

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 21-27 Financial Audit

Department of the Army's Operations and
Maintenance Support and Networking
Services for the Afghan National Army
Network Operations Center: Audit of Costs
Incurred by IAP Worldwide Services Inc.

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



MARCH
2021

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On October 25, 2018, the Department of the Army's Contracting Command awarded IAP Worldwide Services Inc. (IAP) a 5-year cost-plus-fixed-fee task order worth up to \$55,111,961 to provide operations and maintenance support and networking services for the Afghan National Army Network Operations Center. The objective of the task order is to help the Afghan Ministry of Defense achieve its goals through effective, efficient information technology. The Army has modified the task order eight times, but has not changed the value or period of performance, which runs from October 25, 2018, to November 24, 2023.

SIGAR's financial audit, performed by Castro & Company LLC (Castro), reviewed \$19,398,780 in costs charged to the task order from November 25, 2018, through November 24, 2019. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in IAP's internal controls related to the task order; (2) identify and report on instances of material noncompliance with the terms of the task order and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether IAP has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of IAP's Special Purpose Financial Statement (SPFS). See Castro'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 wherein Castro did not comply, in all material respects, with U.S. generally accepted government auditing standards.

March 2021

Department of the Army's Operations and Maintenance Support and Networking Services for the Afghan National Army Network Operations Center: Audit of Costs Incurred by IAP Worldwide Services Inc.

SIGAR 21-27-FA

WHAT SIGAR FOUND

Castro identified two material weaknesses and one significant deficiency in IAP's internal controls, and two instances of noncompliance with the terms of the task order. For example, IAP did not keep documentation to show that its Operations Technical Representative acknowledged receiving materials and services, and approved eight invoices from subcontractors. Additionally, IAP paid more for labor than the amounts recorded on one subcontractor's timesheets.

Because of the internal control issues and instances of noncompliance, Castro identified \$819,426 in total questioned costs, consisting of \$818,664 in unsupported costs—costs not supported with adequate documentation or that do not have required prior approval—and \$762 in ineligible costs—costs prohibited by the agreements and applicable laws and regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Labor	\$0	\$217,348	\$217,348
Travel	\$0	████████	████████
Other Direct Costs	\$762	\$0	\$762
Fixed Fee	\$0	████████	████████
Total Costs	\$762	\$818,664	\$819,426

Castro identified one prior audit that was relevant to IAP's task order. It had five findings that could have a material effect on the SPFS. Castro conducted follow-up procedures and concluded that IAP had not addressed one of the findings adequately.

Castro issued a qualified opinion on IAP's SPFS because of the material weaknesses related to the company's subcontractor invoice process, and because the \$819,426 in total questioned costs are material to the SPFS.

WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the responsible contract officer at the Department of the Army:

- 1. Determine the allowability of and recover, as appropriate, \$819,426 in questioned costs identified in the report.**
- 2. Advise IAP to address the report's three internal control findings.**
- 3. Advise IAP to address the report's two noncompliance findings.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

March 17, 2021

The Honorable Lloyd J. Austin III
Secretary of Defense

The Honorable John E. Whitley
Acting Secretary of the Army

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

We contracted with Castro & Company LLC (Castro) to audit the costs incurred by IAP Worldwide Services Inc. (IAP) under a cost-plus-fixed-fee task order from Army Contracting Command to provide operations and maintenance support and networking services for the Afghan National Army Network Operations Center. The objective of the task order is to help the Afghan Ministry of Defense achieve its goals through effective, efficient information technology.¹ Castro reviewed \$19,398,780 in costs charged to the task order from November 25, 2018, through November 24, 2019. Our contract with Castro required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Based on the results of the audit, SIGAR recommends that the responsible contract officer at the Department of the Army:

1. **Determine the allowability of and recover, as appropriate, \$819,426 in questioned costs identified in the report.**
2. **Advise IAP to address the report's three internal control findings.**
3. **Advise IAP to address the report's two noncompliance findings.**

The results of Castro's audit are discussed in detail in the attached report. We reviewed the report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on IAP's Special Purpose Financial Statement. We also express no opinion on the effectiveness of IAP's internal controls or compliance with the agreements, laws, and regulations. Castro is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances in which Castro 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 planned completion for the recommendations 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-193)

¹ The task order number is 0005 under contract no. W15P7T-17-D-0146.



**Special Inspector General for Afghanistan Reconstruction
Financial Audit of Costs Incurred
by IAP Worldwide Services, Inc. under
Contract No. W15P7T-17-D-0146, Task Order 0005
For the period of November 25, 2018 through November 24, 2019**

February 4, 2021

**Special Inspector General for Afghanistan Reconstruction
Financial Audit of Costs Incurred
by IAP Worldwide Services, Inc. under
Contract No. W15P7T-17-D-0146, Task Order 0005
For the Period of November 25, 2018 through November 24, 2019**

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Transmittal Letter

February 4, 2021

To the Board of Directors of IAP Worldwide Services, Inc.
7315 North Atlantic Avenue
Cape Canaveral, FL 32920

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

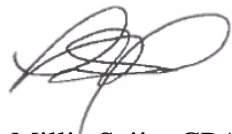
Castro & Company, LLC (Castro) hereby provides to you our final report, which reflects results from the procedures we completed during our financial audit of costs incurred of IAP Worldwide Services, Inc.'s (IAP) Special Purpose Financial Statement (the Statement) for costs billed under the Army Contracting Command (ACC) Contract No. W15P7T-17-D-0146, Task Order 0005, for the period of November 25, 2018 through November 24, 2019 in support of the Afghan National Army Network Operations and Maintenance Support effort.

Within the pages that follow, we have provided a summary of the work performed, as well as the results, findings, and recommendations. In addition, we have incorporated the Independent Auditor's Report on the Special Purpose Financial Statement, Independent Auditor's Report on Internal Control, and Independent Auditor's Report on Compliance. We do not express an opinion on the summary or any information preceding our reports.

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

Thank you for providing us the opportunity to work with you and to conduct the financial audit of costs incurred by IAP under the above referenced ACC-funded project.

Sincerely,



Millie Seijo, CPA
Partner

**Special Inspector General for Afghanistan Reconstruction
 Financial Audit of Costs Incurred
 by IAP Worldwide Services, Inc. under
 Contract No. W15P7T-17-D-0146, Task Order 0005
 For the Period of November 25, 2018 through November 24, 2019**

Summary

Background

On October 25, 2018, the Army Contracting Command (ACC) awarded a cost-plus-fixed-fee task order to IAP to assist the Afghan National Army Network Operations Center, Transition Operations, and Maintenance Support efforts (the Ministry of Defense Program). The objective of the task order is to help the Afghan Ministry of Defense achieve its goals through effective and efficient use of information technologies. For over 60 years, IAP has been a provider of global-scale logistics, facilities management, and advanced professional technical services.

ACC’s Contract No. W15P7T-17-D-0146, Task Order 0005, includes a base period plus four option periods which extend through November 24, 2023 and a ceiling amount of \$55,111,961. The task order has been modified eight times, increasing the obligated amount from \$11,468,524 to \$29,079,916 and revising the period of performance end dates for the base and first option periods. Modifications that resulted in funding changes, adjustments to the period of performance, and/or changes in scope are summarized below.

