly questioned either and will address them if the contracting officer requests it to do so.

Management's Response to Findings and Recommendations

1. Finding 2019-01

Finding 2019-01 questions \$5,532,853 in labor costs on the grounds that "Alutiiq did not require its subcontractor to submit supporting documents, such as timesheets, along with invoices," and relied instead "on the amount of labor costs presented in the subcontractor's invoices to determine how much to charge to the contracted task orders." Audit Report at 11, 17. The audit report also contends that Alutiiq was obligated to conduct "periodic site visits or desk reviews of its subcontractor to verify retention of proper documentation to support costs incurred and invoiced to Alutiiq." *Id.* at 18. There is no merit to either contention: Alutiiq did require ██████████ to provide supporting documents, and ██████████ duly submitted timesheets with every invoice. Alutiiq did not simply rely on the amount of labor costs presented in ██████████ invoices; it carefully reviewed the time and attendance data contained in the timesheets. Alutiiq was not obligated to perform site visits in Afghanistan or desk audits of ██████████ incurred costs where the State Department never questioned Alutiiq's costs or supporting documentation.

In support of Finding 2019-01, the audit report cites FAR 31.201-2(d), which provides that "[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." 48 C.F.R. § 31.201-2(d) (emphasis added). The ASBCA addressed FAR 31.201-2(d) in *BearingPoint, Inc.*, ASBCA No. 55354, 09-2 BCA ¶ 34,289, which concerned "the sufficiency of testimonial evidence, and contemporaneous documentation, to support labor charges in the absence of time cards that were lost or destroyed." The subcontractor's time records were lost in "what had become a "war zone,"" so the

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contractor offered declarations from employees and other corroborating documentation to support the labor charges it invoiced. The board observed that FAR 31.201-2(d), "which speaks broadly of a contractor's responsibility to maintain documentation 'adequate to demonstrate that costs claimed . . . are allocable to the contract,'" is "consistent" with the requirements found in FAR 52.215-2(b) that a contractor maintain "all records and other evidence sufficient to reflect properly all costs claimed to have been incurred" and FAR 52.216-7 that a contractor support yearly indirect cost rate proposals "with adequate supporting data." (Emphasis added). Noting that FAR 52.215-2 "prescribes no form that the 'records' or the 'other evidence' must take" and that FAR 52.216-7 imposes no requirement that a contractor "substantiate labor costs with time sheets," the board held that "there is no obstacle to resorting to other credible evidence," such as testimony supported by documents.

The audit report also cites language in Attachment 002 of SAQMMA14F00927 requiring Alutiiq to "[p]rovide time and attendance as support along with any additional support information timely with invoice submissions" and alleges that "Alutiiq did not have the documentation, such as timesheets, to support labor disbursements sampled, nor was it able to obtain the necessary documentation during our audit." Audit Report at 18. That is simply untrue: while Alutiiq was unable to obtain all the documentation it requested from [REDACTED] every Alutiiq invoice was supported by timesheets providing the "time and attendance" of each individual working for [REDACTED] in Afghanistan. These timesheets were filled out by the team lead, who was in daily contact with the instructors and logisticians during their rotations in Afghanistan. See [REDACTED] Decl., ¶¶ 21-22, 27; [REDACTED] Decl., ¶ 38. The timesheets were then submitted to the Deputy Resident Program Manager ("DRPM") and Resident Program Manager ("RPM") at the U.S. Embassy in Kabul for approval before being transmitted to [REDACTED] ATA Program Director in Virginia for review.¹ [REDACTED] Decl., ¶¶ 35-38; [REDACTED] Decl., ¶¶ 39-40.

