

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 22-08 Financial Audit**

## Department of the Army's Ground Vehicle Support Program in Afghanistan: Audit of Costs Incurred by PAE Government Services Identified Over \$6 Million in Questioned Costs

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



DECEMBER  
2021

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On May 23, 2017, the Army Contracting Command awarded a \$142,061,874 cost-plus-incentive, fixed-fee contract to PAE Government Services, Inc. (PAE) to support the National Maintenance Strategy—Ground Vehicle Support program. The contract's objectives were to design and implement a training and mentoring program to build Afghan vehicle maintenance capacity and to provide direct logistics support to the Afghan National Defense Security Forces. The contract was modified 31 times and it included 4 option years, with a potential period of performance through August 30, 2022. The modifications increased the total contract value, should all option years be executed to \$858,498,850 and extended the period of performance for the base year from May 22, 2018 to August 30, 2019.

SIGAR's financial audit, performed by Conrad LLP (Conrad) reviewed \$284,463,142 in costs charged to the contract from May 23, 2017 through August 30, 2019. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in PAE's internal controls related to the contract; (2) identify and report on instances of material noncompliance with the terms of the contract and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether PAE has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of PAE's Special Purpose Financial Statement (SPFS). See Conrad'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 work performed. Accordingly, SIGAR oversaw the audit and reviewed its results. Our review disclosed no instances wherein Conrad did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

### December 2021

## Department of the Army's Ground Vehicle Support Program in Afghanistan: Audit of Costs Incurred by PAE Government Services Identified Over \$6 Million in Questioned Costs

### SIGAR 22-08-FA

#### WHAT SIGAR FOUND

Conrad identified three significant deficiencies and one material weakness in PAE's internal controls and four instances of noncompliance with the terms of the contract. For example, the auditors found that PAE was not able to provide sufficient supporting documentation for subcontractor costs. In addition, the auditors identified insufficient supporting documentation for charges related to staff onboarding and deployment readiness requirements.

Conrad identified \$6,393,062 in total questioned costs, consisting of \$4,653,401 unsupported costs—costs not supported with adequate documentation or that do not have required prior approval—and \$1,739,661 ineligible costs—costs prohibited by the contract and applicable laws and regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Contractor Logistic Support	\$219,545	\$151,473	\$371,018
DBA Insurance	(\$2,679)	\$0	(\$2,679)
Facilities Maintenance	\$8,559	\$563,781	\$572,340
Life Support	\$399,938	\$0	\$399,938
Material	(\$180,892)	\$989,640	\$808,748
Other Direct Costs	(\$16,972)	\$1,459,549	\$1,442,577
Security	\$66,999	\$845,587	\$912,586
Tools Equip Material	(\$12,296)	\$0	(\$12,296)
Train and Mentor	\$1,257,860	\$624,836	\$1,882,696
Travel	(\$401)	\$18,535	\$18,134
<b>Total Costs</b>	<b>\$1,739,661*</b>	<b>\$4,653,401</b>	<b>\$6,393,062</b>

\*Parenthesis in the table represent amount subtracted from questioned costs because PAE under charged the government. PAE improperly charged the government because it did not complete a true-up calculation using the approved final indirect cost rate.

Conrad identified three prior audit reports that were relevant to PAE's contract. The reports had eleven findings that could have a material effect on the SPFS and other financial data that were significant to this audit's objectives. Conrad conducted follow-up procedures and concluded that PAE took adequate corrective action on three of the findings. PAE had not addressed the other eight findings.

Conrad issued a modified opinion on PAE's SPFS, due to the significant amount of total questioned costs, substantial doubt about the trainers' and mentors' qualifications, and an ongoing fraud investigation.

#### WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the responsible contracting officer at Army Contracting Command:

- 1. Determine the allowability of and recover, as appropriate, \$6,393,062 in questioned costs identified in the report.**
- 2. Advise PAE to address the report's four internal control findings.**
- 3. Advise PAE to address the report's four noncompliance findings.**



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

December 1, 2021

The Honorable Lloyd J. Austin III  
Secretary of Defense

The Honorable Christine Wormuth  
Secretary of the Army

We contracted with Conrad LLP (Conrad) to audit the costs incurred by PAE Government Services Inc. (PAE) under a cost-plus-incentive-fixed-fee contract from the Army Contracting Command to support the National Maintenance Strategy–Ground Vehicle Support supporting the Afghan National Defense Security Forces.<sup>1</sup> The contract's objectives were to (1) design and implement a training and mentoring program to build Afghan vehicle maintenance capacity, and (2) provide direct logistics support to the Afghan National Defense Security Forces. Conrad reviewed \$284,463,142 in costs charged to the contract from May 23, 2017 through August 30, 2019. Our contract with Conrad required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Based on the results of the audit, SIGAR recommends that the responsible contracting officer at the Army Contracting Command:

- 1. Determine the allowability of and recover, as appropriate, \$6,393,062 in questioned costs identified in the report.**
- 2. Advise PAE to address the report's four internal control findings.**
- 3. Advise PAE to address the report's four noncompliance findings.**

Conrad discusses the results of the audit in detail in the attached report. We reviewed Conrad's report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on PAE's Special Purpose Financial Statement. We also express no opinion on the effectiveness of PAE's internal control or compliance with the contract, laws, and regulations. Conrad is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances in which Conrad did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

Please provide documentation related to corrective actions taken and/or target dates for planned completion for the recommendations to [sigar.pentagon.audits.mbx.recommendation-followup@mail.mil](mailto:sigar.pentagon.audits.mbx.recommendation-followup@mail.mil), within 60 days from the issue date of this report.

John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction

(F-208)

<sup>1</sup> The contract number is W56HZV-17-C-0117.

**PAE Government Services, Inc. (PAE)**

Contract No. W56HZV17C0117 Awarded by the Department of Defense Army  
Contracting Command (DOD-ACC)  
National Maintenance Strategy – Ground Vehicle Support (NMS-GVS)

For the period May 23, 2017 through August 30, 2019

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September 3, 2021

Board of Directors  
PAE Government Services, Inc.  
Arlington, VA

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

Conrad LLP (referred to as "Conrad" or "we") hereby provides to you our final report, which reflects results from the procedures we completed during our audit of PAE Government Services, Inc.'s ("PAE") Special Purpose Financial Statement ("SPFS") for costs incurred under Contract No. W56HZV17C0117 awarded by the Department of Defense Army Contracting Command ("DOD-ACC"), for the period of May 23, 2017 through August 30, 2019.

On July 22, 2021, we provided SIGAR with a draft report reflecting our audit procedures and results. PAE received a copy of the report on July 23, 2021; and provided written responses subsequent thereto. These responses have been considered in the formation of the final report, along with the written and oral feedback provided by SIGAR and PAE. PAE's responses and our corresponding auditor analysis are incorporated into this report following our audit reports.

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

Sincerely,

A handwritten signature in blue ink that reads "Conrad LLP".

Sam Perera, CPA, CFE, CITP, CGMA  
Partner

**PAE Government Services, Inc. (PAE)**

Financial Audit of Costs Incurred Under  
 Contract No. W56HZV17C0117 Awarded by the Department of Defense Army Contracting  
 Command (DOD-ACC)  
 National Maintenance Strategy – Ground Vehicle Support (NMS-GVS)

For the Period of May 23, 2017 through August 30, 2019

**Background**

On May 23, 2017, the Department of Defense Army Contracting Command (“DOD-ACC”) awarded to PAE Government Services, Inc. (“PAE”) a \$142,061,874 National Maintenance Strategy – Ground Vehicle Support (“Contract”) supporting the Afghan National Defense Security Forces. The Contract, W56HZV17C0117, is a cost-plus incentive/fixed fee type and includes one base and four option periods, with the original base period of performance running from May 23, 2017 through May 22, 2018. The objectives of the Contract include:

- 1) Design and implement a training and mentoring program to strengthen the Afghanistan National Defense Security Forces (“ANDSF”) independent capability for maintenance, sustainment, quality control processes, and supply chain management.
- 2) Provide contractor logistic support, across 12 locations, to ensure operational readiness while the ANDSF improves its capability.

The Contract has a total of thirty-one (31) modifications issued with an increased obligated funding value to \$858,498,850. Thirteen (13) of the thirty-one (31) modifications were issued to the Contract during the audit period which, 1) extended the base year period of performance to August 30, 2018, 2) exercised option year one with a period of performance from September 1, 2018 through August 30, 2019, 3) increased obligated funding from \$142,061,874 to \$515,725,788 for both the base year and option year one combined, and 4) confirmed that the period of performance with the four option years will end on August 30, 2022.

**Summary of Contract and Modifications**

Contract Number	Original			No. of Modifications	As Modified	
	Cost (\$)	Start	End		Total Final Budget (\$)	End
W56HZV17C0117	\$142,061,874	05/23/17	05/22/18	13	\$515,725,788	08/30/22

Modification Number	Period of Performance			Total Final Budget (\$)
	Increase Funding (\$)	Start	End	

**PAE Government Services, Inc. (PAE)**

Financial Audit of Costs Incurred Under  
Contract No. W56HZV17C0117 Awarded by the Department of Defense Army Contracting  
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For the Period of May 23, 2017 through August 30, 2019

1	No Change	09/19/17	12/29/17	\$142,061,874
2	No Change	05/22/18	08/30/18 <sup>1</sup>	\$142,061,874
3	\$361,394	No Change		\$142,423,268
6	\$10,885,608	No Change		\$153,308,876
7	\$63,118,640	No Change		\$216,427,516
8	\$138,517,865	No Change		\$354,945,381
9	\$4,384,199	No Change		\$359,329,580
10	\$22,895,165	No Change		\$382,224,745
11	\$8,153,796	No Change		\$390,378,541
12	\$2,517,262	No Change		\$392,895,803
13	\$122,830,985	No Change		\$515,726,788

**Work Performed**

Conrad LLP (“Conrad”) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) to conduct a financial audit of the Contract, as mentioned above, of PAE’s Special Purpose Financial Statement (“SPFS”) for costs incurred under the Contract totaling [REDACTED] for the period May 23, 2017 through August 30, 2019, which includes costs incurred under the base year and option year one.

A summary of the Contract to be audited is as follows:

Contract Number	Contract Period		Audit Period		Audit Amount*
	Start	End	Start	End	Cost (\$)
W56HZV17C0117	05/23/17	08/30/22	05/23/17	08/30/19	[REDACTED]

<sup>1</sup> Per Modification 0002 the period of performance (“PoP”) for option years 1-4 is for 12 months beginning the day after the prior PoP expires. Therefore, option year one PoP is 09/01/18 to 08/30/19.



## **PAE Government Services, Inc. (PAE)**

Financial Audit of Costs Incurred Under  
Contract No. W56HZV17C0117 Awarded by the Department of Defense Army Contracting  
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National Maintenance Strategy – Ground Vehicle Support (NMS-GVS)

For the Period of May 23, 2017 through August 30, 2019

\* Audit amount of [REDACTED] represents the costs incurred during the period of May 23, 2017 through August 30, 2019.

### **Objectives, Scope, and Methodology**

#### **Audit Objectives**

The objectives of the audit of the aforementioned awards include the following:

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

#### **Scope**

The scope of this audit included all costs incurred during the period of May 23, 2017 through August 30, 2019 totaling [REDACTED] under the Contract. Our testing of the indirect cost was limited to determining that the indirect cost was calculated using the approved Defense Contract Management Agency (“DCMA”) indirect cost final rate and provisional rate, as applicable for the given fiscal year, as approved in the Contract and subsequent applicable modifications.

#### **Methodology**

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

## **PAE Government Services, Inc. (PAE)**

Financial Audit of Costs Incurred Under  
Contract No. W56HZV17C0117 Awarded by the Department of Defense Army Contracting  
Command (DOD-ACC)  
National Maintenance Strategy – Ground Vehicle Support (NMS-GVS)

For the Period of May 23, 2017 through August 30, 2019

### Entrance Conference

An entrance conference was held on October 8, 2020 with representatives of PAE, Conrad, SIGAR, and DOD-ACC participating via conference call. The purpose of the entrance conference was to discuss the nature, timing, and extent of audit work to be performed, establish key contacts throughout the engagement, and schedule status briefings. We also discussed the timeframe for the completion of the audit.

### Planning

During our planning phase, we performed the following:

- Obtained an understanding of PAE Government Services, Inc.;
- Reviewed the Contract and modifications;
- Reviewed regulations specific to the Department of Defense that are applicable to the Contract;
- Performed a financial reconciliation; and
- Selected samples based on our sampling techniques. According to the approved Audit Plan, we used the detailed accounting records that were reconciled to the financial reports. Based upon the risk assessment and materiality included as part of the approved Audit Plan, we performed data mining to assess individual expenditure accounts and transactions that were considered to be high or medium to low risk for inclusion in our test of transactions. None of the populations were homogeneous in nature, which means none of the costs are identical in nature, thus statistical sampling was not used. All samples were selected on a judgmental basis. Our sampling methodology for judgmental samples was as follows:
  - For accounts that appear to contain unallowable and restricted items according to the terms of the Contract, Defense Federal Acquisition Regulations (“DFARS”), Federal Acquisition Regulations Part 31 and Part 52 (“FAR Part 31 and FAR Part 52”), and any other applicable regulations, we tested 100% of the transactions.
  - For related party transactions, we did not identify any related party transactions.
  - For high-risk cost categories, we sampled transactions greater than \$1,362,400 not to exceed 30% of the total amount expended for each cost category.
  - For medium risk cost categories, we sampled transactions greater than \$2,724,800 not to exceed 20% of the total amount expended for each cost category.

## **PAE Government Services, Inc. (PAE)**

### Financial Audit of Costs Incurred Under Contract No. W56HZV17C0117 Awarded by the Department of Defense Army Contracting Command (DOD-ACC) National Maintenance Strategy – Ground Vehicle Support (NMS-GVS)

For the Period of May 23, 2017 through August 30, 2019

- For low-risk cost categories, we sampled transactions that are greater than \$2,724,800 not to exceed 10% of the total amount expended for each cost category and not to exceed 50 transactions in total for all accounts comprising low risk cost categories.

#### Special Purpose Financial Statements

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Contract and the applicable general ledgers;
- Documented procedures associated with controlling funds, including bank accounts and bank reconciliations;
- Traced receipt of funds to the accounting records;
- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the Contract, and reasonable; and
- Reviewed personnel costs to ensure they are supported, authorized, reasonable, and allowable.