Modification No.	Highlights
03	<ul style="list-style-type: none"> ▪ Increased the obligated amount by \$8,160,380
05	<ul style="list-style-type: none"> ▪ Exercised Option Period 1 ▪ Revised the Base Period of performance from November 25, 2018 through November 24, 2019 to November 25, 2018 through May 24, 2019 ▪ Revised the first Option Period’s period of performance from November 25, 2019 through November 24, 2020 to May 25, 2019 through November 24, 2019
07	<ul style="list-style-type: none"> ▪ Increased the obligated amount by \$2,000,000
08	<ul style="list-style-type: none"> ▪ Increased the obligated amount by \$7,451,012

The audit’s scope included activity within the period of November 25, 2018 through November 24, 2019. Within the period under audit, IAP reported \$19,398,780 in total revenue, which consisted of [REDACTED] in reimbursable costs and [REDACTED] in fixed fee earned under the task order.

Work Performed

Castro & Company, LLC (Castro) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of costs incurred of IAP’s Special Purpose Financial Statement (the Statement) for costs incurred under Contract No. W15P7T-17-D-0146, Task Order 0005.

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Objectives Defined by SIGAR

The following audit objectives were defined by SIGAR within the Statement of Work (SOW) for Financial Audits of Costs Incurred by Organizations Contracted by the U.S. Government for Reconstruction Activities in Afghanistan:

Audit Objective 1 – Special Purpose Financial Statement

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

Audit Objective 2 – Internal Controls

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

Audit Objective 3 – Compliance

Perform tests to determine whether IAP complied, in all material respects, with the terms and conditions of the contract and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the 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 IAP 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 scope of our audit covers IAP's costs incurred under Contract No. W15P7T-17-D-0146, Task Order 0005, for the period of November 25, 2018 through November 24, 2019. Within the period under audit, IAP reported \$19,398,780 in total revenue, which consisted of [REDACTED] in reimbursable costs and [REDACTED] in fixed fee earned under the task order. The audit was limited to those matters and procedures pertinent to the task order that have a direct and material effect on the Statement. The audit also included an evaluation of the presentation, content, and underlying records of the Statement. Further, the audit included reviewing the financial records that support the Statement to determine if there were material misstatements and if the Statement was presented

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by IAP Worldwide Services, Inc. under
Contract No. W15P7T-17-D-0146, Task Order 0005
For the Period of November 25, 2018 through November 24, 2019**

in the format required by SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

- Budget Management;
- Cash Management;
- Disbursements (payroll and non-payroll transactions);
- Financial Reporting; and
- Procurement and Inventory Management.

Methodology

Our audit was performed in accordance with United States Generally Accepted Government Auditing Standards (GAGAS or the “Yellow Book”) issued by the Comptroller General of the U.S. Government Accountability Office (GAO) (2011 Revision). To meet the abovementioned objectives, we designed our audit procedures to include the following:

Audit Objective 1 – Special Purpose Financial Statement

Transactions were selected from the general ledger detail supporting the Statement and were tested to determine if the transactions were recorded accurately and consistent with the terms and conditions of the task order; were incurred within the period covered by the Statement; were appropriately allocated to the task order; and were adequately supported.

Audit Objective 2 – Internal Controls

Castro obtained and reviewed IAP’s policies and procedures to gain an understanding of the system of internal control established by IAP during the period of performance. Additionally, Castro conducted interviews with management to obtain an understanding of the processes that were in place during the period of performance. The system of internal control is intended to provide reasonable assurance of achieving reliable financial reporting and compliance with applicable laws and regulations. Castro confirmed internal controls identified by IAP and performed testing over certain key controls to understand if they were implemented as designed.

Audit Objective 3 – Compliance

Castro reviewed the task order issued by ACC to identify criteria against which to test the Statement. Using various sampling techniques, Castro selected transactions, vouchers for payment submitted to ACC, procurements, government property, and reports for testing. Supporting documentation was provided by IAP and subsequently evaluated to assess IAP’s compliance. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in accordance with the provisional billing rate letters issued by the Defense Contract Management Agency (DCMA).

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Audit Objective 4 – Corrective Action on Prior Findings and Recommendations

Castro inquired of IAP, SIGAR, and ACC representatives regarding prior audits, reviews, or assessments that were pertinent to the audit scope. Castro also conducted an independent search of publicly available information to identify audit and review reports.

Summary of Results

Upon completion of Castro’s procedures, a qualified opinion was issued on the Statement due to \$819,426 in material questioned costs. We also reported on IAP’s internal control and compliance with contract terms, laws, and regulations. Two material weaknesses and one significant deficiency in internal control were reported, see Independent Auditor’s Report on Internal Control on page 13. Two of these three findings were classified as instances of noncompliance, see the Independent Auditor’s Report on Compliance on page 15. In situations in which control and compliance findings pertained to the same matter, the findings were consolidated within a single finding.

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

Castro reported \$819,426 in questioned costs. SIGAR requires questioned costs be classified as either “ineligible” or “unsupported.” SIGAR defines ineligible costs as those that are explicitly questioned because they are unreasonable, prohibited by the audited contract or applicable laws and regulations, or that are unrelated to the award. Unsupported costs are those that are not supported with adequate documentation or did not have the required prior approvals or authorizations.

Finally, Castro conducted procedures to determine whether adequate corrective action was taken in response to prior year audit findings and recommendations applicable to this audit. Castro obtained SIGAR Audit Report 19-17, “Department of the Army’s Afghan Ministry of Interior’s Network Operations Center and Joint Operations Center Project: Audit of Costs Incurred by IAP Worldwide Services, Inc.”, covering the period of May 12, 2016 through July 31, 2018. The one audit report contained five findings related to labor requirements, timekeeping, and ineligible and unsupported costs. Castro concluded that IAP took adequate corrective action on four of the five identified matters that could have a direct and material effect on the Special Purpose Financial Statement or other financial data significant to the audit objectives. The specific results of the follow-up procedures and the status of the findings are noted within Section II: Summary Schedule of Prior Audit, Review and Assessment Findings.

This summary is intended to present an overview of the results of the procedures completed for the purpose described herein and is not intended to be a representation of the audit results in their entirety.

**Special Inspector General for Afghanistan Reconstruction
 Financial Audit of Costs Incurred
 by IAP Worldwide Services, Inc. under
 Contract No. W15P7T-17-D-0146, Task Order 0005
 For the Period of November 25, 2018 through November 24, 2019**

Schedule of Findings and Questioned Costs

Finding No.	Finding Name	Classification	Questioned Costs
2020-01	Unallowable Travel Costs Incurred	Internal Control – Significant Deficiency and Noncompliance	\$ 762
2020-02	Subcontractor Invoices for Materials and Other Direct Costs Missing Approvals	Internal Control – Material Weakness and Noncompliance	\$ 601,316
2020-03	Unsupported Subcontractor Labor Costs Incurred	Internal Control – Material Weakness	\$ 217,348
Total Questioned Costs			\$ 819,426

Summary of Management Comments

IAP’s management disagreed with findings 2020-01, 2020-02, and 2020-03. The complete response received can be found in **Appendix A** to this report. The disagreements presented within management’s response to the audit findings resulted primarily from:

1. Finding 2020-01: IAP asserts that its financial and accounting records clearly document these questioned costs were incurred and that the costs were incurred to the benefit of the subject contract delivery order and in accordance with the terms of the contract. Additionally, IAP has proactively moved the VISA penalty fee to unallowable and credited ACC.
2. Finding 2020-02: IAP states that approval processes are in place, which have been continuously refined over the course of the contract. Additionally, IAP believes that adequate support has been provided to establish that the costs were incurred to the benefit of the subject delivery order and that they were approved for payment to the subcontractor.
3. Finding 2020-03: IAP asserts that its financial and accounting records clearly document that these costs were properly incurred to the benefit of the subject delivery order and in accordance with the terms of the subcontract to the complete satisfaction of ACC.