There is no reason to question the reliability of the timesheets prepared by the team lead, approved by the RPM and the DRPM, and reviewed by the Program Director. All [REDACTED] ATA Afghanistan personnel, with the exception of the RPM and DRPM at the embassy, lived and worked together on the same small camp, initially Camp Watan, which was the size of a football field, and later the adjacent Joint Afghan Training Center ("JATC") on Camp Alamo, which was even smaller. [REDACTED] Decl., ¶¶ 12-13, 23, 25-26; [REDACTED] Decl., ¶¶ 14-18. Other than the occasional mail run to the U.S. military base at the Kabul airport, the leads and instructors stayed within the camp at all times. [REDACTED] Decl., ¶ 26. The RPM and DRPM communicated with the camp daily and visited frequently, staying for a few days to observe training. [REDACTED] Decl., ¶¶ 15, 24; [REDACTED] Decl., ¶¶ 20-21. In addition to their daily contact and frequent visits, the RPM and DRPM also maintained a 12-month training schedule, instructor rotation roster and Visa information so they knew exactly who was in country and when they would be departing and their replacements arriving. [REDACTED] Decl., ¶ 37. The hours the ATA Afghanistan personnel were authorized to bill, moreover, were entirely regular during their rotations in country, 10 hours a day for instructors and logisticians, 11 for leads and managers, regardless of the hours they actually worked, which were typically longer (for example, when conducting night shoots). [REDACTED] Decl., ¶¶ 28-32; [REDACTED] Decl., ¶¶ 25-28; [REDACTED] Decl., ¶¶ 17-19. For these reasons, it was not difficult for [REDACTED] to keep an accurate headcount. [REDACTED] Decl., ¶ 22. And the timesheets included in [REDACTED] invoices were subjected to further review by Alutiiq before Alutiiq invoiced the State Department. [REDACTED] Decl., ¶¶ 30-33. The timesheets

¹ The evidence of review is discernible from the timesheets themselves, which exhibit check marks, cross-outs, and other handwritten marginalia reflecting a close scrutiny of each entry by reviewers.

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met Alutiiq's contractual obligation to provide "time and attendance" records with its invoicing² and in the circumstances easily satisfy the standard of proof required by *BearingPoint*.³

Given the sufficiency of the timesheets under applicable standards, the audit report's contention that "Alutiiq did not have proper controls in place to ensure adherence to federal requirements and its internal policy" is unfounded. See Audit Report at 18. The audit report alleges that "Alutiiq did not require its subcontractor to submit supporting documents, such as timesheets, along with invoices," see *id.* at 11, but Alutiiq did require its subcontractor to submit supporting documentation with invoices. ATS subcontract ATS- [REDACTED], paragraph 4(b), provided: [REDACTED] and ATS Task Order [REDACTED] required [REDACTED] to provide [REDACTED] to support invoiced costs." [REDACTED] subcontract with APT. Subcontract [REDACTED] contained the same language as the ATS- [REDACTED] subcontract and flowed down FAR 52.215-2 Audit and Records – Negotiation (OCT 2010) and 652.232-71 Voucher Submission (Cost-Reimbursement) (AUG 1999), which references FAR 52.232-25 Prompt Payment, requiring "[a]ny other information or documentation required by the contract." The related task order similarly required [REDACTED]. In accordance with these clauses, [REDACTED] duly provided timesheet support to validate labor costs with each invoice. The State Department accepted these timesheets; no invoices were rejected for insufficient support.

The audit report also faults Alutiiq for not having a "process that included . . . periodic site visits or desk reviews of its subcontractor." Audit Report at 11. First, this criticism is unrealistic: for most of the period under consideration, the "site" in Afghanistan was inaccessible except by helicopter because the State Department determined that the land route was too dangerous. [REDACTED] Decl., ¶¶ 16-18; [REDACTED] Decl., ¶¶ 19. The COR did not visit the site once. [REDACTED] Decl., ¶ 22. [REDACTED] Program Director, on the other hand, did venture to Afghanistan on more than one occasion. *Id.*, 17. Second, the process the audit report posits is not industry standard. Alutiiq maintains an approved purchasing system, and therefore its policies governing subcontract performance are reviewed by the Defense Contract Management Agency ("DCMA"). In the past two reviews, DCMA noted no

² In this regard, it is worth noting that the State Department never rejected Alutiiq's invoices for insufficient time and attendance support, which was an express performance standard. See SAQMMA14F0927 at 17.