#### Internal Controls Related to the Contract

We reviewed PAE's internal controls related to the Contract to gain an understanding of the implemented system of internal control to obtain reasonable assurance of PAE's financial reporting function and compliance with applicable laws and regulations. This review was accomplished through interviews with management and key personnel, reviewing policies and procedures, and identifying key controls within significant transaction cycles and testing those key controls.

#### Compliance with the Contract's Requirements and Applicable Laws and Regulations

We performed tests of transactions to determine whether PAE complied, in all material respects, with the Contract's requirements, DFARS, FAR Part 31, FAR Part 52, and any other applicable laws and regulations. We also identified and reported on instances of material noncompliance with terms of the Contract and applicable laws and regulations, including potential fraud or abuse that may have occurred.

#### Corrective Action on Prior Findings and Recommendations

Conrad requested from PAE, as well as conducted a search online of various governmental websites, including SIGAR, Department of Defense, and other applicable Federal agencies, to identify previous engagements that could have a material effect on PAE's SPFS. For those engagements, Conrad evaluated the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS. See the Status of Prior Audit Findings section on page 44.

## **PAE Government Services, Inc. (PAE)**

Financial Audit of Costs Incurred Under  
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National Maintenance Strategy – Ground Vehicle Support (NMS-GVS)

For the Period of May 23, 2017 through August 30, 2019

### Exit Conference

An exit conference was held on March 30, 2021 via conference call. Participants included representatives from Conrad, PAE, SIGAR, and DOD-ACC. During the exit conference, we discussed the preliminary results of the audit and reporting process.

### **Summary of Results**

Upon completion of our audit of the costs incurred by PAE under their Contract with DOD-ACC, we issued a qualified opinion on the SPFS and identified four findings that amounted to \$6,393,062 in questioned costs. We have summarized the details of these results in the Findings and Questioned Costs subsection below. Our summary is intended to present an overview of the audit results and is not intended to be a representation of the audit's results in their entirety.

### Auditor's Opinion on the SPFS

Conrad issued a qualified opinion on the fairness of the presentation of the SPFS due to the following three significant issues. (1) We identified \$6,393,062 in total questioned costs, composed of \$1,739,661 in ineligible costs and \$4,653,401 in unsupported costs. Ineligible costs are explicitly questioned because they are unreasonable; prohibited by the award provisions or applicable laws and regulations; or not award related. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations. (2) We have substantial doubt about the trainers and mentors' qualifications which can potentially impact an estimated \$7,613,339 in costs on the SPFS.

### Findings and Questioned Costs

The four findings listed below are classified as either an internal control deficiency or noncompliance, or if both classifications were identified then a combination of both were presented. Also, internal control findings were classified as a significant deficiency, or a material weakness based on their impact on PAE's SPFS as well as the nature of the 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.

**PAE Government Services, Inc. (PAE)**

Financial Audit of Costs Incurred Under  
Contract No. W56HZV17C0117 Awarded by the Department of Defense Army Contracting  
Command (DOD-ACC)  
National Maintenance Strategy – Ground Vehicle Support (NMS-GVS)

For the Period of May 23, 2017 through August 30, 2019

<b>Finding Number</b>	<b>Nature of Finding</b>	<b>Matter</b>	<b>Ineligible Costs</b>	<b>Unsupported Costs</b>	<b>Cumulative Questioned Cost</b>
2021-01	Non-Compliance; Internal control – Material Weakness	Inadequate Supporting Documentation for Subcontractor Charges and Inadequate Subcontractor Monitoring.	\$1,223,431	\$3,861,954	\$5,085,385
2021-02	Non-Compliance; Internal Control – Significant Deficiency	Missing or Insufficient Support for Personnel Onboarding and Deployment Readiness Requirements	\$0	\$791,447	\$5,876,832
2021-03	Non-Compliance; Internal Control – Significant Deficiency	True-Up of Indirect Costs was Not Performed Within Contract Requirements	\$514,597	\$0	\$6,391,429
2021-04	Non-Compliance; Internal control – Significant Deficiency	Travel Costs for Flights Booked by AMS for PAE Employees Resulted in an Overcharge of Indirect Costs	\$1,633	\$0	\$6,393,062
<b>Total Questioned Costs</b>			<b>\$1,739,661</b>	<b>\$4,653,401</b>	<b>\$6,393,062</b>

Internal Control Findings

Our audit discovered four internal control findings, consisting of three significant deficiencies and one material weakness. See Independent Auditor’s Report on Internal Control on page 18.

Compliance Findings

The results of our testing disclosed four instances of non-compliance related to this audit. See the Independent Auditor’s Report on Compliance on page 20.

## **PAE Government Services, Inc. (PAE)**

Financial Audit of Costs Incurred Under  
Contract No. W56HZV17C0117 Awarded by the Department of Defense Army Contracting  
Command (DOD-ACC)  
National Maintenance Strategy – Ground Vehicle Support (NMS-GVS)

For the Period of May 23, 2017 through August 30, 2019

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

### Review of Prior Findings and Recommendations

Based on our request and search of prior engagements pertinent to PAE's activities under the Contract, we identified three prior engagements; SIGAR 19-06 Financial Audit titled "*Department of State's Security Support for Justice Sector, Corrections System, and Counter Narcotics Police Programs in Afghanistan: Audit of Costs Incurred by PAE Justice Support*", SIGAR 19-12 Financial Audit titled "Department of State's Support for Corrections System and National Justice Programs in Afghanistan: Audit of Costs Incurred by PAE Justice Support, and SIGAR 19-40 Financial Audit titled "Department of State's Afghanistan Interdiction and Support Services Program: Audit of Costs Incurred by PAE Justice Support." These three prior engagements contained eleven findings that could have a material effect on the SPFS or other financial data significant to the audit objectives. We reviewed the corrective actions taken to address these findings and recommendations. Our review procedures included follow-up discussions with management regarding corrective actions taken, reviewed evidence of revised policies and procedures or other applicable recommended actions, additionally we conducted tests of the similar areas surrounding these issues during our current audit. Based on our review, we have concluded that PAE did not adequately perform corrective actions on eight of the eleven findings. See Status of Prior Audit Findings on page 40 for a detailed description of the prior findings and recommendations.

### **Summary of PAE's Responses to Findings**

The following represents a summary of the responses provided by PAE to the findings identified in this report (the complete responses received can be found in Appendix A to this report):

- Finding 2021-01 - PAE disagrees with issue #1-14 and nearly all the questioned costs therein. PAE agrees with the auditor's regarding issues related to issues #15-16.
- Finding 2021-02 - PAE disagrees with the finding and stated it has provided Conrad all of the requested documentation, with the exception of one item, which PAE maintains was most certainly completed.
- Finding 2021-03 - PAE agrees that the remaining portion of the 2018 rate true-up was not issued within the contractual time frame and acknowledges a true-up is due to the Government.
- Finding 2021-04 - PAE agrees with the auditors that indirect costs for the travel flights were charged by both the Subcontractor and PAE. PAE does not agree that indirect costs were incorrectly applied, however, and therefore, the costs should not be questioned.



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

Board of Directors  
PAE Government Services, Inc.  
Arlington, VA

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

### Report on the Special Purpose Financial Statement

We have audited the accompanying Special Purpose Financial Statement of PAE Government Services, Inc. ("PAE") and the related notes to the Special Purpose Financial Statement, with respect to Contract No. W56HZV17C0117 ("Contract") awarded by the Department of Defense Army Contracting Command ("DOD-ACC") for the National Maintenance Strategy – Ground Vehicle Support ("NMS-GVS"), for the period of May 23, 2017 through August 30, 2019.

### Management's Responsibility for the Special Purpose Financial Statement

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

### Auditor's Responsibility

Our responsibility is to express an opinion on the Special Purpose Financial Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Special Purpose Financial Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Special Purpose Financial Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Special Purpose Financial Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the PAE's preparation and fair presentation of the Special Purpose Financial 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 PAE's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting

estimates made by management, as well as evaluating the overall presentation of the Special Purpose Financial Statement.

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

### **Basis for Qualified Opinion**

We identified \$6,393,062 in questioned costs resulting from deficiencies and material weaknesses in internal controls and non-compliance with the terms and conditions of the Contract. In addition to the questioned costs, we have substantial doubt regarding an estimated amount of \$7,613,339 of trainer and mentor costs charged to this Contract by PAE's largest subcontractor. These costs are charged to the cost categories of Train and Mentor, Contractor Logistics Support, and Life Support on the SPFS. We cannot conclude the costs are accurate, allowable, reasonable, or allocable as our testing identified pervasive errors and irregularities. [REDACTED]

[REDACTED] With all issues combined, the SPFS could be materially misstated.

### **Qualified Opinion**

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the revenue received, and costs incurred by PAE for Contract No. W56HZV17C0117 for the period of May 23, 2017 through August 30, 2019, in accordance with the basis of accounting described below.

### **Basis of Accounting**

We draw attention to Note 1 and Note 2 to the Special Purpose Financial Statement, which describes the basis of presentation and accounting. As described in Notes 1 and 2 to the Statement, the Statement is prepared by PAE 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.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our reports dated September 3, 2021 on our consideration of PAE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, terms of the Contract and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PAE's internal control over financial reporting and compliance.

### **Restriction on Use**

This report is intended for the information of PAE Government Services, Inc., the United States Department of Defense Army Contracting Command, and the Special Inspector General for Afghanistan Reconstruction, and is not intended to be and should not be used by anyone other



than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

*Conrad LLP*

Lake Forest, California  
September 3, 2021

(Continued)

**PAE Government Services, Inc. (PAE)**

Financial Audit of Costs Incurred Under  
 Contract No. W56HZV17C0117 Awarded by the Department of Defense Army Contracting  
 Command (DOD-ACC)  
 National Maintenance Strategy – Ground Vehicle Support (NMS-GVS)

For the Period of May 23, 2017 through August 30, 2019

**Special Purpose Financial Statement**

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>			<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	
Revenues:						
Base Year		<u>\$192,313,512</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Option Year 1		<u>92,149,630</u>				
Total revenues		<u>284,463,142</u>	<u>-</u>	<u>-</u>	<u>-</u>	(4)
Costs incurred <sup>2</sup> :						
CLS			219,545	151,473	371,018	(A), (B), (C)
DBA			(2,679)	-	(2,679)	(C)
Facilities Maintenance			8,559	563,781	572,340	(A), (C)
Fastrax - FFP			-	-	-	
Life Support			399,938	-	399,938	(A), (C)
Material			(180,892)	989,640	808,748	(A), (C)
Other Direct Costs			(16,972)	1,459,549	1,442,577	(A), (B), (C)
Phase In - FFP			-	-	-	
Security			66,999	845,587	912,586	(A), (B), (C)
Technical Information – FFP			-	-	-	
Tools Equip Material			(12,296)	-	(12,296)	(C)
Train and Mentor			1,257,860	624,836	1,882,696	(A), (B), (C)
Travel			(401)	18,535	18,134	(A), (B), (C), (D)
Fee			<u>-</u>	<u>-</u>	<u>-</u>	
Total costs incurred		<u>\$284,463,142</u>	<u>\$1,739,661</u>	<u>\$4,653,401</u>	<u>\$6,393,062</u>	
Outstanding fund balance	<u>\$ 9,618,868</u>	<u>\$ -</u>				(9)

<sup>2</sup> Associated indirect costs are included in each cost category.

## **PAE Government Services, Inc. (PAE)**

Financial Audit of Costs Incurred Under  
Contract No. W56HZV17C0117 Awarded by the Department of Defense Army Contracting  
Command (DOD-ACC)  
National Maintenance Strategy – Ground Vehicle Support (NMS-GVS)

For the Period of May 23, 2017 through August 30, 2019

Notes to the Special Purpose Financial Statement<sup>3</sup>

### **(1) Basis of Presentation**

The accompanying Special Purpose Financial Statement (the “Statement”) includes costs incurred under Contract Number W56HZV17C0117, Tank-automotive and Armaments Command (“TACOM”) National Maintenance Strategy – Ground Vehicle Support Contract for the period May 23, 2017, through August 30, 2019. Because the Statement presents only a selected portion of the operations of PAE, it is not intended and does not present the financial position, changes in net assets, or cash flows of PAE. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector general for Afghanistan Reconstruction (“SIGAR”) and is specific to the aforementioned Federal Contract. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

### **(2) Basis of Accounting**

Expenditures reported of the Statement are reported on the accrual basis of accounting.

Indirect rates are applied in accordance with PAE’s cost accounting periods, utilizing the indirect rates from PAE’s submitted Incurred Cost Submissions. Expenditures are recognized following the cost principles contained in Federal Acquisition Regulation (“FAR”) Part 31 – Contracts with Commercial Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

### **(3) Foreign Currency Conversion Method**

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

### **(4) Revenues**

Revenues on the Statement represent the amount of funds to which PAE is entitled to receive from the US Army (DOD) for allowable, eligible costs incurred and any associated profit under the Contract earned during the period of performance.

<sup>3</sup> These Notes to the Special Purpose Financial Statement are the responsibility of PAE Government Services, Inc.

(5) **Program Status**

The NMS TACOM Contract W56HZV17C0117, is in the 3<sup>rd</sup> Option Year of a 4 Year, with a 6-month extension, period of performance.

(6) **Revenue Recognition**

Revenues and expenditures on the Statement are reported on an accrual basis of accounting. Expenditures are recognized in accordance with GAAP, following the cost principles contained in the Federal Acquisition Regulations and CASB Cost Accounting Standards.

(7) **Currency**

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

(8) **Costs Incurred by Budget Category**

The budget categories presented, and associated amounts reflect the budget line items presented within the approved contract budget adopted as a component of the W56HZV17C0117 Modification MOD013 to the Contract dated August 30, 2019.

(9) **Balance**

The balance presented on the Statement represents the difference between revenues earned and costs incurred such that an amount greater than \$0 would reflect revenues have been earned that exceed the costs incurred or charged to the Contract. An amount less than \$0 would indicate that costs have been incurred but are pending additional evaluation before a final determination of allowability and revenue earned amount may be made.