Castro did not deem it necessary to modify any of the questioned costs in the report based on its review of management’s response. Our rebuttal to management’s response is detailed in **Appendix B** of this report.

References to Appendices

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

Independent Auditor's Report on the Special Purpose Financial Statement

To the Board of Directors of IAP Worldwide Services, Inc.
7315 North Atlantic Avenue
Cape Canaveral, Florida 23920

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

Report on the Special Purpose Financial Statement

We have audited the Special Purpose Financial Statement (the Statement) of IAP Worldwide Services, Inc. (IAP) and the related notes to the Statement, with respect to the Army Contracting Command (ACC) Contract No. W15P7T-17-D-0146, Task Order 0005, for the period of November 25, 2018 through November 24, 2019.

Management's Responsibility for the Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of the Statement in accordance with the requirements provided by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 the Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement.

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

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

Basis for Qualified Opinion

We noted two material weaknesses in adherence to invoicing and unsupported labor costs for subcontractors, which contributed to \$818,664 of the \$819,426 in questioned costs and increases the risk of unsupported costs being paid inadvertently by ACC. The total questioned cost amount is considered material to the Statement.

Opinion

In our opinion, except for the effects of the \$819,426 in questioned costs noted in the Basis for Qualified Opinion paragraph, the Statement referred to above presents fairly, in all material respects, the revenues earned, costs incurred, and balances for the indicated period in accordance with the terms of the agreements and in conformity with the basis of accounting described below.

Basis of Accounting

We draw attention to Note 2 to the Statement, which describes the basis of accounting. As described in Note 2 to the Statement, the Statement is prepared by IAP on the basis of the requirements provided by SIGAR, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 22, 2020, on our consideration of IAP's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering IAP's internal control over financial reporting and compliance.

Restriction on Use

Our report is intended solely for the information of IAP, the ACC, 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.



Alexandria, VA
October 22, 2020

IAP Worldwide Services, Inc.
Special Purpose Financial Statement
Contract No. W15P7T-17-D-0146, Task Order 0005¹
November 25, 2018 through November 24, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Questioned Costs</u>		<u>Notes</u>
				<u>Unsupported</u>	<u>Total Questioned Costs</u>	
Revenues						
W15P7T-17-D-0146, Task Order 0005	[REDACTED]	19,398,780	-	-	-	4
Total Revenue	\$ [REDACTED]	\$ 19,398,780	\$ -	\$ -	\$ -	
Costs Incurred						
Labor	[REDACTED]	[REDACTED]	-	217,348	217,348	6 C
Material	[REDACTED]	[REDACTED]	-	[REDACTED]	[REDACTED]	B
Travel	[REDACTED]	[REDACTED]	762	-	762	A
Other Direct Costs	[REDACTED]	[REDACTED]	-	[REDACTED]	[REDACTED]	B
Total Costs Incurred	\$ [REDACTED]	\$ [REDACTED]	\$ 762	\$ 818,664	\$ 819,426	
Fixed Fee	[REDACTED]	[REDACTED]	-	-	-	
Total Costs Incurred plus Fixed Fee	\$ [REDACTED]	\$ 19,398,780	\$ 762	\$ 818,664	\$ 819,426	
Outstanding Balance	\$ -	\$ -				7

¹ The accompanying notes to the Special Purpose Financial Statement and Notes to the Questioned Costs Presented on the Special Purpose Financial Statement are an integral part of this Statement.

IAP Worldwide Services, Inc.
Notes to the Special Purpose Financial Statement²
Contract No. W15P7T-17-D-0146, Task Order 0005
November 25, 2018 through November 24, 2019

Note 1. Basis of Presentation

The accompanying Special Purpose Financial Statement (the Statement) includes costs incurred under Contract No. W15P7T-17-D-0146, Task Order 0005, for the Ministry of Defense (MOD) Program for the period of November 25, 2018 to November 24, 2019. Because the Statement presents only a selected portion of the operations of the company, it is not intended to and does not present the financial position, changes in net assets, or cash flows of IAP Worldwide Services, Inc. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the Federal Contract No. W15P7T-17-D-0146, TO0005. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Basis of Accounting

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

Note 3. Foreign Currency Conversion Method

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

Note 4. Revenues

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

Note 5. Revenue Recognition

IAP recognizes revenue in accordance with generally accepted accounting principles for this timeframe. Revenue noted in the "Budget" and "Actual" is detailed in the footnotes on the Statement.

² The Notes to the Special Purpose Financial Statement are the responsibility of IAP.

Note 6. Costs Incurred by Budget Category

The budget categories presented, and associated amounts reflect the budget line items within the final, approved contract budget adopted as a component of the Modification number 008 to the contract dated October 22, 2019.

Note 7. Balance

The outstanding fund balance presented on the Statement represents the difference between revenues earned and costs incurred such that an amount greater than \$0 would reflect that revenues have been earned that exceed the costs incurred or charged to the contract and an amount less than \$0 would indicate that costs have been incurred but are pending additional evaluation before a final determination of allowability and amount of revenue earned may be made. The difference between the “Budget or Funded” Revenue and “Actual” Revenue column represents accrued costs and fee not yet billed, plus future costs Budgeted/Funded not yet incurred or billed as of November 24, 2019.

Note 8. Currency

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

Note 9. Program Status

The MOD contract remains active and is currently in Option period 2 of the contract.

Note 10. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the November 25, 2018 through November 24, 2019 period covered by the Statement. Management has performed their analysis through October 22, 2020 the date through which the Statement was available to be issued. IAP concluded that no subsequent events have occurred that would require recognition or disclosure in the Statement.

IAP Worldwide Services, Inc.
Notes to the Questioned Costs Presented on the Special Purpose Financial Statement³
Contract No. W15P7T-17-D-0146, Task Order 0005
November 25, 2018 through November 24, 2019

- A.** Finding 2020-01 questioned \$762 as a result of ineligible travel costs charged to the U.S. Government. The costs were associated with business class airfare that was purchased without prior approval from the Contracting Officer's Representative (COR), and ineligible fees that were charged to the U.S. Government.
- B.** Finding 2020-02 questioned \$601,316 as a result of unsupported subcontractor ODCs and materials charged to the U.S. Government. The costs were associated with subcontractor invoices for ODCs and materials that were missing approval from IAP's Operation's Technical Representative.
- C.** Finding 2020-03 questioned \$217,348 as a result of payments made to a subcontractor charged to the U.S. Government for labor hours that were not adequately supported by subcontractor timesheets.

³ The Notes to Questioned Costs presented on the Special Purpose Financial Statement were prepared by the auditor for informational purposes only and as such are not part of the audited Special Purpose Financial Statement.

Independent Auditor's Report on Internal Control

To the Board of Directors of IAP Worldwide Services, Inc.
7315 North Atlantic Avenue
Cape Canaveral, Florida 23920

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

We have audited the Special Purpose Financial Statement (the Statement) 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 IAP Worldwide Services, Inc. (IAP), under Army Contracting Command (ACC) Contract No. W15P7T-17-D-0146, Task Order 0005, for the period of November 25, 2018 through November 24, 2019. We have issued our report thereon dated October 22, 2020.