³ The audit report tabulates only 2,085 "Hours Support by Timesheets" and 61,545 "Unsupported Hours." See Audit Report at 17. By "Timesheets," the audit appears to be referring to JAMIS e-timecard reports that [REDACTED] used for its own employees, such as RPM [REDACTED]. See [REDACTED] Decl., ¶ 41; Arizaga Decl., ¶ 39. All other ATA personnel working for [REDACTED] in Afghanistan were independent contractors, not employees, and thus their time and attendance were recorded separately on the timesheets filled out by the team lead. [REDACTED] Decl., ¶¶ 40-41; [REDACTED] Decl., ¶ 38. There is no material difference between the e-timecard reports and the timesheets and therefore no basis for privileging one over the other. They provide the same information, and both were generated by people with direct knowledge of the information they contain. Notably, while the retention period for "[p]ayroll sheets, registers, and their equivalent" is "4 years," the period for "[c]lock cards or other time and attendance cards" is only "2 years." 48 C.F.R. § 4.705-2. Most of the time and attendance records subject to this audit are thus outside the applicable retention period anyway.

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deficiencies with respect to Alutiiq's policies and procedures relating to monitoring subcontractor compliance with federal regulations. Both the ATS and APT subcontracts contained audit provisions requiring [REDACTED] to maintain records sufficient to meet prime contract and task order requirements and noting that such records are subject to audit by the U.S. Government; however, for Alutiiq to request a desk or records audit, the Government must question the costs. Since the State Department never questioned the costs or supporting documentation, there was no contractual basis for a site visit or desk audit. In any event, [REDACTED] located the documentation that was used to support invoicing throughout the project, which met federal requirements.

2. Finding 2019-02

The audit report alleges that Alutiiq was unable to provide documentation supporting \$687,533 in subcontractor ODCs and notes that seven out of 70 ODC samples, including 19 out of 23 samples relating to subcontractor travel, were found to be unsupported.⁴ Alutiiq, however, performed a reconciliation of sample invoices and found only \$168,639.65 in questioned costs, the majority of which consisted of airfare where a credit card statement was provided without an accompanying itinerary.

[REDACTED] ¶ 5. Alutiiq also found multiple invoices containing reports of meals and incidental expenses ("M&IE") that were not included in the auditors' calculations. *Id.*, ¶ 6. In other words, Alutiiq's reconciliation revealed support for a full three-fourths of the questioned ODCs.

3. Finding 2019-03

The audit report further questions \$11,770 in travel costs, alleging, among other things, three instances where travel costs unrelated to the contract task orders were billed. Again, Alutiiq found support the audit report overlooks. The auditors submitted questions to Alutiiq on October 30, 2019, regarding travel costs, including a question about the purpose of RPM [REDACTED] travel in July 2014 reflected in Invoice 3840. *Id.*, ¶ 8. That invoice notes, however, at page 20 that the purpose of travel was "DS-ATA-RPM Conference," which was directly related to the contract task orders. *Id.*, ¶ 9. The auditors also asked about medical costs from Bangkok Hospital reflected in Invoice 984328, but, as the invoice notes, the medical costs were billed for State Department pre-deployment physical examinations, which were also directly related to the contract task orders. *Id.*, ¶ 10. Finally, the audit report includes \$725 in questioned costs for allegedly ineligible M&IE, evidently based on the mistaken view that M&IE allowances associated with travel from a person's home of record to Afghanistan or vice versa should be billed at 75 percent; however, this overlooks the fact that travel to or from Afghanistan generally takes two days, and while one of those days is billed at 75 percent, the other is properly billed at 100 percent in accordance with Joint Travel Regulation 020309 (Trip Length As It Affects Per Diem). *See id.*, ¶ 12 (citing JTR 020309 Table 2-20).

⁴ Among other things, the audit report cites FAR 42.202(e)(2), which states that "[t]he prime contractor is responsible for managing its subcontracts," but in *Lockheed Martin Integrated Sys., Inc.*, ASBCA No. 59508, 17-1 BCA ¶ 36,597, the board rejected the argument that FAR 42.202 requires a contractor "to retain for purposes of an incurred cost audit the same documentation that it used to substantiate its billing during the course of performance of the contract and . . . to initiate audits of its subcontractors' incurred costs and be able to prove during the course of an incurred cost audit that it did so."