**PAE Government Services, Inc. (PAE)**

Financial Audit of Costs Incurred Under  
Contract No. W56HZV17C0117 Awarded by the Department of Defense Army Contracting  
Command (DOD-ACC)  
National Maintenance Strategy – Ground Vehicle Support (NMS-GVS)

For the Period of May 23, 2017 through August 30, 2019

Notes to Questioned Costs Presented on the Special Purpose Financial Statement<sup>4</sup>

**(A) Inadequate Supporting Documentation and Subcontractor Monitoring**

During our audit, we identified inadequate supporting documentation for subcontractor costs and inadequate subcontractor monitoring totaling \$5,085,385 in ineligible and unsupported costs. A breakdown of costs questioned under each category are below. See further details of Finding No. 2021-01 in the Schedule of Findings and Questioned Costs section of this report.

<b>Cost Category</b>	<b>Ineligible Questioned Costs</b>	<b>Unsupported Questioned Costs</b>	<b>Cumulative Questioned Cost</b>
CLS	\$231,820	\$15,701	\$247,521
Facilities Maintenance	\$14,726	\$563,781	\$578,507
Life Support	\$353,477	-	\$353,477
Material	\$23,733	\$989,640	\$1,013,373
Other Direct Costs	\$165	\$1,458,905	\$1,459,070
Security	\$19,437	\$817,579	\$837,016
Train and Mentor	\$579,769	-	\$579,769
Travel	\$304	\$16,348	\$16,652
<b>Total Questioned Costs</b>	<b>\$1,223,431</b>	<b>\$3,861,954</b>	<b>\$5,085,385</b>

**(B) PAE Personnel Lacked Sufficient Support for Onboarding and Deployment Readiness Requirements**

During our audit, we identified missing or insufficient supporting documents for the onboarding and deployment readiness requirements. This resulted in a total of \$791,447 in unsupported costs. See further details of Finding No. 2021-02 in the Schedule of Findings and Questioned Costs section of this report.

<sup>4</sup> These 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.

**PAE Government Services, Inc. (PAE)**

Financial Audit of Costs Incurred Under  
Contract No. W56HZV17C0117 Awarded by the Department of Defense Army Contracting  
Command (DOD-ACC)  
National Maintenance Strategy – Ground Vehicle Support (NMS-GVS)

For the Period of May 23, 2017 through August 30, 2019

Notes to Questioned Costs Presented on the Special Purpose Financial Statement

<b>Cost Category</b>	<b>Unsupported Questioned Costs</b>
CLS	\$135,772
Other Direct Costs	\$644
Security	\$28,008
Train and Mentor	\$624,836
Travel	\$2,187
<b>Total Questioned Costs</b>	<b>\$791,447</b>

**(C) True-Up of Indirect Costs Was Not Performed Within Contract Requirements**

During our audit, we identified that PAE did not true-up the indirect costs using the final approved Defense Contract Audit Agency (“DCAA”) rates for fiscal year 2018, resulting in a total of \$514,597 in ineligible costs. See further details of Finding No. 2021-03 in the Schedule of Findings and Questioned Costs section of this report.

<b>Cost Category</b>	<b>Ineligible Questioned Costs</b>
CLS	-\$12,275
DBA Insurance	-\$2,679
Facilities Maintenance	-\$6,167
Life Support	\$46,461
Material	-\$204,625

(Continued)

**PAE Government Services, Inc. (PAE)**

Financial Audit of Costs Incurred Under  
Contract No. W56HZV17C0117 Awarded by the Department of Defense Army Contracting  
Command (DOD-ACC)  
National Maintenance Strategy – Ground Vehicle Support (NMS-GVS)

For the Period of May 23, 2017 through August 30, 2019

Notes to Questioned Costs Presented on the Special Purpose Financial Statement

Other Direct Costs	-\$17,137
Security	\$47,562
Tools Equip Material	-\$12,296
Train and Mentor	\$678,091
Travel	-\$2,338
<b>Total Questioned Costs</b>	<b>\$514,597</b>

**(D) Travel Costs Included an Overcharge of Indirect Costs**

During our audit, we identified PAE employees' whose flights were booked by a subcontractor which charged PAE not only for the flights but also for \$1,633 in ineligible indirect costs. See further details of Finding No. 2021-04 in the Schedule of Findings and Questioned Costs section of this report.

(Continued)



## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Board of Directors  
PAE Government Services, Inc.  
Arlington, VA

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement of PAE Government Services, Inc. ("PAE") representing revenues received and costs incurred under Contract No. W56HZV17C0117 awarded by the United States Department of Defense Army Contracting Command for National Maintenance Strategy – Ground Vehicle Support for the period of May 23, 2017 through August 30, 2019, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated September 3, 2021 with a qualified opinion.

### Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement, we considered PAE'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PAE's internal control. Accordingly, we do not express an opinion on the effectiveness of PAE's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. During our audit we identified a total of four deficiencies in internal control as described in the accompanying Schedule of Findings and Questioned Costs. Finding 2021-01





is considered to be a material weakness and Findings 2021-02, 2021-03, and 2021-04 are considered to be significant deficiencies.

### **PAE's Response to Findings**

PAE's response to the findings identified in our audit is included verbatim in Appendix A. PAE's response was not subjected to the auditing procedures applied in the audit of the Special Purpose Financial Statement, and accordingly, we express no opinion on it.

### **Purpose of this Report**

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

### **Restriction on Use**

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

A handwritten signature in blue ink that reads "Conrad LLP".

Lake Forest, California  
September 3, 2021



## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Board of Directors  
PAE Government Services, Inc.  
Arlington, VA

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement of PAE Government Services, Inc. ("PAE") representing revenues received and costs incurred under Contract No. W56HZV17C0117 awarded by the United States Department of Defense Army Contracting Command for National Maintenance Strategy – Ground Vehicle Support for the period of May 23, 2017 through August 30, 2019, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated September 3, 2021 with a qualified opinion.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether PAE's Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned Contract, 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 four instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2021-01, 2021-02, 2021-03, and 2021-04.

### PAE's Response to Findings

PAE's response to the findings identified in our audit is included verbatim in Appendix A. PAE's response was not subjected to the auditing procedures applied in the audit of the Special Purpose Financial Statement, and accordingly, we express no opinion on it.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit



performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

**Restriction on Use**

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

*Conrad LLP*

Lake Forest, California  
September 3, 2021

**PAE Government Services, Inc. (PAE)**

Financial Audit of Costs Incurred Under  
Contract No. W56HZV17C0117 Awarded by the Department of Defense Army Contracting  
Command (DOD-ACC)  
National Maintenance Strategies – Government Vehicle Support (NMS-GVS)

For the Period of May 23, 2017 through August 30, 2019

Schedule of Findings and Questioned Costs

**Finding 2021-01: Inadequate Subcontractor Monitoring to Ensure that Costs Incurred Were Reasonable, Fully Supported, and Eligible under the Contract**

**Nature of Finding:** Non-compliance; Internal Control – Material Weakness

**Condition:** Conrad selected 554 subcontractor costs totaling \$74,037,799 out of a population of 5,764 subcontractor costs totaling \$234,694,648 to determine if costs were adequately supported, reasonable, allocable, and allowable. Based on our testing, we noted the following:

During our testing of the 554 subcontractor costs samples, we noted the following three (3) areas of inadequate subcontractor monitoring:

1. Insufficient and unreasonable procurement purchase and travel costs
2. Subcontractor's personnel costs were either insufficiently supported or overcharged, or unreasonable
3. Ineligible costs claimed.

The details are as described in the following table<sup>5</sup>:

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<sup>5</sup> Each sample tested can involve multiple invoices ranging from one to more than a thousand transactions which can be related to personnel, materials, contractor logistics support, facilities maintenance, life support, other direct costs, security, tools equipment material, train and mentor, and travel costs. For the presentation on this finding in the chart below, we listed the number of samples, and then the number of transactions associated with the sample that was impacted.

**PAE Government Services, Inc. (PAE)**

Financial Audit of Costs Incurred Under  
Contract No. W56HZV17C0117 Awarded by the Department of Defense Army Contracting Command (DOD-ACC)  
National Maintenance Strategy – Ground Vehicle Support (NMS-GVS)

For the Period of May 23, 2017 through August 30, 2019

Schedule of Findings and Questioned Costs

1. During our testing, PAE did not have sufficient subcontractor monitoring over procurement purchase and travel costs to ensure that costs incurred were adequately supported and reasonable. We identified the following issues regarding insufficient and unreasonable procurement purchase and travel costs totaling \$3,681,714 in unsupported costs.

Issue #	Nature of Issue	Cost Category	Number of Samples Impacted	Number of Transactions Impacted	Ineligible Cost	Unsupported Cost
<b>Insufficient and unreasonable procurement purchase and travel costs</b>						
1	Missing approvals on Purchase Receipt Forms, Procurement Approval Forms, and Bulk Order Evaluators.	FM	6	30	-	\$418,107
		ODC	1	35	-	\$191,865
		Materials	2	3	-	\$989,640
		<b>Subtotal</b>				-
2	Missing solicitation support and missing manager approvals on Purchase Receipts.	ODC	4	117	-	<b>\$1,167,922</b>
3	Insufficient documentation to demonstrate that one subcontractor competitively bid a contract for security services. Additionally, on the same contract we noted unreasonable other direct cost charges:  ■ profit was applied plus an admin fee of roughly ■ to each invoice. • Each security personnel received a monthly bonus ranging from AFN 834-4160 (US \$11-\$56).	Security	34	34	-	\$653,040
		ODC	2	2	-	\$85,812

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National Maintenance Strategy – Ground Vehicle Support (NMS-GVS)

For the Period of May 23, 2017 through August 30, 2019

Schedule of Findings and Questioned Costs

	<ul style="list-style-type: none"> <li>Monthly rentals of weapons such as AK47 and 9mm ranging from AFN 1000-3000 (US \$13-\$40).</li> <li>Martyrdom contributions were charged monthly at a rate of AFN 500 (US \$6) per security personnel.</li> <li>Burial expenses were charged monthly at a rate of AFN 400 (US \$5) per security personnel.</li> </ul>			<b>Subtotal</b>	-	<b>\$738,852</b>
4	Missing solicitation support. Missing RFQ or three competitive quotes.	ODC	1	1	-	\$5,692
		FM	15	48	-	\$117,825
		<b>Subtotal</b>			-	<b>\$123,517</b>
5	Missing justification why quotes and invoices were pre-dated; One PO by four days and two PO's ranging from 304-365 days.	ODC	1	1	-	\$7,614
		FM	2	2	-	\$27,849
		<b>Subtotal</b>			-	<b>\$35,463</b>
6	Missing employee signatures on travel request forms ("TRF") during the first review of the support. PAE's subcontractor submitted seven signed TRF's at the end of fieldwork which appear to be signed after the fact and the signature appears to be different from other documentation that the employee's signed.	Travel	1	175	-	<b>\$16,348</b>
				<b>Total</b>	-	<b>\$3,681,714</b>

2. During our testing, PAE did not have sufficient monitoring over personnel costs incurred to ensure that they were sufficiently supported, charged correctly, and reasonable. We identified the following issues regarding subcontractor's personnel costs which were insufficiently supported or overcharged or were unreasonable totaling \$897,447 in ineligible costs and \$180,240 in unsupported costs.

(Continued)

**PAE Government Services, Inc. (PAE)**

Financial Audit of Costs Incurred Under  
 Contract No. W56HZV17C0117 Awarded by the Department of Defense Army Contracting Command (DOD-ACC)  
 National Maintenance Strategy – Ground Vehicle Support (NMS-GVS)

For the Period of May 23, 2017 through August 30, 2019

Schedule of Findings and Questioned Costs

Issue #	Nature of Issue	Cost Category	Number of Samples Impacted	Number of Transactions Impacted	Ineligible Cost	Unsupported Cost
<b>Subcontractor's personnel costs were either insufficiently supported or overcharged, or unreasonable</b>						
7	Insufficient documentation for trainer and mentor qualifications: <ul style="list-style-type: none"> <li>There was insufficient documentation demonstrating that any of the 44 trainers and mentors sampled met the position qualifications detailed in the contract. As such we are questioning the costs associated with the trainer/mentors tested.</li> </ul> Inaccurate amounts charged for trainers and mentors. More than half of the subcontractor billings for trainers and mentors were for individuals that were not found on the subcontractors detailed list of trainers and mentors. A revised list was provided but was still significantly out of sync with actual billings. <ul style="list-style-type: none"> <li>We found that some individuals floated among multiple positions during the period of the audit, and we were unable to determine who served as a mentor or trainer. For example:                             <ul style="list-style-type: none"> <li>One individual started as a Maintenance Trainer/Mentor for nine months, the following five months this same person was listed as a Cleaner, then one month as a Laborer, and the subsequent four months back to a Training Supervisor.</li> <li>Another individual worked one month as an Automotive Painter, one month as a Supply Trainer/Mentor, the next 12 months back to an Automotive Painter or Painter, the next month to Quality Trainer/Mentor, and</li> </ul> </li> </ul>	Train and Mentor	28	28	\$512,581	-
		CLS	9	9	\$50,679	-
		Life Support	8	8	\$328,840	-

(Continued)

**PAE Government Services, Inc. (PAE)**

Financial Audit of Costs Incurred Under  
 Contract No. W56HZV17C0117 Awarded by the Department of Defense Army Contracting Command (DOD-ACC)  
 National Maintenance Strategy – Ground Vehicle Support (NMS-GVS)

For the Period of May 23, 2017 through August 30, 2019

Schedule of Findings and Questioned Costs

	<p>then the remaining five months as either a Trainer/Mentor or Quality Trainer/Mentor.</p> <ul style="list-style-type: none"> <li>o A third individual was listed as Trainer and Mentor on the provided list. However, the individual was billed as a Mechanic.</li> </ul> <p>Given all the issues identified above, it brings substantial doubt on qualifications for ALL trainers and mentors on the Contract. The estimated cost claimed by these trainers and mentors is \$7,613,339.</p>				<b>Subtotal</b>	<b>\$892,100</b>	<b>-</b>
8	<p>Insufficient documentation to show subcontractor employee's payroll payments were in accordance with the employment contract and/or payroll register (<b>Costs already included in Issue #7</b>).</p>	Train & Mentor	7	21	-	\$52,025	
		CLS	2	2	-	\$62,180	
		Life Support	1	4	-	\$65	
		<b>Subtotal</b>			-	<b>\$114,270</b>	
9	<p>Missing or Insufficient Support to Demonstrate Personnel Met the Onboarding and Deployment Readiness Requirements.</p>	Security	1	1	-	<b>\$102,608</b>	
10	<p>Higher compensation for local national employee identified without justification. One local national employee was receiving a salary (in USD) equivalent to the pay of an expatriate. No support or explanation was given for the unusually higher compensation of this individual. [REDACTED]</p>	Security	1	1	-	<b>\$58,009</b>	

(Continued)



**PAE Government Services, Inc. (PAE)**

Financial Audit of Costs Incurred Under  
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National Maintenance Strategy – Ground Vehicle Support (NMS-GVS)

For the Period of May 23, 2017 through August 30, 2019

Schedule of Findings and Questioned Costs

11	Inaccurate pay rates for subcontractor employees. We noted, 15 instances where subcontractor employees were assigned to a relief assignment and were paid wages based on the pay rate of the person being relieved, this rate could be twice to four times the employee's normal payroll rate. <sup>6</sup> There was no justification for charging approximately twice to four times the regular payroll rate while an employee relieves someone for time off. In addition, there was no support to show the employee on the relief assignment is properly qualified.	CLS	15	15	-	<b>\$10,031</b>
12	Lack of support for charges for work performed. One subcontractor charged PAE for Contract Team ("CT") <sup>7</sup> mission hours without support that the work was performed, individuals were properly qualified, or that the rates charged were reasonable. Additionally, the subcontractor did not provide policies or procedures related to CT missions.	CLS	4	4	-	<b>\$5,646</b>
13	Miscalculation of hourly rate charges. One subcontractor calculated the hourly rate for Thursday work based on a five-hour day rather than according to their policy of an eight-hour day. Due to this, the hourly rate for the first five hours of work and the overtime hours charged on each Thursday were charged at a higher rate than allowable per the subcontractor policies and procedures. This issue impacts six Cost Categories listed to the right. <i>(Conrad expanded testing to the entire audit period and noted three months with this issue).</i>	CLS	3 Months		\$2,176	-
		Security			\$1,288	-
		FM			\$143	-
		Life Support			\$905	-
		Train & Mentor			\$633	-
		Materials			\$202	-
		<b>Subtotal</b>			<b>\$5,347</b>	-
14		CLS	2	2	-	\$24

<sup>6</sup> Relief assignments are when an employee fills a similar position for a different employee on leave.