Internal Control over Financial Reporting

IAP's management is responsible for establishing and maintaining effective internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the contract; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of presentation described in Note 1 to the Statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the Statement for the period of November 25, 2018 through November 24, 2019, we considered IAP's internal controls to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of IAP's internal control. Accordingly, we do not express an opinion on the effectiveness of IAP'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 IAP'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 second 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 two material weaknesses in internal control as defined above and described in Findings 2020-02 and 2020-03 and one significant deficiency in internal control as defined above and described in Finding 2020-01 in the attached Schedule of Findings and Questioned Costs.

IAP's Response to the Findings

IAP's response to the findings identified in our audit are described in Appendix A to our report. IAP's response was not subject to the auditing procedures applied in the audit of the 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 IAP's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering IAP's internal control. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

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

Castro & Company, LLC

Alexandria, VA
October 22, 2020

Independent Auditor's Report on Compliance

To the Board of Directors of IAP Worldwide Services, Inc.
7315 North Atlantic Avenue
Cape Canaveral, Florida 23920

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

We have audited the Special Purpose Financial Statement (the Statement) 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 IAP Worldwide Services, Inc. (IAP), under Army Contracting Command (ACC) Contract No. W15P7T-17-D-0146, Task Order 0005, for the period of November 25, 2018 through November 24, 2019. We have issued our report thereon dated October 22, 2020.

Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the task order is the responsibility of IAP management.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. The instances of noncompliance are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2020-01 and 2020-02.

IAP's Response to the Findings

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

Purpose of this Report

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

Restriction on Use

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

Castro & Company, LLC

Alexandria, VA
October 22, 2020

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Section I: Schedule of Findings and Questioned Costs

Finding 2020-01: Unallowable Travel Costs Incurred (Significant Deficiency and Noncompliance)

Condition: We examined 11 transactions out of 70 records supporting \$17,867 in travel transactions from a total of \$27,515. During our testing, we noted four instances associated with three transactions where IAP Worldwide Services, Inc. (IAP) billed ineligible costs without justification or prior approval for the costs incurred and reimbursed by the Government. We noted the following exceptions and questioned costs:

- For one instance, IAP incurred a VISA penalty fee as a result of coordination issues with the sponsorship vendor. This resulted in [REDACTED] of ineligible travel costs which were not allowable under the task order.
- For two instances, IAP incurred travel costs that exceeded the lowest priced airfare available in the amount of [REDACTED]. In the instances identified, IAP purchased business class airfare for flights to and from Kabul; however, IAP was unable to provide documentation of prior approval from the Contracting Officer's Representative (COR) for the purchase of the business class airfare. Additionally, we noted that for one of the sampled items IAP incurred an exchange fee for airfare, which was not allowable under the task order, in the amount of [REDACTED]. These two sample items resulted in [REDACTED] and [REDACTED] of ineligible questioned costs, respectively.

Criteria:

Federal Acquisition Regulation (FAR) Part 31.201-2(d), *Determining Allowability*, states:

“A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of OK a claimed cost that is inadequately supported.”

FAR Part 31.201-4, *Determining Allocability*, states:

“A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a Government contract if it –

- (a) Is incurred specifically for the contract;
- (b) Benefits both the contract and other work, and can be distributed to them in a reasonable proportion to the benefits received; or
- (c) Is necessary to the overall operation of the business, although the direct relationship to any particular cost objective cannot be shown.”

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FAR 31.205-46 (b), *Travel Costs*, states:

“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, required travel during unreasonable hours, excessively prolong travel, result in increased costs 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.”

FAR 31.205-46 (a)(3), *Travel Costs*, states:

“In special or unusual situations, actual costs in excess of the above-referenced maximum per diem rates are allowable provided that such amounts do not exceed the higher amounts authorized for Federal civilian employees as permitted in the regulations referenced in (a)(2)(i), (ii), or (iii) of this section. For such higher amounts to be allowable, all of the following conditions must be met:

- (i) One of the conditions warranting approval of the actual expense method, as set forth in the regulations referenced in paragraphs (a)(2)(i), (ii), or (iii) of this section, must exist.
- (ii) A written justification for use of the higher amounts must be approved by an officer of the contractor’s organization or designee to ensure that the authority is properly administered and controlled to prevent abuse.
- (iii) If it becomes necessary to exercise the authority to use the higher actual expense method repetitively or on a continuing basis in a particular area, the contractor must obtain advance approval from the contracting officer.
- (iv) Documentation to support actual costs incurred shall be in accordance with the contractor’s established practices, subject to paragraph (a)(7) of this section, and provided that a receipt is required for each expenditure of \$75.00 or more. The approved justification required by paragraph (a)(3)(ii) of this section and, if applicable, paragraph (a)(3)(iii) of this section must be retained.”

Responsive Strategic Sourcing for Services (RS3) Task Order Performance Work Statement (PWS) Afghan National Police Network Operations Center (NOC) Operations and Maintenance Support, *Section 4.0 Travel*, states that:

“Costs for transportation shall be based upon mileage rates, actual costs incurred, or a combination thereof, provided the method used results in a reasonable charge. Travel costs will be considered reasonable and allowable only to the extent that they do not exceed on a daily basis, the maximum per diem rates in effect at the time of the travel. The Joint

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Federal Travel Regulations (JFTR), while not wholly applicable to contractors, shall provide the basis for the determination as to reasonable and allowable. Maximum use is to be made of the lowest available customary standard coach or equivalent airfare accommodations available during normal business hours. Using Government funds to pay for premium travel (including first and business class) is not allowable unless specifically authorized. Exceptions for the use of premium travel shall be approved in writing by the COR prior to travel.

Prior to incurring necessary travel meeting the above requirements, the contractor shall submit a travel request for advance review and consideration for approval by the authorized Government appointee (Contracting Officer, Contracting Officer’s Representative, or designee). Travel costs that have not been approved in advance may not be paid by the Government.”

IAP’s 2020 Accounting System Narrative, *Section C.6 Timely Payment of Direct Cost Vendors*, states:

Reimbursement of employee travel costs are predominantly managed through Concur, a third-party vendor, with automated disbursements based on IAP approval of expense report details. Expense reports are first reviewed by the employee’s direct supervisor, then reviewed again by AP [accounts payable] to verify that reimbursement requested are in conformance with company policy and applicable regulations. Travel expenses for some contracts are processed manually and undergo review from the employee’s supervisor and a Finance member assigned to the contract before being reviewed by AP and approved for payment through the standard AP process.

Cause: IAP billed the task order for ineligible travel costs, including fees, without first obtaining approval from the Army Contracting Command (ACC) or justification for the costs incurred. According to IAP, these costs were not reviewed by accounts payable to ensure they were reimbursed in conformance with company policy and applicable regulations.

Effect: Lack of effective controls over reimbursable expenses to ensure that costs are allowable under the contract and in conformity with travel regulations by IAP’s accounts payable office hindered IAP’s ability to identify ineligible travel costs prior to incurring and billing them to ACC. As a result, unauthorized and ineligible costs are presented for reimbursement by the U.S. Government.

Questioned Costs: \$762 in ineligible travel costs as summarize in the following table:

Contract No.	Travel Transaction Type	Direct Questioned Costs	Total Overhead Questioned Costs	Total G&A Questioned Costs	Total Questioned Costs
W15P7T-17-D-0146 Task Order 0005	VISA Fees	\$			

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Contract No.	Travel Transaction Type	Direct Questioned Costs	Total Overhead Questioned Costs	Total G&A Questioned Costs	Total Questioned Costs
W15P7T-17-D-0146 Task Order 0005	Airfare	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
W15P7T-17-D-0146 Task Order 0005	Airfare	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Grand Total		\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ 762

Recommendations: We recommend IAP:

- 1) Revise policies and procedures to include a supervisory review within accounts payable over the review of all travel related expenses to ensure that only allowable, reasonable, and approved costs are charged to the U.S. Government in accordance with FAR, Federal Travel Regulations, and other applicable requirements.
- 2) Provide ACC with adequate documentation to support that the travel costs billed were approved by the COR or reimburse ACC for the portion of \$762 that remains ineligible.