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4. Finding 2019-04

More than a quarter of the questioned costs, \$2,529,760, consists of post hardship differential and danger pay allowances the audit report deems improper or unrelated to any labor hours. Specifically, the audit report alleges that \$1,310,028 of post hardship differential and danger pay was applied to "overtime hours," contrary to Department of State Standardized Regulations ("DSSR") stating that danger pay is applicable only to "hours for which basic compensation is paid," *see* DSSR 655, and that \$1,219,732 was applied where no basic compensation hours were worked. This allegation reflects a fundamental misunderstanding of the normal hours ATA Afghanistan personnel were authorized to work, applicable law, and State Department policy during the period covered by the audit.

The audit cites DSSR 040(k)(3), which defines "basic compensation" to mean the rate fixed "administratively in conformity with rates paid by the Government for work of a comparable level of difficulty and responsibility in the continental United States, before any deduction is made and without taking into consideration any additional compensation such as overtime pay[,] . . . hazard differential, . . . post differential, and allowances." But, as the ASBCA observed in a substantially similar case, "there is nothing 'administratively in conformity with rates paid by the Government for work of a comparable level of difficulty and responsibility in the continental United States,' about the pay" ATA Afghanistan personnel received. *See CACI Int'l, Inc.*, ASBCA No. 60171, 16-1 BCA ¶ 36,442. Furthermore, while the definition of "basic compensation" excludes "overtime pay," [REDACTED] never applied overtime pay to the hours over 40 that the audit report calls "overtime hours." [REDACTED], ¶ 31; [REDACTED] Decl., ¶ 22.

The normal workweek for the ATA Afghanistan program was never limited to 40 hours. [REDACTED] Decl., ¶¶ 26-28; [REDACTED] Decl., ¶¶ 17-19. From even before the audit period, when Alutiiq subsidiary Alutiiq International Solutions, LLC ("AIS") held the prime ATA Afghanistan contract task order, and extending through the ATS and APT contract task orders, instructors were authorized 10 hours a day, while team leads and managers had an extra hour for administrative tasks. [REDACTED] Decl., ¶ 17. At first, the normal workweek was 7 days, but it was later reduced to 6 at State Department direction. [REDACTED] Decl., ¶ 32; [REDACTED] Decl., ¶ 27; [REDACTED] Decl., ¶ 18. As a result, instructors worked 70 or 60 hours each week, team leads and managers 77 or 66. [REDACTED] Decl., ¶ 33; [REDACTED] Decl., ¶ 28; [REDACTED] Decl., ¶ 19. While [REDACTED] applied an "OT" bill rate to hours over 40, it did not apply an overtime premium (time and a half); all the hours, from 60 to 77 as the case may be, were treated as straight time. [REDACTED] Decl., ¶¶ 29-31; [REDACTED] Decl., ¶¶ 21-22. The reason for the OT rate was that [REDACTED] recovered fringe benefits from the first 40 hours and therefore used an OT rate, which was typically lower, to avoid overcharging for benefits. [REDACTED] Decl., ¶¶ 32-35. In other words, the purpose of the OT rate was to save Alutiiq and ultimately the customer money. Ironically, the audit report's allegation that Alutiiq overcharged the State Department by paying ineligible allowances on overtime hours rests on a practice designed to avoid overcharging.

The applicable regulation is not DSSR 040(k), but FAR 22.103-1, which "specifies that, even when government contractor employees work more than 40 hours per week, if they are overseas, the hours are customary for the area, and they are not paid a premium for the work greater than 40 hours, these long hours are considered to be a 'normal workweek.'" *CACI*, 16-1 BCA ¶ 36,442 (citing 48 C.F.R. § 22.103-1). "Overtime," on the other hand, is defined by the FAR "as 'time worked by a contractor's employee in excess of the employee's normal workweek.'" *Id.* (quoting 48 C.F.R. § 2.101). The normal workweek for ATA Afghanistan personnel was always over 40 hours, as the State Department has recognized. [REDACTED] Decl., ¶ 20. Since ATA Afghanistan personnel worked more than

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40 hours per week, and were not paid an overtime premium for the work over 40 hours, the longer hours are considered part of their "normal workweek." See *CACI*, 16-1 BCA ¶ 36,442.