<sup>7</sup> CT is defined as a mobile maintenance capability which performs maintenance at the organizational locations within a region for scheduled and unscheduled maintenance repairs.

(Continued)

**PAE Government Services, Inc. (PAE)**

Financial Audit of Costs Incurred Under  
Contract No. W56HZV17C0117 Awarded by the Department of Defense Army Contracting Command (DOD-ACC)  
National Maintenance Strategy – Ground Vehicle Support (NMS-GVS)

For the Period of May 23, 2017 through August 30, 2019

Schedule of Findings and Questioned Costs

	Overtime Charge is not Supported on two Subcontractor employees and No Support Provided for one Subcontractor Employee's Labor Charged.	Security	1	1	-	\$3,922
		<b>Subtotal</b>			-	<b>\$3,946</b>
		<b>Less: Repeated Questioned Costs as described on Issue #8</b>			-	<b>(\$114,270)</b>
				<b>Total</b>	<b>\$897,447</b>	<b>\$180,240</b>

3. During our testing, PAE did not have sufficient subcontractor monitoring to ensure that costs incurred were eligible under the Contract. We identified the following issues regarding ineligible costs claimed for foreign exchange rates and indirect costs charged from a subcontractor totaling \$325,984 in ineligible costs.

Issue #	Nature of Issue	Cost Category	Number of Samples Impacted	Number of Transactions Impacted	Ineligible Cost	Unsupported Cost
<b>Ineligible costs claimed</b>						
15	Incorrect foreign currency rates: In 2018, one subcontractor used a static foreign currency rate for the first ten months of the contract rather than the current market rate for foreign currency. This resulted in overcharges in the foreign currency conversion rate to the program. <i>(Conrad expanded testing to the entire audit period and noted eight months with this issue).</i>	CLS	8 Months		\$178,966	-
		ODC			\$165	-
		Security			\$18,149	-
		Life Support			\$23,732	-
		FM			\$14,583	-
		Train & Mentor			\$66,555	-
		Materials			\$23,530	-
		<b>Subtotal</b>			<b>\$325,680</b>	-

(Continued)

**PAE Government Services, Inc. (PAE)**

Financial Audit of Costs Incurred Under  
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16	Indirect cost charged which was not approved in the subcontractor agreement.	Travel	1	1	\$304	-
				<b>Total</b>	<b>\$325,984</b>	<b>-</b>

<b>Questioned Costs Summary</b>			
1	Insufficient and unreasonable procurement purchase and travel costs		\$3,681,714
2	Subcontractor's personnel costs were either insufficiently supported or overcharged, or unreasonable	\$897,447	\$180,240
3	Ineligible costs claimed	\$325,984	
	<b>Total Costs – Ineligible or Unsupported</b>	<b>\$1,22,3431</b>	<b>\$3,861,954</b>
	<b>Total Questioned Costs for Finding 2021-01</b>		<b>\$5,085,385</b>

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**Criteria:**

**Pursuant to FAR 42.202 (e) (2) Assignment of contract administration** states:

“The prime contractor is responsible for managing its subcontracts. The CAO’s review of subcontracts is normally limited to evaluating the prime contractor’s management of the subcontracts. Therefore, supporting contract administration shall not be used for subcontracts unless-(i) The Government otherwise would incur undue cost; (ii) Successful completion of the prime contract is threatened; or (iii) It is authorized under paragraph (f) of this section or elsewhere in this regulation.”

**FAR 31.201-3 (Determining reasonableness)** states in part:

“(a) A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business. Reasonableness of specific costs must be examined with particular care in connection with firms or their separate divisions that may not be subject to effective competitive restraints. No presumption of reasonableness shall be attached to the incurrence of costs by a contractor...

(b) What is reasonable depends upon a variety of considerations and circumstances, including...  
(2) Generally accepted sound business practices, arm’s-length bargaining, and Federal and State laws and regulations...”

**Accounting Standards Codification Topic 830, *Foreign Currency Matters, 20 Foreign Currency Transactions***, states in part:

“at the date a foreign currency transaction is recognized, each asset, liability, revenue, expense, gain or loss arising from the transaction shall be measured initially in the functional currency of the recording entity by use of the exchange rate in effect at that date.”

The Accounting Standards Codification defines “transaction date” as:

“the date of which a transaction (for example, a sale or purchase of merchandise or services) is recorded in accounting records in conformity with generally accepted accounting principles (GAAP). A long-term commitment may have more than one transaction date (for example, the due date of each progress payment under a construction contract is an anticipated transaction date).”

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**According to PAE’s Subcontract Administration policy, section 7.0 Implementation, in part states:**

[REDACTED]

[REDACTED]

**According to PAE’s Records Management Policy Section 5.2 Retention of Company Records, it states:**

[REDACTED]

**According to Contract W56HZV17C0117, Section C.2.3.3.1 Subcontract Management states:**

“The contractor shall provide subcontract management to integrate work performed on this contract and shall be responsible and accountable for subcontractor performance. The contractor shall provide the Government unrestricted access to subcontractor locations utilized in support of this contract.”

**According to Contract W56HZV17C0117, Section C.3.1.1.1.1 Maintenance Management Training and Mentoring states, in part:**

“Each trainer and or mentor shall have at a minimum:  
Five years maintenance management experience maintaining commercial, non-standard, and standard NATO military vehicles, ground equipment respectively; and One year of mentoring experience. “

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**According to Contract W56HZV17C0117, Section C.3.1.2.1 Supply Chain Management Training and Mentoring** states, in part:

“Each trainer and or mentor shall have at a minimum:  
Five years of experience in maintenance supply support; Two years of experience in property accountability; and one year of experience in maintenance supply monitoring.”

**According to Contract W56HZV17C0117, Section C.3.1.2.2 Supply Support Training and Mentoring** states, in part:

“Each trainer and or mentor shall have at a minimum:  
Three years of experience in maintenance supply support; and One year of experience in property accountability.”

**According to Contract W56HZV17C0117, Section C.3.1.2.3 Warehouse Supply Chain Management** states, in part:

“Each trainer and or mentor shall have at a minimum:  
Five years of experience in warehouse supply support; Two years of experience property accountability; and One year of experience in warehouse supply chain management mentoring.”

**According to Contract W56HZV17C0117, Section C.3.1.2.4 Warehouse Supply Training and Mentoring** states, in part:

“Each trainer and or mentor shall have at a minimum three years of experience in warehouse supply support.”

**According to Contract W56HZV17C0117, Section C.3.1.2.5 Mobile Supply Support and Warehouse Supply Support Training** states, in part:

“Each trainer and or mentor shall have at a minimum:  
Three years of experience in maintenance supply support; and one year in property accountability.”

**According to Contract W56HZV17C0117, Section C.3.1.3 Quality Control** states, in part:

“Each trainer and or mentor shall have at a minimum:  
Three years of experience in maintaining commercial non-standard and standard NATO military vehicles and ground equipment; and two years of experience in QC in a maintenance operation or facility.”

**According to PAE’s Competition Policy, Section 7.0 Implementation**, in part states:

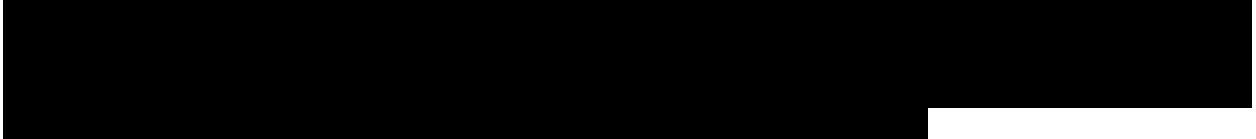
[REDACTED]

**PAE Government Services, Inc. (PAE)**

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**According to one of PAE's Major Subcontractor's policy, Procurement Manual, section 4.3.11.3. Competitive Sourcing, states in part:**



**Pursuant to FAR 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; and (5) Any limitations set forth in [48 CFR Subpart 31.2] ...

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

**Cause:** PAE lacks internal policies and procedures for effectively overseeing and monitoring its subcontractors. As a result, PAE allowed its subcontractor to determine the appropriateness and accuracy of costs incurred, and if costs were properly supported, without adequately reviewing its subcontractor's determinations to ensure that the costs were charged and supported in accordance with the terms of the contract and federal regulations. In addition, PAE also lacks a fraud prevention and detection plan, and is unable to determine if costs charged to the contract were fraudulently charged.

(Continued)

**PAE Government Services, Inc. (PAE)**

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**Effect:** PAE did not monitor the appropriateness of costs incurred which resulted in a significant amount of ineligible and unsupported costs being charged to the U.S. Government. In addition, PAE could not determine whether costs were fraudulently charged to the contract, resulting in the possible fraud, waste, and abuse of U.S. funds.

**Questioned Costs:** Unsupported questioned costs identified totaled \$3,861,954, of which \$208,393 represents associated indirect costs and ineligible questioned costs identified totaled \$1,223,431, of which \$274,715 represents associated indirect costs.

**Recommendation:**

- (1) We recommend that PAE provide further evidence and support to justify the costs in question were in fact allowable or supported, or refund \$5,085,385 of questioned costs to the U.S. Government.
- (2) We recommend PAE review and audit their subcontractors immediately, rather than allowing the subcontractor to determine how to monitor the appropriateness of costs incurred, to ensure the subcontractor is adhering to the requirements of the subcontract agreement and review the costs outstanding on the current Contract to ensure the costs are allowable, allocable, and reasonable.
- (3) We recommend PAE develop a detailed subcontractor monitoring policy, and fraud prevention and detection plan for its subcontractors' operations to ensure program costs and operations are carried out adequately, effectively, and free from fraud, waste, and abuse.

(Continued)



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**Finding 2021-02: Missing or Insufficient Support to Demonstrate Personnel Met the Onboarding and Deployment Readiness Requirements**

**Nature of Finding:** Non-compliance; Internal Control – Significant Deficiency

**Condition:** Conrad selected 44 PAE employees totaling \$336,046 out of a population of 293 totaling \$7,282,072 of labor costs to determine whether allowances applied to personnel costs were adequately supported, reasonable, allocable, and allowable and whether personnel were hired and onboarded within the requirements of the Contract. During our testing, we noted six instances where PAE was unable to provide sufficient evidence that the security and background checks, and/or fitness to deploy examinations were conducted as required under the terms of the Contract.

Issue	Number of Instances	Questioned costs
Missing security and background checks	3	\$348,642
Missing fitness to deploy examinations	2	\$225,345
Missing fitness to deploy examinations and security/background check	1	\$217,460
<b>Total</b>	<b>6</b>	<b>\$791,447</b>

For clearer presentation, here is the effect on each cost category of the questioned costs:

Cost Category	Unsupported Questioned Costs
CLS	\$135,772
Other Direct Costs	\$644
Security	\$28,008
Train and Mentor	\$624,836

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Travel	\$2,187
<b>Total Questioned Costs</b>	<b>\$791,447</b>

**Criteria:**

**According to Contract W56HZV17C0117 Section I-172, Contractor Personnel Performing in the United States Central Command Area of Responsibility (Deviation 2015-00009),** it states in part:

“(e) Preliminary personnel requirements.

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

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

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

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

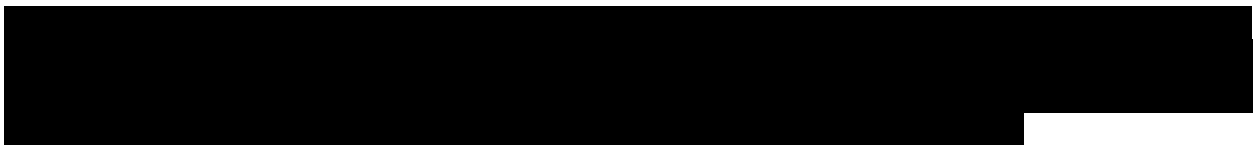
(B) Meet the minimum medical screening requirements, including theater-specific medical qualifications as established by the geographic Combatant Commander (as posted to the Geographic Combatant Commanders website or other venue); and

(C) Have received all required immunizations as specified in the contract.”

**According to Contract W56HZV17C0117 Section C-3 5152.225-5907,** it states:

“(a) All contractor employees are required to be medically, dentally, and psychologically fit for deployment and performance of their contracted duties as outlined in the Defense Federal Acquisition Regulation Supplement (DFARS) clause 252.225-7995, Contractor Personnel Performing in the United States Central Command Area of Responsibility. This clause requires all contractor personnel to meet the theater specific medical qualifications established by the Geographic Combatant Commander before deploying to, being granted installation access, or performing work under the resultant contract.”