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Finding 2020-02: Subcontractor Invoices for Materials and Other Direct Costs Missing Approvals (Material Weakness and Noncompliance)

Condition: We examined 57 of 2,201 records supporting \$1,748,850 ODC transactions from a total of \$2,231,956; and 56 of 221 records supporting \$9,135,006 Material transactions from a total of \$9,997,843. During our testing, we obtained and reviewed invoices and related supporting documentation submitted for direct costs incurred. We noted six transactions related to subcontractor ODCs and two transactions related to subcontractor materials where IAP did not maintain documentation to verify that the invoices were approved by the Operation’s Technical Representative acknowledging services had been performed and that the invoices were approved for payment, and thus not complying with FAR as it pertains to maintaining records to demonstrate that costs claimed have been incurred and are allocable to the contract.

Criteria:

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

“A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.”

[REDACTED]

[REDACTED]

Cause: IAP failed to retain adequate documentation that the Operation’s Technical Representative reviewed and approved eight invoices totaling \$601,316.

Effect: Failure to maintain documentation acknowledging receipt of services and invoice approval contributes to a lax internal control environment and may result in costs charged to the task order that are fraudulent, unallowable, or unallocable.

Questioned Costs: [REDACTED] and [REDACTED] in unsupported subcontract Materials and ODCs, respectively, as summarized below:

Contract No.	Cost Element	Invoice ID	Direct Questioned Costs	Applied Overhead Questioned Costs	Applied G&A Questioned Costs	Total Questioned Costs
W15P7T-17-D-0146 Task Order 0005	ODCs	IAPMOD100211	\$ [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
W15P7T-17-D-0146 Task Order 0005	ODCs	IAPMOD100181	\$ [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
W15P7T-17-D-0146 Task Order 0005	ODCs	IAPMOD100191	\$ [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

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Contract No.	Cost Element	Invoice ID	Direct Questioned Costs	Applied Overhead Questioned Costs	Applied G&A Questioned Costs	Total Questioned Costs
W15P7T-17-D-0146 Task Order 0005	ODCs	IAPMOD100241	\$			
W15P7T-17-D-0146 Task Order 0005	ODCs	IAPMOD100221	\$			
W15P7T-17-D-0146 Task Order 0005	ODCs	IAPMOD100201	\$			
Subtotal – ODC’s			\$			
W15P7T-17-D-0146 Task Order 0005	Materials	ZT19261	\$			
W15P7T-17-D-0146 Task Order 0005	Materials	ZT19261	\$			
Subtotal – Materials			\$			
Grand Total			\$	\$	\$	\$ 601,316

Recommendations: We recommend IAP:

- 1) Revise its Subcontractor Invoice Process to strengthen its procedures to ensure IAP’s operations personnel retain all supporting documentation to evidence services and or materials were received, and support that invoices were approved by the Operation’s Technical Representative.
- 2) Provide ACC with adequate documentation to support the approval of the subcontractor ODCs billed to the task order or reimburse ACC for the portion of \$601,316 that remains unsupported.

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Finding 2020-03: Unsupported Subcontractor Labor Costs Incurred (Material Weakness)

Condition: We examined 20 out of 47 records supporting \$4,911,889 in subcontractor labor transactions from a total of \$4,963,285. During our review, we obtained and reviewed invoices and related timesheets to substantiate the labor costs billed to and reimbursed by the Government. For one subcontractor, Zohak Technology (ZTech), we noted issues with six transactions. Below is a breakdown of the issues noted and the associated questioned costs:

- For two transactions related to two ZTech labor invoices (Invoice No.'s ZT19285, and ZT19301), the hours billed within the invoices were less than the hours reported within the subcontractor timesheets. This did not result in questioned costs as IAP did not overbill the Government. This resulted in [REDACTED] underbilled subcontractor labor costs.
- For one transaction related to a ZTech labor invoice, the invoice included labor charges for [REDACTED] hours worked; however, the approved timesheet provided by IAP indicated that only [REDACTED] hours of work were performed. This resulted in [REDACTED] of billed unsupported subcontractor labor costs.
- For one transaction related to a ZTech labor invoice, the invoice included labor charges for [REDACTED] hours worked; however, the approved timesheet provided by IAP indicated that only [REDACTED] hours of work were performed. This resulted in [REDACTED] of billed unsupported subcontractor labor costs.
- For one transaction related to a ZTech labor invoice, the invoice included labor charges for an additional employee who we could not track to the approved timesheet. This resulted in [REDACTED] of billed unsupported subcontractor labor costs.
- For one transaction related to a ZTech labor invoice, IAP reported that ZTech did not provide a copy of the timesheet; therefore, Castro was unable to verify the hours billed on the invoice matched the hours recorded in the timesheet. This resulted in [REDACTED] of billed unsupported subcontractor labor costs.

Criteria:

FAR Part 31.201-2 *Determining Allowability*, states:

“(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

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in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.”

[REDACTED]

[REDACTED]

[REDACTED]

Cause: IAP does not have effective 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, IAP does not have a well-developed subcontractor monitoring process to retain proper documentation to support costs incurred and invoiced to IAP. As a result, IAP did not have the documentation to support the labor disbursements sampled.

Effect: IAP did not properly account for labor costs charged to its contract task order. 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, ACC overpaid IAP for labor that was not supported by documentation.

Questioned Cost: \$217,348 in unsupported subcontractor labor costs as summarized in the following table:

Contract No.	Invoice Number	Direct Questioned Costs	Applied Overhead Questioned Costs	Applied G&A Questioned Costs	Associated Fixed Fee	Total Questioned Costs
W15P7T-17-D-0146 Task Order 0005	ZT1959	\$ [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
W15P7T-17-D-0146 Task Order 0005	ZT19271	\$ [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
W15P7T-17-D-0146 Task Order 0005	ZT18222	\$ [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
W15P7T-17-D-0146 Task Order 0005	ZT18219	\$ [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Grand Total		\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ -	\$ 217,348

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Recommendations: We recommend that IAP:

- 1) Revise its Subcontractor Invoice Process to include a supervisory review over the verification of subcontractor invoice calculations and mathematical accuracy to ensure that subcontractor labor costs billed to the U.S. Government are allowable, reasonable, and allocable in accordance with IAP's internal policies, FAR, and other applicable requirements.
- 2) Revise its Subcontractor Invoice Process and provide training to relevant employees to ensure IAP retains all supporting documentation, to include timesheets, to ensure adherence to federal requirements and its revised subcontractor invoice process so that such records may be made available upon request.
- 3) Provide the ACC with adequate supporting documentation, such as timesheets, for the \$217,348 in subcontractor labor costs that have been questioned as unsupported under Contract No. W15P7T-17-D-0146, Task No. 0005, or reimburse the ACC for those amounts for which supporting documentation cannot be provided.