In *CACI*, the board considered nearly identical circumstances and held that the contractor employees were entitled to receive danger pay for all hours in their normal workweek, not just the first 40. See *id.* More to the point, the State Department has already acknowledged that the practice was to apply danger pay and post hardship differential to the normal workweek. ████████ Decl., ¶ 28. The State Department issued a memo in 2018 restricting post hardship differential and danger pay to 40 hours per week. *Id.*, ¶ 25. After the instructors objected, the State Department sent an email to the prime contractor, Miracle Systems, rescinding the memo and observing, "We will revert the procedures and business practices as in existence prior to the date of this memo." *Id.*, ¶¶ 26-27 (emphasis added).

There is simply no merit to the audit report's contention that Alutiiq invoiced ineligible post hardship differential and danger pay. As for the allegation that Alutiiq invoiced \$1,219,732 of post hardship differential and danger pay where no basic compensation hours were worked, Alutiiq's reconciliation of sample invoices found that all but \$44,601.36 (less than four percent) relate to labor costs billed in other invoices. ████████ ¶¶ 14-15. If necessary, Alutiiq will address the remaining four percent if requested by the contracting officer.

5. Finding 2019-05

Alutiiq disagrees with Finding 2019-05, which questions \$3,625 on the grounds that "Alutiiq treated the subcontractor's general and administrative (G&A) costs as direct cost and applied an additional G&A rate to its calculation of travel costs." Alutiiq's proposal to the State Department included G&A allocated to subcontractor travel and G&A. The proposal was accepted, and Alutiiq subsequently invoiced in accordance with it.

FAR 31.203(d) states: "Once an appropriate base for allocating indirect costs has been accepted, the contractor shall not fragment the base by removing individual elements. All items properly includable in an indirect cost base shall bear a pro rata share of indirect costs" The allocation base for Alutiiq's G&A during the years subject to this audit was calculated on a total cost basis, including subcontractor G&A. Alutiiq's G&A included executive, accounting, finance, IT, and HR costs. Alutiiq's G&A costs were thus separate and distinct from ████████ G&A costs. The Defense Contract Audit Agency audited Alutiiq for 2014 through 2017, and the base was accepted with only minor adjustments.

6. Finding 2019-06

Finally, Alutiiq disagrees with Finding 2019-06 concerning the submission of progress and monthly activity reports for the subject task orders. First, this is an incurred cost, not performance, audit. More to the point, the State Department has already acknowledged that Alutiiq met its contractual obligations: Alutiiq's final Contractor Performance Assessment Report notes: "All deliverables were delivered in [a] timely manner." (Emphasis added).

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CONCLUSION

Alutiiq's subcontractor labor costs were supported by timesheets that were never questioned by the State Department and meet applicable federal standards. The application of post hardship differential and danger pay allowances to what was a normal workweek for the ATA Afghanistan program is consistent with federal law and then-prevailing State Department practice for the program. In the time permitted, Alutiiq has shown the error of the audit report with respect to 98 percent of the questioned costs and stands ready to address any questions the contracting officer may have.

Sincerely,



Chief Financial Officer
Afognak Native Corporation,
sole member of Alutiiq, LLC

cc:



Appendix B – Auditor’s Response to Management Comments

Williams, Adley & Company-DC, LLP (Williams Adley or auditor) has reviewed the letter dated April 15, 2020, containing Alutiiq Technical Services, LLC and Alutiiq Professional Training, LLC (hereinafter collectively referred to as “Alutiiq” or auditee) responses to the draft audit report. In consideration of those views, we have included the following rebuttal to certain matters presented by the auditee regarding findings 2019-01, 2019-02, 2019-03, 2019-04 and 2019-05. Whereas finding 2019-06 did not contain any questioned costs, we have not included a rebuttal for the response to that finding.