**According to PAE’s Records Management Policy Section 5.2 Retention of Company Records,** it states:



(Continued)

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**According to PAE's Records Management Policy Section 5.3 Retention of Contract Documents, it states:**

[REDACTED]

[REDACTED]

**According to PAE's Records Management Policy, Appendix A: Company Records and Contract Documents Retention Schedule, it states, in part:**

[REDACTED]

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

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

**Cause:** PAE indicated that the background checks and pre-deployment fitness evaluations were conducted however, they were unable to locate the missing background checks and medical evaluations due to lack of adequate controls in place to adhere to its Records Management Policy.

**Effect:** PAE did not provide evidence the employees security and background checks and/or fitness to deploy examinations were conducted prior to deployment. Failure to complete these requirements not only increases the risk that unqualified personnel may have conducted program tasks and unallowable costs were charged to the U.S. Government but also the personnel may pose a potential security threat to U.S. personnel and troops.

**Questioned Costs:** Unsupported questioned costs identified totaled \$791,447, of which \$221,785 represents associated fringe and indirect costs.

(Continued)

**PAE Government Services, Inc. (PAE)**

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**Recommendation:**

- (1) We recommend that PAE either provide evidence to prove the employees met the onboarding and deployment requirements as required in the Contract, or refund \$791,447 in unsupported costs to the U.S. Government.
- (2) We recommend that PAE develop additional controls, such as training its employees on the record retention policy and supervisory review over on-boarding documentation to ensure that requirements are met.
- (3) We recommend that PAE develop additional control to ensure they strictly adhere to its record management policy and the requirements of the Contract.

(Continued)

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Schedule of Findings and Questioned Costs

**Finding 2021-03: True-Up of Indirect Costs was not Performed Within Contract Requirements**

**Nature of Finding:** Non-compliance; Internal Control – Significant Deficiency

**Condition:** PAE did not complete an indirect cost true-up calculation and update the billings to reflect the final rates and billing amounts for fiscal year 2018 based on the final approved Defense Contract Audit Agency (“DCAA”) rate. Using the approved final rates in the DCAA letter, we calculated variances in fringe, overhead, and general and administrative costs charged to the Contract during fiscal year 2018 based on the general ledger transactions provided by PAE for this contract. The amounts represent an over-charge and under-charge to the Government as below.

Indirect Cost Type	Base Amount	PAE's Indirect Costs Charged				Auditor's Recalculation		
		Provisional Rate Applied	Indirect Costs	True-Up to Provisional Rate <sup>6</sup>	Net Indirect Cost Charged	2018 Final Rate	2018 Audited IDC Amount based on Final Rate	Variance over / (under) allowable

For clearer presentation, here is the effect on each cost category of the questioned costs:

Cost Category	Ineligible Questioned Costs
CLS	-\$12,275
DBA Insurance	-\$2,679

<sup>8</sup> PAE did a true up to the provisional rates for 2018 for the overhead and general & administrative rates however, the fringe was not trued up to the provisional rate. As such, the recalculation of true up to the final rates needs to be adjusted with the true up amount to the provisional rate.

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Facilities Maintenance	-\$6,167
Life Support	\$46,461
Material	-\$204,625
Other Direct Costs	-\$17,137
Security	\$47,562
Tools Equip Material	-\$12,296
Train and Mentor	\$678,091
Travel	-\$2,338
<b>Total Questioned Costs</b>	<b>\$514,597</b>

**Criteria:**

**Contract W56HZV17C0117, Section I (d) (2) (v) Final Indirect Cost Rates** states:

“the Contractor shall update the billings on all contracts to reflect the final settled rates and update the schedule of cumulative direct and indirect costs claimed and billed, as required in paragraph (d)(2)(iii)(I) of this section, within 60 days after settlement of final indirect cost rates.”

**FAR 31.201-1(a): Composition of Total Cost**, states:

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

**Defense Contract Audit Agency letter dated July 22, 2020** states:

This letter sets forth the agreed upon final indirect cost rates established on behalf of the Corporate Administrative Contracting Officer in accordance with FAR 42.705-2(b)(2)(ii).

The final annual indirect cost rates for the fiscal year ended December 31, 2018 are as follows:

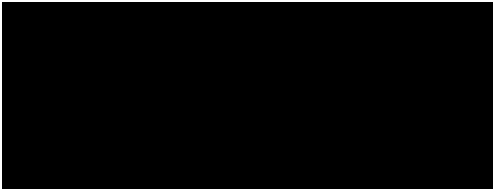
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**Cause:** PAE had a change of management during the audit period and stated they were not aware of the Contract requirement to true-up to the final indirect cost rates within 60 days of the approved rate and update the billings to reflect the updated rates and billing amounts. The management team did not carefully review each requirement of the Contract and therefore, did not perform the indirect cost true-up for fiscal year 2018.

**Effect:** PAE lacked understanding of the Contract requirements to calculate and assess the potential indirect cost true-up amount which resulted in PAE significantly over-charging the U.S. Government for indirect costs

**Questioned Costs:** Ineligible questioned costs identified totaled \$514,597.

**Recommendation:**

- (1) We recommend that PAE perform an indirect cost rate true-up calculation using the 2018 approved final DCAA rates immediately to determine the actual true up amount and provide evidence of this true up to the DOD-ACC, or refund \$514,597 in ineligible costs to the U.S. Government.
- (2) We recommend that PAE design and implement internal control procedures for when changes in management occur to ensure that the new management carefully reviews each Contract's requirements to ensure adherence with all requirements of the Contract.



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**Schedule of Findings and Questioned Costs**

**Finding 2021-04: Travel Costs for Flights Booked by Subcontractor for PAE Employees Resulted in an Overcharge of Indirect Costs**

**Nature of Finding:** Non-compliance; Internal Control – Significant Deficiency

**Condition:** Conrad selected seven travel samples totaling \$290,076 out of a population of 4,894 totaling \$2,775,709 of travel costs to determine whether travel costs were adequately supported, reasonable, allocable, and allowable. During our testing of travel, we noted one sample covering airfare for 43 PAE employees where the tickets were purchased by a PAE subcontractor. This is a violation of PAE's Business Travel Policy which [REDACTED]. In addition to violating its travel policy, PAE effectively doubled the indirect cost amounts charged to the Contract, as they applied an indirect amount to the subcontractor's invoice which already included indirect costs. As a result, \$1,633 of ineligible questioned costs were charged to the Contract.

**Criteria:**

**PAE Business Travel Policy**, states in part:

[REDACTED]

**48 CFR 31.203(b) Indirect costs**, states:

"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 purposes, in like circumstances, have been included as a direct cost of that or any other final cost objective."

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

"(a) A cost is allowable only when the cost complies with all of the following requirements:  
... (3) Standards promulgated by the CAS Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the circumstances..."

**Cause:** According to PAE, it was more cost efficient at the time for the Subcontractor to book the flight on behalf of the PAE employees and due to the agreement between both parties for the subcontractor to acquire travel expenses for PAE employees, PAE neglected to adhere to its own travel policy. In addition, PAE did not have adequate policies and procedures in place to ensure its subcontractor cannot apply and charge indirect cost on expenses related to PAE.

(Continued)



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**Effect:** Lack of adherence to PAE's travel policy resulted in ineligible and excessive costs being charged to the U.S. Government by allowing indirect costs to be charged by both the subcontractor and PAE when associated indirect costs for these travel costs should only be applied by PAE

**Questioned Costs:** Ineligible questioned costs identified totaled \$1,633, of which \$76 represents associated indirect costs.

**Recommendation:**

- (1) We recommend that PAE refund \$1,633 in ineligible costs to the DOD-ACC.
- (2) We recommend that PAE issue an instruction memo to its internal travel department and its subcontractor to make sure any future travel for PAE employees strictly adheres to PAE's travel policy.
- (3) We recommend that PAE develop a policy and procedure to ensure it does not double bill indirect costs.

(Continued)

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### **Status of Prior Audit Findings**

#### **Status of Prior Audit Findings**

We requested prior audit reports from PAE, and SIGAR. Additionally, we conducted searches online for prior engagements including audits, reviews, and evaluations pertinent to PAE's activities. We identified three prior SIGAR audit reports, Financial Audit 19-06 that was published in March 2018, Financial Audit 19-12 that was published in January 2019, and Financial Audit 19-40 that was published in June 2019. We noted that there were 15 findings. Based on our review of these findings, we noted that 11 findings could have a material effect of the SPFS and other financial data significant to the audit objectives. We reviewed the responses and corrective actions taken to address these 11 findings and recommendations and found that 8 of the 11 findings were not properly corrected. Our review procedures included a follow up discussion with PAE's management, as well as conducting similar tests surrounding the identified areas during our current audit. We have summarized the results of our procedures below:

#### **SIGAR Financial Audit 19-06**

##### **Finding No. 2018-01: Employee Worked More than the Authorized Six Consecutive Days**

**Issue:** PAE did not have an adequate procedure in place to prevent individuals from working more than the authorized number of consecutive days. PAE also lacked an adequate internal detective control to identify instances of noncompliance with the provision and to ensure that the corresponding costs were not invoiced to the government, which resulted in \$724 of ineligible questioned costs.

**Status:** For the current engagement, there were no instances noted where PAE employees worked more than the authorized number of consecutive days. However, during the testing of the subcontractor personnel, we noted that labor charges were not in adherence to the subcontractor's personnel policy which resulted in an overcharge of personnel cost. This issue is described in Finding 2021-01. Conrad concluded that adequate corrective action was not taken with respect to this matter.

##### **Finding No. 2018-02: Failure to Comply with Working Hours Restrictions**

**Issue:** A PAE employee failed to work either the minimum number of hours per day or exceeded the maximum number of hours per day. PAE did not have adequate internal controls over compliance with labor charges. PAE lacked a process to monitor compliance with the working hours restrictions appearing in the Contract. In addition, PAE did not believe that the requirement applied to security personnel. This resulted in a total ineligible questioned cost of \$965.

**Status:** For the current engagement, there were no instances noted where employees failed to work either the minimum number of hours per day or exceeded the maximum number of hours per day. However, during the testing of the subcontractor personnel, we noted that labor charges were not in

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### **Status of Prior Audit Findings**

adherence to the subcontractor's personnel policy which resulted in an overcharge of personnel cost. This issue is described in Finding 2021-01. Conrad concluded that adequate corrective action was not taken with respect to this matter.

#### **Finding No. 2018-03: Insufficient Support for Cost or Price Reasonableness**

**Issue:** Management lacked internal controls and procedures to ensure that procurement files included required documentation to justify noncompetitive acquisitions. This resulted in a total ineligible questioned cost of \$28,333.

**Status:** During our testing, we noted a lack of internal controls and procedures to ensure subcontractor procurement files included required documentation to justify noncompetitive acquisitions. This issue is described in Finding 2021-01. Conrad concluded that adequate corrective action was not taken with respect to this matter.

#### **Finding No. 2018-05: Payments to Vendors Not Made Timely**

**Issue:** PAE did not implement an adequate monitoring process to ensure that payments were made timely. This did not result in any questioned costs.

**Status:** For the current engagement, there were no instances noted where payments to vendors were not made timely. In addition, we had interviewed PAE's accounts payable department as well as reviewed PAE's accounting system policy updated in January 2019. It appears that adequate controls have been put into place. As such, it has been concluded that PAE has taken adequate corrective action as this was not identified as a repeated issue.

#### **Finding No. 2018-06: Foreign Currency Translations Resulted in Overcharge to USG**

**Issue:** Management may have applied an incorrect transaction date when completing the currency translation, which resulted in \$953 of ineligible questioned costs.

**Status:** During our testing, we noted an agreed upon foreign currency rate was used to calculate subcontract labor charges rather than applying the current foreign currency rate. This issue is described in Finding 2021-01. Conrad concluded that adequate corrective action was not taken with respect to this matter.

#### **Finding No. 2018-07: Indirect Cost Adjustment Calculations Not Completed**

**Issue:** PAE did not complete an indirect cost true-up calculation for each year based on actual costs incurred and anticipated final billing rates. As a matter of standard company practice, PAE does not calculate indirect cost adjustments until the audit of PAE's indirect costs for each applicable year is

(Continued)

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Financial Audit of Costs Incurred Under  
Contract No. W56HZV17C0117 Awarded by the Department of Defense Army Contracting  
Command (DOD-ACC)  
National Maintenance Strategy – Ground Vehicle Support (NMS-GVS)

For the Period of May 23, 2017 through August 30, 2019

### **Status of Prior Audit Findings**

completed by DCAA or the applicable Federal agency. PAE did not conduct the assessment during this contract's period of performance due to delays in the Federal audits being initiated and completed.

**Status:** During our testing, we noted that the indirect cost true up was not performed in accordance with the current contract requirements. This issue is described in Finding 2021-03. Conrad concluded that adequate corrective action was not taken with respect to this matter.

### **SIGAR Financial Audit 19-12**

#### **Finding No. 2018-03: Indirect Cost True-Up Not Performed**

**Issue:** PAE did not calculate indirect cost adjustments until the audit of PAE's indirect costs for each applicable year is completed by DCAA or the applicable Federal agency, which resulted in \$150,648 of ineligible questioned costs.

**Status:** During our testing, we noted that the indirect cost true up was not performed in accordance with the current contract requirements. This issue is described in Finding 2021-03. Conrad concluded that adequate corrective action was not taken with respect to this matter.

#### **Finding No. 2018-04: Transportation Cost Charged for Program Participants does not Reflect Actual Costs**

**Issue:** PAE considered the transportation cost estimates to be reasonable. In addition, PAE did not consider identification of actual transportation costs to be necessary and, therefore, did not have a process in place to identify actual transportation costs, which resulted in \$9,250 of ineligible questioned costs.

**Status:** For the current engagement, there were no program participant transportation costs incurred. However, we tested costs for reasonableness that were incurred by PAE as well as reviewed their competition policy, it appears adequate controls had been put into place. As such, it has been concluded that PAE has taken adequate corrective action as this was not identified as a repeated issue.

#### **Finding No. 2018-05: Inadequate Supporting Documentation for Allocated Overhead Costs**

**Issue:** PAE did not have a process in place to retain or otherwise produce documentation adequate to demonstrate that directly allocated overhead costs are allowable, which resulted in \$29,172 of ineligible questioned costs.