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Section II – Summary Schedule of Prior Audit, Review and Assessment Findings

Castro & Company, LLC (Castro) obtained and reviewed SIGAR Audit Report 19-17, “Department of the Army’s Afghan Ministry of Interior’s Network Operations Center and Joint Operations Center Project: Audit of Costs Incurred by IAP Worldwide Services, Inc.”, covering the period of May 12, 2016 through July 31, 2018. The audit was performed by Conrad, LLP (Conrad) and identified five findings that required corrective action. Based on Castro’s procedures, we concluded that IAP had taken corrective action to address all the recommendations.

The audit report prepared by Conrad for the period from May 12, 2016 through July 31, 2018 disclosed total questioned costs in the amount of \$2,231,965 of unsupported/ineligible costs. During our fieldwork, Castro conducted follow-up procedures related to the findings and provided the current status of each finding as noted below:

Finding 2018-01: Employees did not meet the qualifications as required by the Performance Work (“PWS”) (Noncompliance)

Condition: The audit disclosed that IAP’s three employees and two subcontractor employees did not meet the minimum certifications requirement per the Performance Work Statement (PWS) or IAP’s job description. This resulted in \$1,413,156 ineligible questioned costs.

Current Status: During our procedures, we reviewed the policies and procedures pertaining to this issue to ensure adequate procedures were in place, and we also interviewed management to obtain an understanding of corrective action measures that were implemented. We reviewed employee qualification requirements as outlined within the PWS and did not identify any employees that did not meet the minimum requirements. While this issue was not repeated under the current contract for the period of November 25, 2018 through November 24, 2019, Castro found this issue had been repeated in a concurrent audit of IAP’s Contract No. W15P7T-17-D-0146, Task Order 0004. Therefore, Castro cannot conclude that adequate corrective action related to this finding has been taken.

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

Condition: The audit disclosed that IAP could not provide sufficient documentation to support that they had met the pre-deployment requirements. In addition, IAP could not provide background check documentation and job certifications required under the contract. This resulted in \$750,191 ineligible questioned costs.

Current Status: During our procedures, we reviewed the policies and procedures pertaining to this issue to ensure adequate procedures were in place, and we also interviewed management to obtain an understanding of corrective action measures that were implemented. We reviewed the employee’s personnel files and did not identify any employees that did not meet the pre-

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deployment requirements per the PWS. As the issue was not repeated under the current contract for the period of November 25, 2018 through November 24, 2019, Castro determined that IAP had adequately addressed this finding.

Finding 2018-03: Lack of adherence to IAP's timekeeping policy (Internal Control Significant Deficiency & Noncompliance)

Condition: The audit disclosed that 25 weekly timesheets where employees had entered time prior to the days occurred. In addition, it was noted that employees had recorded times after 9:00 am on the following day, which is a violation of the IAP's timekeeping policy. This resulted in \$37,389 unsupported questioned costs.

Current Status: During our testing, we reviewed timesheets submitted and approved by IAP personnel. We did not identify any instances where IAP personnel did not comply with the IAP timekeeping policy. As the issue was not repeated under the current contract for the period of November 25, 2018 through November 24, 2019, Castro determined that IAP had adequately addressed this finding.

Finding 2018-04: Duplicate cost claimed (Internal Control Deficiency)

Condition: The audit disclosed that IAP claimed a duplicate shipping charge related to a shipment of equipment to Kabul, Afghanistan totaling \$16,800. This resulted in \$18,328 ineligible questioned costs.

Current Status: During our audit procedures, we obtained the IAP's listing of disbursement transactions during the period under audit and scanned the listing of direct costs charged to the task order for accuracy. We reviewed the general ledger to determine whether costs incurred were recorded correctly, classified properly, and scanned the listing for duplicate transactions. We did not identify any duplicate transactions during our procedures. As the issue was not repeated under the current contract for the period of November 25, 2018 through November 24, 2019, Castro determined that IAP had adequately addressed this finding.

Finding 2018-05: Lack evidence to support reasonableness of consultant expense (Internal Control Deficiency)

Condition: The audit disclosed that IAP did not maintain any documentation to support the reasonableness of consultant services. This resulted in \$12,901 unsupported questioned costs.

Current Status: During our procedures we obtained IAP's listing of disbursement transactions during the period under audit scanned the listing of direct costs charged to the task order for accuracy. We reviewed the general ledger to determine whether costs incurred were recorded correctly, classified correctly, and scanned the listing for duplicate transactions. During our testing of disbursements, we reviewed the procurement files for all disbursement samples that met IAP's

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procurement criteria. IAP was able to provide adequate procurement documentation for all samples tested. As the issue was not repeated under the current contract for the period of November 25, 2018 through November 24, 2019, Castro determined that IAP had adequately addressed this finding.

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Appendix A – IAP’s Response to the Findings



January 12, 2021

Ms. Millie Seijo, CPA, Partner
Castro & Company, LLC
1635 King Street
Alexandria, VA 22314

SUBJECT: IAP Worldwide Services, Inc.’s Response to Results of Financial Audit of Costs Incurred Under Contract W15P7T-17-D-0146, Task Order Number 0005 Ministry of Defense’s Network Operations Center & Joint Operations Center Project for the Period November 25, 2018 through November 24, 2019

Dear Ms. Seijo,

On December 7, 2020 IAP Worldwide Services, Inc. (“IAP”) received a copy of a draft audit report from Castro, LLC. Regarding the work performed, the draft report states that:

“Castro & Company, LLC (Castro) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of costs incurred of IAP’s Special Purpose Financial Statement (the Statement) under Contract No. W15P7T-17-D-0146, Task Order 0005.”

The draft audit report correctly states that:

“The objective of the task order is to help the Afghan Ministry of the Interior achieve its goals through effective and efficient use of information technologies. Contract No. W15P7T-17-D-0146, Task Order 0005, includes a base period plus four option periods, which extend through November 25, 2023 and a ceiling amount of \$55,111,961. The task order has been modified eight times, increasing the obligated amount from \$11,468,524 to \$29,079,916 and revising the period of performance end dates for the base and first option periods.”

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

1. *“Express an opinion on whether IAP’s SPFS for the contract presents fairly, in all material respects, the revenues received, costs incurred, items directly procured by the U.S. Government, and the balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.*
2. *Evaluate and obtain sufficient understanding of IAP’s internal controls related to the contract, assess control risk, and identify and report on significant deficiencies including material internal control weaknesses.*

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

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

IAP provides herein its responsive comments to the findings of the draft report in the same order as those results are presented. IAP appreciates the opportunity to respond to the comprehensive audit by Castro and Company. IAP also appreciates the courteous and professional manner in which the audit was conducted. All assertions by the auditors were discussed during the audit and IAP believes that in many cases, sufficient documentation was provided to support the allowability, allocability and reasonableness of the costs incurred and charged to the task order.

The work on Task Orders 0004 and 0005 is performed in tandem for two customers, the Ministry of Defense and the Ministry of Interior. Therefore, many of the costs are split between the two contracts which accounts for similarities in IAP’s responses to the audit findings of the two respective reports.

In addressing the findings of the audit IAP believes that it is important to note that IAP successfully accomplished the mission in a dangerous and challenging environment and accomplished all tasks within the required timeline, to the satisfaction of its customer, the U.S. Army Contracting Command – Aberdeen Proving Grounds (ACC-APG) and Combined Security Transition Command-Afghanistan (CSTC-A) supporting their mission with the Afghanistan Ministry of Interior. At no time during performance of the contract did the customer notify IAP that it was not satisfied with the performance or qualifications of any of IAP’s personnel or that the mission was not being satisfactorily completed.