Williams Adley did not deem it necessary to modify any of the questioned costs in the report based on our review of management’s comments, but did make the following revisions to the report:

- Deleted the sentence in the “Condition” paragraph in Finding 2019-01 that Alutiiq relied on the amount of labor costs presented on the subcontractor’s invoices to determine how much to charge the contract task orders because timesheets had not been provided by the subcontractor. The condition remains that documentation to support subcontractor timekeeping was missing during the audit, but while timesheets are a recommended best practice, they are not required.
- Deleted references within Findings 2019-01 and 2019-02 related to Alutiiq not having a subcontractor monitoring process that included periodic site visits or desk reviews of its subcontractors. While periodic site visits or desk reviews can be a beneficial component of a robust subcontractor monitoring plan, they are not required.

Finding 2019-01

Alutiiq disagrees with this finding and asserts that it did require subcontractors to submit documentation, that the subcontractors did submit timesheets with every invoice and that Alutiiq carefully reviewed the time and attendance data contained in the timesheets. Further, Alutiiq contends that it was not obligated to conduct site visits or desk reviews of its subcontractors where the State Department did not question Alutiiq’s costs or supporting documentation. As such, Alutiiq disagrees with the questioned cost related to this finding.

Williams Adley requested, but did not receive, documentation to support \$5,532,853 in subcontractor labor costs billed to the government under the two contract task orders we tested during our audit. As such, the finding and recommendations remain unchanged.

Finding 2019-02

Alutiiq disagrees with this finding and asserts that it conducted a reconciliation of “sample invoices” and found only \$168,639.65 in questioned costs. As a result, Alutiiq claims that a full three-fourths of the other direct costs (ODCs) the auditor questioned were supported.

Williams Adley is unaware of Alutiiq’s reconciliation or how it arrived at its questioned cost figure for ODCs. The auditor was not provided with documentation to support the amount questioned during the audit, and therefore, the finding and recommendations remain as stated.

Finding 2019-03

Alutiiq disagrees with this finding and asserts that it found support for the questioned travel costs that the audit report overlooked. The auditee then describes responses to certain questions the auditor presented to Alutiiq regarding travel costs.

While Williams Adley acknowledges the explanations provided in Alutiiq's response, sufficient audit evidence was not presented to the auditor to support travel costs that we questioned. In addition, Alutiiq did not address in its response the reason why it charged the government for first and business class air travel which is prohibited by government regulations. As such, the finding and recommendations remain unchanged.

Finding 2019-04

Alutiiq disagrees with this finding and asserts that there is no merit to the audit report contention that the auditee billed for ineligible post hardship differential and danger pay. In support of its argument, Alutiiq claims that the normal workweek was always greater than 40 hours, which allowed it to save money by not paying overtime, and its reconciliation of sample invoices revealed that all but \$44,601.36 of the post hardship differential and danger pay relate to labor hours billed on other invoices.

Williams Adley is unaware of Alutiiq's reconciliation or how it was conducted. We contend that post hardship differential and danger pay are allocated using the basic compensation that was earned. Although Alutiiq may have paid the same rate of pay for overtime work, it was still defined as overtime pay and not basic compensation. By Alutiiq's own assertion, its subcontractor used 40 hours to determine benefits, which we interpret as meaning 40 hours is the standard for basic compensation. As such, the finding and recommendations remain as stated.

Finding 2019-05

Alutiiq disagrees with this finding and asserts that its proposal to the State Department included general and administrative (G&A) costs allocated to the subcontractor travel and G&A, that the State Department accepted Alutiiq's proposal and Alutiiq billed accordingly. Alutiiq also states that the Defense Contract Audit Agency audited Alutiiq for 2014 through 2017 and accepted its G&A allocation base with only minor adjustments.

Williams Adley maintains that a subcontractor's G&A costs are not direct costs and are identified separately for that purpose. The regulations at 48 CFR 31.203(b) clearly define indirect costs and how such costs are to be calculated. While Alutiiq's proposal to the Department of State may have included G&A costs allocated to the subcontractor's travel and G&A, Alutiiq is bound by the terms and conditions of its contract task orders and the federal regulations related to direct and indirect costs included therein. Nothing in the auditee's response has changed this fact, and so the finding and recommendations remain unchanged.