(Continued)

**PAE Government Services, Inc. (PAE)**

Financial Audit of Costs Incurred Under  
Contract No. W56HZV17C0117 Awarded by the Department of Defense Army Contracting  
Command (DOD-ACC)  
National Maintenance Strategy – Ground Vehicle Support (NMS-GVS)

For the Period of May 23, 2017 through August 30, 2019

**Status of Prior Audit Findings**

**Status:** For the current engagement, there were no instances noted where overhead costs were allocated that were not allowable. As such, it has been concluded that PAE has taken adequate corrective action as this was not identified as a repeated issue.

**Finding No. 2018-07: Supporting Documentation Not Provided for Costs Incurred**

**Issue:** PAE did not have adequate procedures in place to ensure that costs charged to the Contract are adequately supported, which resulted in \$1,032 of ineligible questioned costs.

**Status:** During our testing, we noted missing or insufficient supporting documentation to ensure that costs charged to the Contract are adequately supported. This issue is described in Finding 2021-01, Finding 2021-02, and 2021-04. Conrad concluded that adequate corrective action was not taken with respect to this matter.

**SIGAR Financial Audit 19-40**

**Finding No. 2019-01: Supporting Documentation Not Provided for Costs Incurred**

**Issue:** PAE indicated that its internal policies include only providing documentation to auditors which support transactions incurred if PAE has internally reviewed, approved and billed the transaction to the government. PAE further indicated that it had not internally reviewed, approved and had not yet decided whether it would bill the government or not for the identified transactions. Since these transactions were incurred in some cases more than two years prior to conducting our audit, and the U.S. government was billed for these costs, this does not explain PAE's lack of documentation. In addition, PAE lacks procedures to retain documentation. This resulted in a total ineligible questioned cost of \$140,011.

**Status:** During our testing, we noted missing or insufficient supporting documentation to ensure that costs charged to the Contract are adequately supported. This issue is described in Finding 2021-01, Finding 2021-02, and 2021-04. Conrad concluded that adequate corrective action was not taken with respect to this matter.

**PAE Government Services, Inc. (PAE)**

Financial Audit of Costs Incurred Under  
Contract No. W56HZV17C0117 Awarded by the Department of Defense Army Contracting Command (DOD-ACC)  
National Maintenance Strategy – Ground Vehicle Support (NMS-GVS)

For the Period of May 23, 2017 through August 30, 2019

PAE's Responses to Audit Findings

Included on the following pages are PAE's responses received to the findings identified in this report.

August 13, 2021

Sam Perera  
Conrad LLP  
23161 Lake Center Drive  
Suite 120  
Lake Forest, CA 92630

Ref: F-208 PAE Government Services Official Draft Report - PAE Mgmt Response 1

Dear Mr. Perera,

On July 23<sup>rd</sup>, 2021, PAE received a copy of the draft audit report from Conrad LLP (Conrad) titled, “F-208 PAE Government Services Official Draft Report - PAE Mgmt Response 1”. As Conrad indicated in their Transmittal Letter, the audit pertains to PAE’s Prime Contract No. W56HZV17C0117 for the period of May 23, 2017 through August 30, 2019.

*“Conrad LLP (referred to as “Conrad” or “we”) hereby provides to you our final report, which reflects results from the procedures we completed during our audit of PAE Government Services, Inc.’s (“PAE”) Special Purpose Financial Statement (“SPFS”) for costs incurred under Contract No. W56HZV17C0117 awarded by the Department of Defense Army Contracting Command, for the period of May 23, 2017 through August 30, 2019.”*

The Conrad auditors issued a qualified opinion on PAE’s Special Purpose Financial Statement, noting four findings and questioned costs. PAE thanks Conrad for the opportunity to respond to the audit and herein provides an introductory statement, primary response to the four findings, detailed responses to each specific SPFS audit finding issue, as well as responses to the status of prior audit findings. PAE contends that approximately 87% of the costs questioned in the auditor’s findings are supported, fair, reasonable and allowable.

The USG awarded the NMS-GVS contract to PAE on 23 May 2017, which was followed shortly thereafter by a stop work order issued on 6 June 2017 due to a pending bid protest. The USG resolved the protest and lifted the stop work order on 15 September 2017 enabling a 120-day mobilization period concluding with PAE achieving Full Operational Capability (FOC) on 29 December 2017. A mere sixty days into full contract performance, PAE demonstrated internal control procedures by initiating a review of the majority subcontractor’s procurement methods and support processes. This internal audit identified Continuous



Improvement Process opportunities, which PAE actioned, to improve business processes supporting solicitations, procurements, invoicing, SOPs and supporting documentation.

The Special Purpose Financial Statement audit performed by Conrad on behalf of SIGAR identifies, in the majority, findings of significant weakness covering procurements released under Blanket Purchase Agreements (BPA) or below micro-purchase thresholds. PAE’s internal controls, exercised early in contract performance, generated procurement efficiencies (BPAs / micro-purchases), while enhancing procurement discipline principally with our majority subcontractor. The process of generating BPAs was specifically initiated to ensure that local suppliers could also be brought into an updated procurement arena, improve efficiency, ensure quality deliveries and that a healthy supply chain could be maintained effectively. PAE submits below, a high-level summary response to the SPFS audit findings, issue-by-issue detailed responses and responses to the status of prior audit findings as Appendix A.

Number	Nature of Finding	Matter	PAE Response
2021-01	Non-Compliance; Internal control– Material Weakness	Inadequate Supporting Documentation for Subcontractor Charges and Inadequate Subcontractor Monitoring.	PAE partially agrees with Finding 2021-01. PAE disagrees with issue #s 1 (One) through 14 (Fourteen) and nearly all the questioned costs therein. PAE agrees with the auditor’s findings related to issues #s 15 (Fifteen) and 16 (Sixteen).
2021-02	Non-Compliance; Internal Control – Significant Deficiency	Missing or Insufficient Support for Personnel Onboarding and Deployment Readiness Requirements	PAE disagrees with Finding 2021-02. PAE has provided Conrad all of the requested documentation, with the exception of one item, which PAE maintains was most certainly completed.
2021-03	Non-Compliance; Internal Control – Significant Deficiency	True Up of Indirect Costs was Not Performed Within Contract Requirements	PAE partially agrees with Finding 2021-03. PAE agrees that the remaining portion of the 2018 rate true-up was not issued within the contractual time frame and acknowledges a true-up is due to the Government.

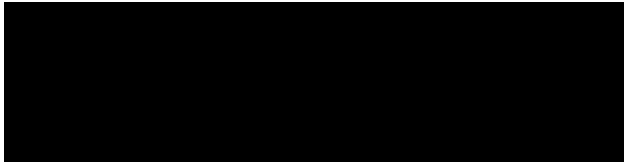




2021-04	Non-Compliance; Internal Control – Significant Deficiency	Travel Costs for Flights Booked by AMS for PAE Employees Resulted in an Overcharge of Indirect Costs	PAE partially agrees with Finding 2021-04. PAE agrees with the auditors that indirect costs for the travel flights were charged by both the Subcontractor and PAE. PAE does not agree that indirect costs were incorrectly applied, however, and therefore, the costs should not be questioned.
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PAE appreciates the opportunity to respond to this audit report, and we are available to discuss these responses at your earliest convenience

Sincerely,



Director of Contracts  
PAE Government Services, Inc.

## Appendix A

Finding	Nature of Finding	Condition
Finding 2021-01: Inadequate Subcontractor Monitoring to Ensure that Costs Incurred Were Reasonable, Fully Supported, and Eligible under the Contract	Non-compliance; Internal Control – Significant Deficiency	Conrad selected 554 subcontractor costs totaling \$74,037,799 out of a population of 5,764 subcontractor costs totaling \$234,694,648 to determine if costs were adequately supported, reasonable, allocable, and allowable. Based on our testing, we noted the following:  During our testing of the 554 subcontractor costs samples, we noted the following three (3) areas of inadequate subcontractor monitoring: <ol style="list-style-type: none"> <li>1. Insufficient and unreasonable procurement purchase and travel costs</li> <li>2. Subcontractor’s personnel costs were either insufficiently supported or overcharged, or unreasonable</li> <li>3. Ineligible costs claimed.</li> </ol> The details are as described in the following table:

Issue #	Nature of Issue	PAE Response
1	Missing approvals on Purchase Receipt Forms, Procurement Approval Forms and Bulk Order Evaluators.	<b>PAE disagrees with the auditor’s assessment that the costs totaling \$1,599,612 are unsupported.</b> At the start of the contract, the Subcontractor followed a generally acceptable practice of receiving goods over the counter, a process which does not require or generate a vendor’s delivery note. To meet the contract requirements, the Subcontractor’s process for documenting the receipt of goods/services was to manually enter the receipt into the company’s ERP system which provided a system generated receipt which was provided to the auditor. Over time, the process was changed to include physically stamping documents or invoices which were submitted to the audit team. PAE did initially submit Procurement Approval Forms that were unsigned; however, upon notification, PAE did



Issue #	Nature of Issue	PAE Response
		<p>provide the originally signed documents, to include email approvals that are date stamped, for all but one instance (\$1,883). Additionally, the auditors have questioned costs associated with “Bulk Order Evaluators” missing signatures. PAE has documentation demonstrating Subcontractor’s Procurement team obtained appropriate internal approvals to proceed with the procurement actions in the form of either signed Bulk Order Quote evaluation sheet or via email approvals from their CEO to the Procurement Manager. As a specific example, Conrad questioned 2 Sample IDs for \$989,640 in the “materials” cost category for PAFS OY1000150, OY1000151, and OY1000330. PAE provided the bulk order evaluators to Conrad on March 17th, 2021, via the Sharefile portal, which included the Subcontractor’s CEO signature for final approval of the purchases.</p>
2	<p>Missing solicitation support and missing manager approvals on Purchase Receipts.</p>	<p><b>PAE disagrees with the auditor’s assessment that the costs totaling \$1,167,922 are unsupported.</b>                      Many of the procurements in the sample were under Federal Acquisition Regulation (FAR) micro-purchase threshold and were managed in the subcontractor’s ERP system. Additionally, the subcontractor’s established practice for procurements was to issue verbal solicitations to multiple vendors who would then provide written quotes. The quotes were mandated to include a date for verification purposes of the requirement being requested, restate the solicitation requirements to ensure compliance, understanding and that like for like comparisons could be made for a fair and reasonable determination of pricing. The file provided to the audit team did include the vendor quote summary and subsequent award. Concerns over purchase receipt approvals was addressed in PAE response to issue 1.</p>



Issue #	Nature of Issue	PAE Response
3	<p>Insufficient documentation to demonstrate that one subcontractor competitively bid a contract for security services. Additionally, on the same contract we noted unreasonable other direct cost charges:</p> <ul style="list-style-type: none"> <li>• █████ profit was applied plus an admin fee of roughly █████ to each invoice.</li> <li>• Each security personnel received a monthly bonus ranging from AFN 834-4160 (US \$11-\$56).</li> <li>• Monthly rentals of weapons such as AK47 and 9mm ranging from AFN 1000-3000 (US \$13-\$40).</li> <li>• Martyrdom contributions were charged monthly at a rate of AFN 500 (US \$6) per security personnel.</li> <li>• Burial expenses were charged monthly at a rate of AFN 400 (US \$5) per security personnel.</li> </ul>	<p><b>PAE disagrees with the auditor’s assessment that the costs totaling \$738,852 are unsupported.</b></p> <p>PAE’s Subcontractor established the APPF security contract during the predecessor program to the NMS-GVS contract, Afghan Technical Equipment Maintenance Program (ATEMP) at a time when Presidential decree 62 was in place, which mandated the use of Afghan Public Protection Force (APPF) for all security related requirements.</p> <p>Further, PAE’s original proposal (with pricing), dated 4 October 2016, incorporated the APPF as a cornerstone of providing static and mobile security services to more than 3,000 NMS employees, operating at 28 ‘outside the wire’ locations across Afghanistan, completely independent of, or reliant upon, US / Coalition security forces. PAE submitted a low-cost, low-profile security solution, in compliance with U.S. and Afghan laws, Afghan Presidential Decrees, and the U.S.-Afghanistan Bilateral Security Agreement. Third country PSCs are intuitively and demonstrably more expensive than LN wages and ODCs of the APPF, for similar services. The USG evaluated, accepted, and awarded the NMS-GVS contract to PAE, inclusive of this security model and funding, as being fair and reasonable. In point of fact, APPF costs incurred during performance were below funding included in the contract award. The Afghan Ministry of Interior with authority over the APPF, established a non-negotiable, fixed pricing schedule for security services and associated ODCs. Martyrdom contributions and burial expenses are consistent with provisions in Afghan Labor Law.</p>
4	<p>Missing solicitation support. Missing RFQ or 3 competitive quotes.</p>	<p><b>PAE disagrees with the auditor’s assessment that the costs totaling \$123,517 are unsupported.</b></p> <p>Many of the procurements in the sample were under the micro-purchase threshold and were managed by the Subcontractor’s ERP system. Additionally, the Subcontractor’s practices for procurements were to issue verbal solicitations to multiple vendors who would then provide written quotes, as</p>



Issue #	Nature of Issue	PAE Response
		explained under issue #2 above. The file provided to the audit team did include the vendor quote summary and subsequent award.
5	Missing justification why quotes and invoices were pre-dated; One PO by four days and two POs ranging from 304-365 days.	<b>PAE disagrees with the auditor’s assessment that the costs totaling \$35,463 are unsupported.</b> Supporting documentation was provided to the audit team with correct dates. Several confirmed issues were due to typographical errors.
6	Missing employee signatures on travel request forms (TRF) during the first review of the support. PAE’s subcontractor submitted seven signed TRFs at the end of fieldwork which appear to be signed after the fact and the signature appears to be different from other documentation that the employee’s signed.	<b>PAE disagrees with the auditor’s finding that these costs totaling \$16,348 are questionable.</b> PAE’s Subcontractor did confirm the forms were not originally signed stating “In country HR team had the form signed for employees retroactively in response to the audit query.” However, they also confirmed that the “TRFs were duly approved and signed by the project administration at the time of the travel request.”
7	<p>Insufficient documentation for trainer and mentor qualifications:</p> <ul style="list-style-type: none"> <li>• There was insufficient documentation demonstrating that any of the 44 trainers and mentors sampled met the position qualifications detailed in the contract. As such we are questioning the costs associated with the trainer/mentors tested.</li> </ul> <p>Inaccurate amounts charged for trainers and mentors. More than half of the subcontractor billings for trainers and mentors were for individuals that were not found on the subcontractors detailed list of trainers and mentors. A revised list was provided but was still significantly out of sync with actual billings.</p>	<p><b>PAE disagrees with the auditor’s assessment that the costs totaling \$892,100 are unsupported.</b></p> <p>PAE performs training contracts on six continents. Our experience in acquiring training talent from global sources informs our approach against exclusive reliance on CV / Resume accuracy due to disparate cultural norms across myriad, diverse nationalities. PAE ensures Trainers meet program requirements through vetting, formal evaluation/assessment during onboarding, probation periods, performance reviews and appraisals, while focusing on the results of training delivered.</p> <p>In executing this training and mentoring program, PAE and its majority Subcontractor, hire and employ staff that go through a comprehensive onboarding training &amp; instructional course that ensures they possess the necessary skills, experience, and understanding of the curriculum, in order to effectively deliver the NMS-GVS training program to the ANDSF at a high standard.</p> <p>Results are what matter most. PAE has successfully delivered a robust training</p>