The draft report: The draft report on Page 5 states:

“Upon completion of Castro’s procedures, a qualified opinion was issued on the Statement due to \$819,426 in material questioned costs. We also reported on IAP’s internal control and compliance with contract terms, laws, and regulations. One material weakness, one significant deficiency, and one deficiency in internal control were reported, see Independent Auditor’s Report on Internal Control on page 13. Two of these three findings were classified as instances of noncompliance, see the Independent Auditor’s Report on Compliance on page 15.”

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IAP Response: IAP does not agree that the auditor’s opinion should be qualified. IAP believes that it has support for most of the costs questioned and the few remaining costs do not rise to the level of significance to warrant a qualified opinion regarding internal control or compliance concerns. Each of the categories of questioned costs and IAP’s responsive comments are addressed further herein.

Section I: Schedule of Findings and Questioned Costs

Finding No.	Finding Name	Classification	Questioned Costs
2020-01	Unallowable Travel Costs Incurred	Internal Control – Significant Deficiency and Noncompliance	\$ 762
2020-02	Subcontractor Invoices for Materials and Other Direct Costs Missing Approvals	Internal Control – Deficiency and Noncompliance	\$ 601,316
2020-03	Unsupported Subcontractor Labor Costs Incurred	Internal Control – Material Weakness	\$ 217,348
Total Questioned Costs			\$ 819,426

The questioned costs fall into different categories, as follows:

- 1) Finding 2020-01 questioned \$762 as a result of ineligible travel costs charged to the U.S. Government. The costs were associated with business class airfare that was purchased without prior approval from the Contracting Officer’s Representative (COR), and ineligible fees that were charged to the U.S. Government.
- 2) Finding 2020-02 questioned \$601,316 as a result of unsupported subcontractor ODCs and materials charged to the U.S. Government. The costs were associated with subcontractor invoices for ODCs and materials that were missing approval from IAP’s Operation’s Technical Representative.
- 3) Finding 2020-03 questioned \$217,348 as a result of payments made to a subcontractor charged to the U.S. Government for labor hours that were not adequately supported by subcontractor timesheets.

IAP’s Response to the Schedule of Findings and Questioned Costs

Finding 2020-01: *Unallowable Travel Costs Incurred (Significant Deficiency and Noncompliance).* The draft report asserts that IAP billed ineligible costs without justification or prior approval for the costs incurred and reimbursed by the Government. The auditors identified the ineligible costs as noted below:

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- *“For one instance, IAP incurred a VISA penalty fee as a result of coordination issues with the sponsorship vendor. This resulted in [REDACTED] of ineligible travel costs which were not allowable under the task order.*
- *For two instances, IAP incurred travel costs that exceeded the lowest priced airfare available in the amount of [REDACTED]. In the instances identified, IAP purchased business class airfare for flights to and from Kabul; however, IAP was unable to provide documentation of prior approval from the Contracting Officer’s Representative (COR) for the purchase of the business class airfare. Additionally, we noted that for one of the sampled items IAP incurred an exchange fee for airfare, which was not allowable under the task order, in the amount of [REDACTED]. These two sample items resulted in [REDACTED] and [REDACTED] of ineligible questioned costs, respectively.”*

The auditors made the following recommendation:

“We recommend IAP:

- 1) Revise policies and procedures to include a supervisory review within accounts payable over the review of all travel related expenses to ensure that only allowable, reasonable, and approved costs are charged to the U.S. Government in accordance with FAR, Federal Travel Regulations, and other applicable requirements.*
- 2) Provide ACC with adequate documentation to support that the travel costs billed were approved by the COR or reimburse ACC for the portion of \$762 that remains ineligible.”*

IAP Response to Finding 2020-01: IAP disagrees with the finding, conclusion, and the auditor’s interpretation of the incurred costs. Response to the individual costs is as follows:

- a. IAP incurred travel costs which included a VISA penalty fee as a result of coordination issues with the sponsorship vendor. Due to the immateriality of the costs and to resolve this issue, IAP has voluntarily moved these charges to unallowable and credited the customer.
- b. IAP purchased Business Class Airfare for personnel from Dubai to Kabul due to concerns over employee safety. The program manager authorized the Business class ticket to expedite the customs and immigration process and minimize employee risks associated with the hostile/dangerous environment of the Kabul airport. IAP recently received formal authorization from the COR authorizing Business Class Airfare for both Task Order 0004 and 0005 in recognition of these valid safety concerns. See Attachment A.

Conclusion: IAP’s financial and accounting records clearly document that these costs were properly incurred to the benefit of the subject contract delivery order and in accordance with the terms of the contract to the complete satisfaction of its customer. IAP believes that these few exceptions, less than 1% of costs incurred, do not indicate a systemic issue. In an abundance of

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caution, the costs for the visa penalty have been moved to unallowable and credited to the customer.

Finding 2020-02: *Subcontractor Invoices for Materials and Other Direct Costs Missing Approvals (Internal Control Deficiency).* The draft report asserts that IAP billed Subcontractor Invoices which were lacking adequate levels of management approval. The auditors identified the unapproved costs as noted below:

“We noted six transactions related to subcontractor ODCs and two transactions related to subcontractor materials where IAP did not maintain documentation to verify that the invoices were approved by the Operation’s Technical Representative acknowledging services had been performed and that the invoices were approved for payment, and thus not complying with FAR as it pertains to maintaining records to demonstrate that costs claimed have been incurred and are allocable to the contract.”

The auditors made the following recommendation:

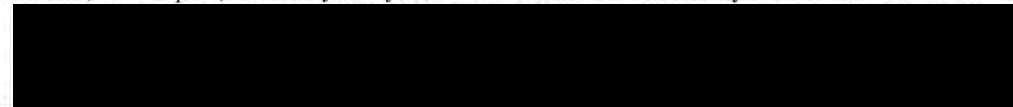
“We recommend IAP:

- 1) Revise its Subcontractor Invoice Process to strengthen its procedures to ensure IAP’s operations personnel retain all supporting documentation to evidence services and or materials were received, and support that invoices were approved by the Operation’s Technical Representative.*
- 2) Provide ACC with adequate documentation to support the approval of the subcontractor ODCs billed to the task order or reimburse ACC for the portion of \$601,316 that remains unsupported.”*

IAP Response to Finding 2020-02: IAP disagrees with the finding, conclusion, and the auditor’s interpretation of the incurred costs. IAP’s subcontractor invoice process requires approval by the subcontract administrator as well as an Operations representative and a financial analyst. IAP considers this to be an adequate level of review and approval. Examples of approvals on other invoices were provided to the audit team for months subsequent to the ones noted below. These examples showed the full implementation of the invoice approval process which includes the required signature and date on the vendor invoice by the Program Manager.

Questioned Subcontractor Invoices:

ODCs: Invoices IAPMOD100211, IAPMOD100181, IAPMOD100191, IAPMOD100241, IAPMOD100221, and IAPMOD100201 were for the lodging facility in Afghanistan for guest rooms, office space, laboratory and yard. These facilities are utilized by the IAP team and their



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requirements are performed outside of a US Military installation and therefore, the IAP team required a local lodging facility. Without these facilities, the team could not perform on the contract. The presence of the IAP team at the work locations and the completion of the work are evidence that these facilities were utilized.

Materials: Invoice ZT19261 is for Bandwidth for VSAT, Microwave and Fiber Optics. These services are essential to performing the scope of work in the contract. Without adequate bandwidth, the IAP team could not perform on the contract. The performance on the contract and the completion of the work are evidence that this service is being utilized.