Appendix C – Special Purpose Financial Statement of Alutiiq Technical Services, LLC**Alutiiq Technical Services, LLC
Special Purpose Financial Statement
March 1, 2014 through August 31, 2016**

	BUDGET	ACTUAL
Revenues		
SAQMMA14F0927	\$14,584,474	\$14,584,474
Costs Incurred		
Subcontractor - Labor	9,579,042	9,579,042
Subcontractor - ODC	5,005,432	5,005,432
Total Costs Incurred	\$ 14,584,474	\$ 14,584,474
Outstanding Balance	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

Alutiiq Technical Services, LLC
Notes to the Special Purpose Financial Statement⁹
March 1, 2014 through August 31, 2016

(1) Status and Operation

Alutiiq Technical Services, LLC (ATS) is an Alaska limited liability company that provides the highest quality products and professional services for our Federal customers and private sector partners. With a wide variety of diverse capabilities and past performance, ATS provides a wealth of domestic and international experience supporting mission-critical Federal requirements throughout the continental U.S., Mexico, Columbia, Afghanistan and Japan.

Established on 12/05/2011, ATS entered into the U.S. Small Business Administration's 8(a) Business Development Program on 03/22/2013; it graduated from the 8(a) program on 11/06/2018. Its main customers are the U.S. Department of State, U.S. Coast Guard National Guard Bureau, and U.S. Naval Air Systems Command. With its head office located at 3909 Arctic Blvd, Anchorage, AK, ATS also maintains additional field and project offices.

ATS maintains a customer-centric approach to global operations, which integrates multiple contract management plans focusing on compliance and performance, all in an effort to meet contract specifications and program stakeholder expectations. ATS has learned how to align our objectives for managing schedule, staffing, procurement, cost, communications, and quality control with the objectives of our customers. ATS is committed to delivering solutions with meaningful results.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Special Purpose Finance Statement (Statement) includes costs incurred under Contract Number SAWMMA14F0927 for the Camp Watan Afghanistan/Embedded Staff/RPM for the period of March 1, 2014 through August 31, 2016. Because the Statement presents only a selected portion of the operations of ATS, it is not intended to and does not present the financial position, changes in assets, or cash flows of ATS.

Basis of Accounting

These special purpose financial statements have been prepared on accrual basis of accounting. Expenses are recognized following the cost principles in Title 48,

⁹ The Notes to the Special Purpose Financial Statement are the responsibility of Alutiiq's management.

Part 31 of the Code of Federal Regulations, wherein certain types of expenses are not allowable and are limited as to reimbursement.

Currency

For purposes of preparing the Special Purpose Financial Statement, conversions from local currency to United States dollars were not required. All transactions are recorded in U.S. dollars.

(3) Revenue

As of August 31, 2016 (the end of the audited period), ATS had reported \$14,584,474 in revenue.

(4) Cost Categories

The budget categories, represented by Contract Line Item Numbers (“CLINs”), reflect the budget line items presented within the final approved contract along with associated modifications to the task order dated September 19, 2017.

Subcontractors – Labor represents subcontractor labor costs incurred on a fixed price labor CLIN.

Subcontractors – ODC represents subcontractor hazard pay, danger pay, travel costs, and indirect costs for actual costs incurred in performance of the task order.

(5) Reconciliation – Outstanding Balance

As of September 19, 2017, there was no outstanding balance under ATS contract number SAWMMA14F0927.

 Appendix D – Special Purpose Financial Statement of Alutiiq Professional Training, LLC

Alutiiq Professional Training, LLC
Special Purpose Financial Statement
September 1, 2016 through August 31, 2017

	BUDGET	ACTUAL
Revenues		
SAQMMA16F5001	\$5,681,813	\$5,681,813
Costs Incurred		
Subcontractor - Labor	3,701,021	3,701,021
Subcontractor - ODC	1,980,792	1,980,792
Total Costs Incurred	\$5,681,813	\$5,681,813
Outstanding Balance	\$ -	\$ -

The accompanying notes are an integral part of this statement.