Issue #	Nature of Issue	PAE Response
	<ul style="list-style-type: none"> <li>• We found that some individuals floated among multiple positions during the period of the audit and we were unable to determine who served as a mentor or trainer. For example:                             <ul style="list-style-type: none"> <li>○ One individual started as a Maintenance Trainer/Mentor for nine months, the following five months this same person was listed as a Cleaner, then one month as a Laborer, and the subsequent four months back to a Training Supervisor.</li> <li>○ Another individual worked one month as an Automotive Painter, one month as a Supply Trainer/Mentor, the next 12 months back to an Automotive Painter or Painter, the next month to Quality Trainer/Mentor, and then the remaining five months as either a Trainer/Mentor or Quality Trainer/Mentor.</li> <li>○ A third individual was listed as Trainer and Mentor on the provided list. However, the individual was billed as a Mechanic.</li> </ul> </li> </ul>	<p>and mentoring program that demonstrably performs above contractual obligations. Both the USG and ANDSF benefited greatly from training provided by PAE. This is expressed in terms of exponential growth in vehicle repair volume, and repair task complexity performed by the ANDSF. Afghan Ministry Officials have embraced as their own, the contractor training solution PAE provided. They have incorporated PAE’s curricula into their National Level training courses at the CSS School. They have hired former NMS-GVS local national trainers as instructors. The foundation of the NMS-GVS training/mentoring program successful results are in validating that the trainer/mentors possess the necessary skills, competence, and understanding of training curriculum. Once onboarded to the program, PAE ensures they receive robust instruction and are capable of delivering to our standardized requirements. Additionally, the NMS-GVS contract was comprised of more than 3,000 employees operating in a very dynamic environment (31 locations with persistent presence of mobile teams in all 34 provinces) where it was not uncommon for personnel to move into different positions, sometimes quite often, based on mission requirements.</p>



Issue #	Nature of Issue	PAE Response
	<p>Given all the issues identified above, it brings substantial doubt on qualifications for ALL trainers and mentors on the Contract. The estimated cost claimed by these trainers and mentors is \$7,613,339.</p>	
8	<p>Insufficient documentation to show subcontractor employee's payroll payments were in accordance with the employment contract and/or payroll register (<b>Costs already included in Issue #7</b>).</p>	<p><b>PAE partially agrees with the auditor's assessment that the costs totaling \$114,270 are unsupported.</b>                      PAE was requested to provide supporting documentation for the payroll periods of February 2018, November 2018, March 2019, and July 2019. PAE has reviewed and determined there were 5 total instances in which there were discrepancies in proof of payment documentation that detailed the salary invoiced was higher than what was paid to the employee, or which there was no proof of payment provided. The total dollar amount for these 5 instances is approximately \$950. For the 5 instances noted, PAE is working with the Subcontractor to validate the discrepancy and will provide credits to the Government, where appropriate.</p>
9	<p>Missing or Insufficient Support to Demonstrate Personnel Met the Onboarding and Deployment Readiness Requirements.</p>	<p><b>PAE disagrees with the auditor's assessment that the costs totaling \$102,608 are unsupported.</b>                      PAE's Subcontractor has confirmed the individual in question had an active Secret clearance at the time of onboarding and this met their criteria for having a background check. Further, the individual was an American National and therefore went through CRC prior to deployment. PAE's Subcontractor has stated that in order to attend CRC, the individual would have had to have at least an interim NACI clearance prior to attending CRC.</p>





Issue #	Nature of Issue	PAE Response
10	<p>Higher compensation for local national employee identified without justification. One local national employee was receiving a salary (in USD) equivalent to the pay of an expatriate. No support or explanation was given for the unusually higher compensation of this individual. [REDACTED]</p>	<p><b>PAE disagrees with the auditor’s assessment that the costs totaling \$58,009 are unsupported.</b></p> <p>This individual, served as a Security Manager for PAE’s Subcontractor from the beginning of the NMS-GVS contract until June 2018.</p> <p>Under the relevant Security Modification (awarded and executed August 2018 for funding from inception of Base Year), which provided the funding for the individual’s employment as part of the NMS-GVS program, no distinction was made between "local national" or "expatriate" employees that served in the Security Manager role. Accordingly, the individual’s employment agreement mirrored those of other Security Managers for the Subcontractor, who were internationally contracted employees.</p> <p>The individual’s role and experience made the payment of a salary commensurate with internationally contracted employees reasonable. Indeed, in a war-torn country like Afghanistan, effective Security Managers were relied upon, day-to-day, to ensure the functioning of all of NMS-GVS operations and the safety of associated staff. Moreover, the Subcontractor was not aware of any less costly alternatives to fulfil this mission-critical position. Before the Subcontractor was awarded the NMS-GVS sub-contract, the individual had served as a Security Manager in connection with the ATEMP contract. PAE’s Subcontractor was not aware of any other local national that had equivalent company and country-specific expertise that could have filled this role at lesser cost. Therefore, the individual was awarded a contract that provided compensation similar to "the pay of an expatriate."</p> <p>Finally, as requested by the audit team, PAE provided the employment contract for the individual on March 18, 2021. The employment contract demonstrated the amount invoiced for the individual’s salary was in accordance with the salary stated in his employment contract.</p>





Issue #	Nature of Issue	PAE Response
11	<p>Inaccurate pay rates for subcontractor employees. We noted, 15 instances where subcontractor employees were assigned to a relief assignment and were paid wages based on the payrate of the person being relieved, this rate could be twice to four times the employee’s normal payroll rate. There was no justification for charging approximately twice to four times the regular payroll rate while an employee relieves someone for time off. In addition, there was no support to show the employee on the relief assignment is properly qualified.</p>	<p><b>PAE disagrees with the auditor’s assessment that the costs totaling \$10,031 are unsupported.</b>                      PAE's Subcontractor had business practices whereby when an employee filled, if even for a short duration, a more senior position due to requirements to R&amp;R coverage, that individual would be compensated in accordance with the rate for that position. This was meant to compensate the employee for taking on the additional responsibilities. This practice was consistently applied to personnel across the program for the Subcontract. Site/Operational leadership made the assessments as to personnel qualifications to be able to fill the positions and ensures if there were specific PWS requirements, they were met as well.</p>
12	<p>Lack of support for charges for work performed. One subcontractor charged PAE for Contract Team (CT) mission hours without support that the work was performed, individuals were properly qualified, or that the rates charged were reasonable. Additionally, the subcontractor did not provide policies or procedures related to CT missions.</p>	<p><b>PAE disagrees with the auditor’s assessment that the costs totaling \$5,646 are unsupported.</b>                      Site/Operational leadership made the assessments as to qualifications and rates to be paid based on the tasks and positions needed to complete the mission. This is consistent with the Subcontractor’s payroll policy and practice. Additionally, PAE has the ability to pull all work orders completed for each CT mission from CDRL A008. Finally, PAE provided the audit team the NMS-GVS Standard Operating Procedure <i>NMS-GVS-410 Contact Team Operations SOP V. 1.0</i> to the audit team on March 1<sup>st</sup>, 2021.</p>



Issue #	Nature of Issue	PAE Response
13	<p>Miscalculation of hourly rate charges. One subcontractor calculated the hourly rate for Thursday work based on a 5-hour day rather than according to their policy of an 8-hour day. Due to this, the hourly rate for the first 5 hours of work and the overtime hours charged on each Thursday were charged at a higher rate than allowable per the subcontractor policies and procedures. This issue impacts 6 Cost Categories listed to the right. <i>(Conrad expanded testing to the entire audit period and noted 3 months with this issue).</i></p>	<p><b>PAE disagrees with the auditor’s assessment that the costs totaling \$5,347 are unsupported.</b>                      The payroll processing that governed this practice was based on the Subcontractor’s interpretations of Afghan Labor law and were applied consistently across the program.</p>
14	<p>Overtime Charge is not Supported on 2 Subcontractor employees and No Support Provided for 1 Subcontractor Employee’s Labor Charged.</p>	<p><b>PAE disagrees with the auditor’s assessment that the costs totaling \$3,946 are unsupported.</b>                      The sample support for the majority of these costs (\$3,740) was provided to the audit team. PAE agrees that \$206 for overtime costs for 3 employees was incorrectly billed and will be refunded to the customer.</p>
15	<p>Incorrect foreign currency rates:                      In 2018, one subcontractor used a static foreign currency rate for the first ten months of the contract rather than the current market rate for foreign currency. This resulted in overcharges in the foreign currency conversion rate to the program.  <i>(Conrad expanded testing to the entire audit period and noted 8 months with this issue).</i></p>	<p><b>PAE agrees with the auditor’s assessment that the costs totaling \$325,680 are unsupported.</b>                      PAE’s Subcontractor used a static foreign currency rate for the first ten months of the contract, which resulted in overcharges to the program. PAE’s Subcontractor had provided an explanation to PAE at the time of the invoice that per the employment agreements, a fixed Fx rate had been defined. However, a Fx rate true-up invoice should have been issued to PAE for the difference between the employee agreed rate, and the applicable month’s exchange rate per accounting practices.</p>



Issue #	Nature of Issue	PAE Response
16	Indirect cost charged which was not approved in the subcontractor agreement.	<b>PAE partially agrees with the auditor’s assessment that the costs totaling \$304 are unsupported.</b> PAE has subsequently performed a full review of submitted subcontractor invoices for the two subcontractors that do not have approved indirect costs in their subcontract agreements. PAE identified \$13,324 of refund due to the U.S. Government and has issued a refund/credit back to the Customer.



Finding	Nature of Finding	Condition
Finding 2021-02: Missing or Insufficient Support to Demonstrate Personnel Met the Onboarding and Deployment Readiness Requirements	Non-compliance; Internal Control – Significant Deficiency	Conrad selected 44 PAE employees totaling \$336,046 out of a population of 293 totaling \$7,282,072 of labor costs to determine whether allowances applied to personnel costs were adequately supported, reasonable, allocable, and allowable and whether personnel were hired and onboarded within the requirements of the Contract. During our testing, we noted six instances where PAE was unable to provide sufficient evidence that the security and background checks, and/or fitness to deploy examinations were conducted as required under the terms of the Contract.

Issue #	Nature of Issue	PAE Response
1	Missing security and background checks	<b>PAE disagrees with Finding 2021-02 that the costs totaling \$791,447 are unsupported.</b>
	Missing fitness to deploy examinations	PAE agrees there was one individual for which PAE did not provide the background/medical check. The documentation missing however, is for an American citizen, who would've been required to complete CRC training, which requires a positive background and drug screen prior to U.S. Government granting attendance. PAE was able to demonstrate that the individual did successfully complete CRC training. During the course of the NMS-GVS program, PAE had a turnover of staff in addition to vendors who performed the background checks and drug screens. PAE was able to retain the documentation from the employees and vendor, however, they've been archived in various formats which can be difficult to search due to the sheer volume of documents. PAE believes that with further time, the document may be found, if requested by Conrad and SIGAR. PAE has adjusted our process and will be storing items in a secure storage area and reassessed our processes to ensure the capture of the proper documentation.
	Missing fitness to deploy examinations and security/background check	



Finding	Nature of Finding	Condition
Finding 2021-03: True Up of Indirect Costs was not performed within contract requirements	Non-compliance; Internal Control – Significant Deficiency	PAE did not complete an indirect cost true-up calculation and update the billings to reflect the final rates and billing amounts for fiscal year 2018 based on the final approved Defense Contract Audit Agency (“DCAA”) rate. Using the approved final rates in the DCAA letter, we calculated variances in fringe, overhead, and general and administrative costs charged to the Contract during fiscal year 2018 based on the general ledger transactions provided by PAE for this contract. The amounts represent an over-charge and under-charge to the Government as below.

**PAE Response**

**PAE partially agrees with Finding 2021-03.**

PAE agrees that the remaining portion of the 2018 rate true-up was not issued with the contractual time frame, however, PAE did not lack an understanding that there was a pending true-up due to the Government.

PAE completed the indirect rate true-up for all contract CLINs for 2018, with the exception of Training & Mentoring (T&M) and CLS. PAE has planned for the remaining indirect rate true-up for T&M and CLS to be processed at the same time as the T&M & CLS incentive fee award that PAE is due. For simplicity purposes, PAE wanted to process these at the same time since the amounts would essentially offset one another. PAE had estimated the pending indirect rate true-up, which has consistently included this amount in the monthly customer deliverable CDRL A013 Performance and Cost Report. The Government has not questioned PAE about performing the indirect rate true-up for T&M and CLS.

Finally, PAE has submitted its proposal for the award of the incentive fee. This has been delayed from the anticipated award timeframe and pushed back the final indirect rate true-up.



Finding	Nature of Finding	Condition
Finding 2021-04: Travel Costs for Flights Booked by Subcontractor for PAE Employees Resulted in an Overcharge of Indirect Costs	Non-compliance; Internal Control – Significant Deficiency	Condition: Conrad selected 7 travel samples totaling \$290,076 out of a population of 4,894 totaling \$2,775,709 of travel costs to determine whether travel costs were adequately supported, reasonable, allocable, and allowable. During our testing of travel, we noted one sample covering airfare for 43 PAE employees where the tickets were purchased by a PAE subcontractor. This is a violation of PAE’s Business Travel Policy which requires PAE to use its designated travel agency for booking airfare. In addition to violating its travel policy, PAE effectively doubled the indirect cost amounts charged to the Contract, as they applied an indirect amount to the subcontractor’s invoice which already included indirect costs. As a result, \$1,633 of ineligible questioned costs were charged to the Contract.