Conclusion: IAP does not agree that this is a deficiency and a non-compliance as discussed above. IAP maintains that there were approval processes in place which continued to be refined over the course of the contract. IAP believes that it has provided adequate support to establish that the costs were incurred to the benefit of the subcontract delivery order and approved for payment to the subcontractor.

Finding 2020-03: *Unsupported Subcontractor Labor Costs Incurred (Material Weakness).* The draft report asserts that IAP billed Subcontractor Invoices which were lacking adequate levels of management approval. The auditors identified the unapproved costs as noted below:

- “For two transactions related to two ZTech labor invoices (Invoice No.’s ZT19285, and ZT19301), the hours billed within the invoices were less than the hours reported within the subcontractor timesheets. This did not result in questioned costs as IAP did not overbill the Government. This resulted in [REDACTED] underbilled subcontractor labor costs.
- For one transaction related to a ZTech labor invoice, the invoice included labor charges for [REDACTED] hours worked; however, the approved timesheet provided by IAP indicated that only [REDACTED] hours of work were performed. This resulted in [REDACTED] of billed unsupported subcontractor labor costs.
- For one transaction related to a ZTech labor invoice, the invoice included labor charges for [REDACTED] hours worked; however, the approved timesheet provided by IAP indicated that only [REDACTED] hours of work were performed. This resulted in [REDACTED] of billed unsupported subcontractor labor costs.
- For one transaction related to a ZTech labor invoice, the invoice included labor charges for an additional employee who we could not track to the approved timesheet. This resulted in \$2,070 of billed unsupported subcontractor labor costs.
- For one transaction related to a ZTech labor invoice, IAP reported that ZTech did not provide a copy of the timesheet; therefore, Castro was unable to verify the hours billed on the invoice matched the hours recorded in the timesheet. This resulted in [REDACTED] of billed unsupported subcontractor labor costs.”

The auditors made the following recommendation:

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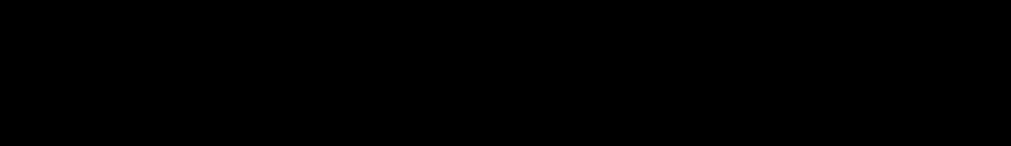
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"We recommend IAP:

- 1) Revise its Subcontractor Invoice Process to include a supervisory review over the verification of subcontractor invoice calculations and mathematical accuracy to ensure that subcontractor labor costs billed to the U.S. Government are allowable, reasonable, and allocable in accordance with IAP's internal policies, FAR, and other applicable requirements.*
- 2) Revise its Subcontractor Invoice Process and provide training to relevant employees to ensure IAP retains all supporting documentation, to include timesheets, to ensure adherence to federal requirements and its revised subcontractor invoice process so that such records may be made available upon request.*
- 3) Provide the ACC with adequate supporting documentation, such as timesheets, for the \$217,348 in subcontractor labor costs that have been questioned as unsupported under Contract No. W15P7T-17-D-0146, Task No. 0005, or reimburse the ACC for those amounts for which supporting documentation cannot be provided.*

IAP Response to Finding 2020-03: IAP disagrees with the finding, conclusion, and the auditor's



addition, and most importantly, the subcontract work was performed adequately in accordance with the requirements of the prime contract, as evidenced by the customer's positive contractor performance reviews.

Notwithstanding the above, IAP will obtain the missing timesheet from ZTech if Castro would like us to do so.

Conclusion: IAP's financial and accounting records clearly document that these subcontract costs were properly incurred to the benefit of the subject contract delivery order and in accordance with the terms of the contract to the complete satisfaction of its customer.

Section II – Summary Schedule of Prior Audit, Review and Assessment Findings

The prior audit was performed by Conrad, LLP (Conrad) and identified five findings that required corrective action. Based on Castro's procedures, Castro concluded that IAP had taken corrective action to address all the recommendations.

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

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In conclusion, IAP does not believe that there are sufficient findings to justify a qualified audit opinion. IAP has provided responsive comments and additional support for costs initially identified as ineligible or unsupported and, in some instances, IAP proactively moved questioned costs to unallowable. IAP requests that Castro carefully consider IAP's response in developing its final audit report.

Once again IAP states its appreciation to Castro's auditors for the open and professional manner in which they conducted their review of IAP's cost representations.

Please contact me directly at (321) 784-7358 or by e-mail at lynn.e.smey@iapws.com if you have any questions regarding this response.

Respectfully,

Lynn E.
Smey

Digitally signed by
Lynn E. Smey
Date: 2021.01.12
16:59:58 -05'00'

Lynn E. Smey,
Director of Internal Audit/Government Compliance

cc: Courtney Edison, Castro & Company
Charles Cosgrove, IAP CFO

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Appendix B – Auditor’s Rebuttal

Castro & Company, LLC (Castro) has reviewed IAP Worldwide Services Inc.’s (IAP) management response to the audit findings. In consideration of management’s views, the following rebuttal to certain matters presented by the auditee is included. A rebuttal has been included in those instances where management disagreed with the facts presented within the condition or otherwise did not concur with Castro’s recommendations. Management disagreed with findings 2020-01, 2020-02, and 2020-03. Castro’s rebuttal to IAP’s management response follows.

Finding 2020-01

IAP disagreed with this finding and after our review we noted the following matters:

- a. *VISA Penalty Fee* – Castro reviewed management’s response and confirm that IAP proactively moved the VISA penalty fee to unallowable due to the finding noted during our audit procedures. Since this issue was discovered as a result of our audit procedures and support was not provided to evidence the credit to ACC, the finding and questioned costs have not been adjusted.
- b. *Business Class Airfare* – Castro reviewed management’s response as well as the documentation provided to evidence prior approval from the COR authorizing business class airfare for safety reasons. Castro also understand management’s comments regarding business class tickets being purchased to expedite the customs and immigration process and reduce time spent within the airport due to the hostile/dangerous environment of Kabul. The support provided by IAP was obtained after the finding was noted and after the business airfare was booked. As a result, the finding and questioned costs have not been adjusted.

Finding 2020-02

Management disagreed with the finding due to management’s belief that there were approval processes in place which continued to be refined over the course of the contract and believed that it provided adequate support to establish that the costs were incurred to the benefit of the subcontract delivery order and approved for payment to the subcontractor.

Castro reviewed management’s response to the finding. Castro concurs with management’s response that IAP’s approval processes continued to be refined over the course of the contract and that the billed costs were allowable per the terms of the contract. However, the supporting documentation provided for the eight invoices did not include the adequate proof of approval that was evident in the other 105 samples tested, and Castro was unable to verify that the billed services had been performed. Therefore, the finding and questioned costs have not been adjusted.

Finding 2020-03

Management disagreed with the finding due to management’s belief that financial and accounting records clearly document that these subcontract costs were properly incurred to the benefit of the

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subject contract delivery order and in accordance with the terms of the contract to the complete satisfaction of ACC.

Castro reviewed the invoices that included discrepancies in the total hours billed based on management's response and noted that the subcontractor invoiced IAP for costs incurred using total hours as a base. As a result, Castro was unable to verify that the costs billed for services had been performed by the subcontractor. Additionally, IAP was unable to provide Castro with the subcontractor timesheet for one sample. Castro was unable to verify the headcount or hours worked by the subcontractor for the one invoice. As a result, the finding and questioned costs have not been adjusted.

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