Alutiiq Professional Training, LLC
Notes to the Special Purpose Financial Statement¹⁰
September 1, 2016 through August 31, 2017

(1) Status and Operation

Alutiiq Professional Training, LLC (APT) is an Alaska limited liability company that provides the highest quality products and professional services for our Federal customers and private sector partners. With a wide variety of diverse capabilities and past performance, APT provides a wealth of domestic and international experience supporting mission-critical Federal requirements throughout the continental U.S., Afghanistan and Africa.

Established on 12/03/2012, APT entered into the U.S. Small Business Administration's 8(a) Business Development Program on 04/25/2014; it graduated from the 8(a) program on 06/25/2019. Its main customers are the Department of State, U.S. Coast Guard National Guard Bureau, Department of Energy, and Centers for Disease Control. With its head office located at 3909 Arctic Blvd, Anchorage, AK, APT also maintains additional field and project offices.

APT maintains a customer-centric approach to global operations, which integrates multiple contract management plans focusing on compliance and performance, all in an effort to meet contract specifications and program stakeholder expectations. APT has learned how to align our objectives for managing schedule, staffing, procurement, cost, communications, and quality control with the objectives of our customers. APT is committed to delivering solutions with meaningful results.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Special Purpose Finance Statement (Statement) includes costs incurred under Contract Number SAQMMA16D0127/SAQMMA16F5001 for the ATA Staffing 2016 Kabul, Afghanistan for the period of September 1, 2016 through August 31, 2017. Because the Statement presents only a selected portion of the operations of APT, it is not intended to and does not present the financial position, changes in assets, or cash flows of APT.

Basis of Accounting

These special purpose financial statements have been prepared on accrual basis of accounting. Expenses are recognized following the cost principles in Title 48,

¹⁰ The Notes to the Special Purpose Financial Statement are the responsibility of Alutiiq's management.

Part 31 of the Code of Federal Regulations, wherein certain types of expenses are not allowable and are limited as to reimbursement.

Currency

For purposes of preparing the Special Purpose Financial Statement, conversions from local currency to United States dollars were not required. All transactions are recorded in U.S. dollars.

(3) Revenue

As of August 31, 2017 (the end of the audited period), APT had reported \$5,681,813 in revenue.

(4) Cost Categories

The budget categories, represented by Contract Line Item Numbers (“CLINs”), reflect the budget line items presented within the final approved contract along with associated modifications to the task order dated June 11, 2018.

Subcontractors – Labor represents subcontractor labor costs incurred on a fixed price labor CLIN.

Subcontractors – ODC represents subcontractor hazard pay, danger pay, travel costs, and indirect costs for actual costs incurred in performance of the task order.

(5) Reconciliation – Outstanding Balance

As of June 11, 2018, there was no outstanding balance under APT contract number SAQMMA16F5001.

Appendix E – Combined ATS and APT Special Purpose Financial Statement

Alutiiq Inc.
Combined Special Purpose Financial Statement
For Task Order Contracts
SAQMMA14F0927 and SAQMMA16F5001
For the period ended August 31, 2017

	ATS		APT		Combined	
	Budget	Actual	Budget	Actual	Budget	Actual
<i>Revenues</i>	\$14,584,474	\$14,584,474	\$5,681,813	\$5,681,813	\$20,266,287	\$20,266,287
<i>Costs Incurred</i>						
Sub - Labor	9,579,042	9,579,042	3,701,021	3,701,021	13,280,063	13,280,063
Sub - ODC	5,005,432	5,005,432	1,980,792	1,980,792	6,986,224	6,986,224
Total Costs Incurred	\$14,584,474	\$14,584,474	\$5,681,813	\$5,681,813	\$20,266,287	\$20,266,287
<i>Outstanding Balance</i>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

SIGAR's Mission

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

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

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

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- Phone Afghanistan: +93 (0) 700-10-7300
- Phone DSN Afghanistan: 318-237-3912 ext. 7303
- Phone International: +1-866-329-8893
- Phone DSN International: 312-664-0378
- U.S. fax: +1-703-601-4065

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