**PAE Response**

**PAE partially agrees with Finding 2021-04.**

PAE agrees with the auditors that indirect costs for the travel flights were charged by both the Subcontractor and PAE. PAE does not agree that indirect costs were incorrectly applied, however, and therefore, the costs should not be questioned.

PAE acknowledges PAE should have fully documented the cost savings and received prior approval for the deviation from PAE travel policy. As per PAE policy, prior approval from the designated travel approver (DTA) will be obtained for bookings outside of the designated PAE Travel Agency. Should PAE have its Subcontractor book travel for PAE in the future, PAE will obtain this approval and will also develop a cost analysis demonstrating the fully burdened cost efficiency of the alternate booking methodology.

## **Status of Prior Audit Findings**

We requested prior audit reports from PAE, and SIGAR. Additionally, we conducted searches online for prior engagements including audits, reviews, and evaluations pertinent to PAE's activities. We identified three prior SIGAR audit reports, Financial Audit 19-06 that was published in March 2018, Financial Audit 19-12 that was published in January 2019, and Financial Audit 19-40 that was published in June 2019. We noted that there were 15 findings. Based on our review of these findings, we noted that 11 findings could have a material effect of the SPFS and other financial data significant to the audit objectives. We reviewed the responses and corrective actions taken to address these 11 findings and recommendations and found that 8 of the 11 findings were not properly corrected. Our review procedures included a followup discussion with PAE's management, as well as conducting similar tests surrounding the identified areas during our current audit. We have summarized the results of our procedures below:

### **SIGAR Financial Audit 19-06**

#### **Finding No. 2018-01: Employee Worked More than the Authorized Six Consecutive Days**

**Issue:** PAE did not have an adequate procedure in place to prevent individuals from working more than the authorized number of consecutive days. PAE also lacked an adequate internal detective control to identify instances of noncompliance with the provision and to ensure that the corresponding costs were not invoiced to the government, which resulted in \$724 of ineligible questioned costs.

**Status:** For the current engagement, there were no instances noted where PAE employees worked more than the authorized number of consecutive days. However, during the testing of the subcontractor personnel, we noted that labor charges were not in adherence to the subcontractor's personnel policy which resulted in an overcharge of personnel cost. This issue is described in Finding 2021-01. Conrad concluded that adequate corrective action was not taken with respect to this matter.

**PAE Response:** PAE disagrees with the audit team that the proper corrective action in response to previous audit finding no. 2018-01 was not completed. Finding 2018-01 was specific to PAE controls of internal systems and process and as the status clearly states, no incidents of PAE control failures were identified as part of this audit. The current finding deals with a subcontractor finding which we addressed as part of our detailed response to finding 2021-01 issues #10, 11, 12, 13, 14.

#### **Finding No. 2018-02: Failure to Comply with Working Hours Restrictions**

**Issue:** A PAE employee failed to work either the minimum number of hours per day or exceeded the maximum number of hours per day. PAE did not have adequate internal controls over compliance with labor charges. PAE lacked a process to monitor compliance with the working hours restrictions appearing in the Contract. In addition, PAE did not believe that the requirement applied to security personnel. This resulted in a total ineligible questioned cost of \$965.

**Status:** For the current engagement, there were no instances noted where employees failed to work either the minimum number of hours per day or exceeded the maximum number of hours per day. However, during the testing of the subcontractor personnel, we noted that labor charges were not in adherence to the subcontractor’s personnel policy which resulted in an overcharge of personnel cost. This issue is described in Finding 2021-01. Conrad concluded that adequate corrective action was not taken with respect to this matter.

**PAE Response:** PAE disagrees with the audit team that the proper corrective action in response to previous audit finding no. 2018-02 was not completed. Finding 2018-02 was specific to PAE controls of internal systems and process and as the status clearly states, no incidents of PAE control failures were identified as part of this audit. The current finding referenced deals with a subcontractor finding which we addressed this finding as part of our detailed response to finding 2021-01 issues #10, 11, 12, 13, 14.

**Finding No. 2018-03: Insufficient Support for Cost or Price Reasonableness**

**Issue:** Management lacked internal controls and procedures to ensure that procurement files included required documentation to justify noncompetitive acquisitions. This resulted in a total ineligible questioned cost of \$28,333.

**Status:** During our testing, we noted a lack of internal controls and procedures to ensure subcontractor procurement files included required documentation to justify noncompetitive acquisitions. This issue is described in Finding 2021-01. Conrad concluded that adequate corrective action was not taken with respect to this matter.

**PAE Response:** PAE disagrees with the audit team that the proper corrective action in response to previous audit finding no. 2018-03 was not completed. Finding 2018-03 was specific to PAE controls of internal systems and process and as the status clearly states, no incidents of PAE control failures were identified as part of this audit. The current finding referenced deals with a subcontractor finding which we addressed this finding as part of our detailed response to finding 2021-03 issue #3.

**Finding No. 2018-05: Payments to Vendors Not Made Timely**

**Issue:** PAE did not implement an adequate monitoring process to ensure that payments were made timely. This did not result in any questioned costs.

**Status:** For the current engagement, there were no instances noted where payments to vendors were not made timely. In addition, we had interviewed PAE’s accounts payable department as well as reviewed PAE’s accounting system policy updated in January 2019. It appears that adequate controls have been put into place. As such, it has been concluded that PAE has taken adequate corrective action as this was not identified as a repeated issue.



**PAE Response:** No PAE comment required.

**Finding No. 2018-06: Foreign Currency Translations Resulted in Overcharge to USG**

**Issue:** Management may have applied an incorrect transaction date when completing the currency translation, which resulted in \$953 of ineligible questioned costs.

**Status:** During our testing, we noted an agreed upon foreign currency rate was used to calculate subcontract labor charges rather than applying the current foreign currency rate. This issue is described in Finding 2021-01. Conrad concluded that adequate corrective action was not taken with respect to this matter.

**PAE Response:** PAE does agree there was an issue with the date used for currency translations; however, this was not a PAE internal control failure, rather an issue identified impacting a subcontractor. PAE did identify the issue, it was corrected but we agree a true up invoice should have been submitted, but has not been submitted as of yet. PAE addressed this in our detailed response to finding 2021-01 issue #15.

**Finding No. 2018-07: Indirect Cost Adjustment Calculations Not Completed**

**Issue:** PAE did not complete an indirect cost true-up calculation for each year based on actual costs incurred and anticipated final billing rates. As a matter of standard company practice, PAE does not calculate indirect cost adjustments until the audit of PAE's indirect costs for each applicable year is completed by DCAA or the applicable Federal agency. PAE did not conduct the assessment during this contract's period of performance due to delays in the Federal audits being initiated and completed.

**Status:** During our testing, we noted that the indirect cost true up was not performed in accordance with the current contract requirements. This issue is described in Finding 2021-03. Conrad concluded that adequate corrective action was not taken with respect to this matter.

**PAE Response:** PAE agrees with this finding and has addressed finding 2021-03 in the detailed response provided.

**SIGAR Financial Audit 19-12**

**Finding No. 2018-03: Indirect Cost True-Up Not Performed**

**Issue:** PAE did not calculate indirect cost adjustments until the audit of PAE's indirect costs for each applicable year is completed by DCAA or the applicable Federal agency, which resulted in \$150,648 of ineligible questioned costs.

**Status:** During our testing, we noted that the indirect cost true up was not performed in accordance with the current contract requirements. This issue is described in Finding 2021-03. Conrad concluded that adequate corrective action was not taken with respect to this matter.

**PAE Response:** PAE agrees with this finding and has addressed finding 2021-03 in the detailed response provided.

**Finding No. 2018-04: Transportation Cost Charged for Program Participants does not Reflect Actual Costs**

**Issue:** PAE considered the transportation cost estimates to be reasonable. In addition, PAE did not consider identification of actual transportation costs to be necessary and, therefore, did not have a process in place to identify actual transportation costs, which resulted in \$9,250 of ineligible questioned costs.

**Status:** For the current engagement, there were no program participant transportation costs incurred. However, we tested costs for reasonableness that were incurred by PAE as well as reviewed their competition policy, it appears adequate controls had been put into place. As such, it has been concluded that PAE has taken adequate corrective action as this was not identified as a repeated issue.

**PAE Response:** No PAE comment required.

**Finding No. 2018-05: Inadequate Supporting Documentation for Allocated Overhead Costs**

**Issue:** PAE did not have a process in place to retain or otherwise produce documentation adequate to demonstrate that directly allocated overhead costs are allowable, which resulted in \$29,172 of ineligible questioned costs.

**Status:** For the current engagement, there were no instances noted where overhead costs were allocated that were not allowable. As such, it has been concluded that PAE has taken adequate corrective action as this was not identified as a repeated issue.

**PAE Response:** No PAE comment required.

**Finding No. 2018-07: Supporting Documentation Not Provided for Costs Incurred**

**Issue:** PAE did not have adequate procedures in place to ensure that costs charged to the Contract are adequately supported, which resulted in \$1,032 of ineligible questioned costs.

**Status:** During our testing, we noted missing or insufficient supporting documentation to ensure that costs charged to the Contract are adequately

supported. This issue is described in Finding 2021-01, Finding 2021-02, and 2021-04. Conrad concluded that adequate corrective action was not taken with respect to this matter.

**PAE Response:** PAE disagrees with the audit team that the proper corrective action in response to previous audit finding no. 2018-07 was not completed. PAE has provided a detailed response to findings 2021-01 issues # 1, 2, 4, finding 2021-02 and finding 2021-04.

### **SIGAR Financial Audit 19-40**

#### **Finding No. 2019-01: Supporting Documentation Not Provided for Costs Incurred**

**Issue:** PAE indicated that its internal policies include only providing documentation to auditors which support transactions incurred if PAE has internally reviewed, approved and billed the transaction to the government. PAE further indicated that it had not internally reviewed, approved and had not yet decided whether it would bill the government or not for the identified transactions. Since these transactions were incurred in some cases more than two years prior to conducting our audit, and the U.S. government was billed for these costs, this does not explain PAE's lack of documentation. In addition, PAE lacks procedures to retain documentation. This resulted in a total ineligible questioned cost of \$140,011.

**Status:** During our testing, we noted missing or insufficient supporting documentation to ensure that costs charged to the Contract are adequately supported. This issue is described in Finding 2021-01, Finding 2021-02, and 2021-04. Conrad concluded that adequate corrective action was not taken with respect to this matter.

**PAE Response:** PAE disagrees with the audit team that the proper corrective action in response to previous audit finding no. 2019-01 was not completed. PAE has provided a detailed response to findings 2021-01 issues # 1, 2, 4, finding 2021-02 and finding 2021-04.

**PAE Government Services, Inc. (PAE)**

Financial Audit of Costs Incurred Under  
 Contract No. W56HZV17C0117 Awarded by the Department of Defense Army Contracting Command (DOD-ACC)  
 National Maintenance Strategy – Ground Vehicle Support (NMS-GVS)

For the Period of May 23, 2017 through August 30, 2019

Auditor’s Rebuttal to PAE’s Responses

Below is our rebuttal to each finding and prior audit finding that PAE disagreed with.

**FINDING 2021-01**

Issue #	Nature of Issue	PAE Response and Auditor Rebuttal
1	Missing approvals on Purchase Receipt Forms, Procurement Approval Forms and Bulk Order Evaluators.	<p><b>PAE disagrees with the auditor’s assessment that the costs totaling \$1,599,612 are unsupported.</b></p> <p>At the start of the contract, the Subcontractor followed a generally acceptable practice of receiving goods over the counter, a process which does not require or generate a vendor’s delivery note. To meet the contract requirements, the Subcontractor’s process for documenting the receipt of goods/services was to manually enter the receipt into the company’s ERP system which provided a system generated receipt which was provided to the auditor. Over time, the process was changed to include physically stamping documents or invoices which were submitted to the audit team. PAE did initially submit Procurement Approval Forms that were unsigned; however, upon notification, PAE did provide the originally signed documents, to include email approvals that are date stamped, for all but one instance (\$1,883). Additionally, the auditors have questioned costs associated with “Bulk Order Evaluators” missing signatures. PAE has documentation demonstrating Subcontractor’s Procurement team obtained appropriate internal</p>

Issue #	Nature of Issue	PAE Response and Auditor Rebuttal
		<p>approvals to proceed with the procurement actions in the form of either signed Bulk Order Quote evaluation sheet or via email approvals from their CEO to the Procurement Manager. As a specific example, Conrad questioned 2 Sample IDs for \$989,640 in the “materials” cost category for PAFS OY1000150, OY1000151, and OY1000330. PAE provided the bulk order evaluators to Conrad on March 17th, 2021, via the Sharefile portal, which included the Subcontractor’s CEO signature for final approval of the purchases.</p>
		<p><b>Auditor’s Rebuttal:</b></p> <ul style="list-style-type: none"> <li>• PAE states that the process changed to include physically stamping documents and invoices however, the samples in question did not include this physical stamp or approval on the provided documents.</li> <li>• In relation to the documents provided with original signatures, auditors found these samples to not have any approvals. When presented to PAE they then submitted signed documents that are inconsistent and questionable in nature, perhaps being signed after the fact and during the audit in order to show their approval process.</li> <li>• Regarding the specific example from Materials, the documents provided on March 17, 2021, were provided in response to the auditors questioning the lack of approvals. When reviewing the documents provided on this date, we noticed inconsistencies in the signatures and the process of approvals which brought into question the validity of the approvals.</li> <li>• As such, our finding and recommendations remain.</li> </ul>

Issue #	Nature of Issue	PAE Response and Auditor Rebuttal
2	Missing solicitation support and missing manager approvals on Purchase Receipts.	<p><b>PAE disagrees with the auditor's assessment that the costs totaling \$1,167,922 are unsupported.</b></p> <p>Many of the procurements in the sample were under Federal Acquisition Regulation (FAR) micro-purchase threshold and were managed in the subcontractor's ERP system. Additionally, the subcontractor's established practice for procurements was to issue verbal solicitations to multiple vendors who would then provide written quotes. The quotes were mandated to include a date for verification purposes of the requirement being requested, restate the solicitation requirements to ensure compliance, understanding and that like for like comparisons could be made for a fair and reasonable determination of pricing. The file provided to the audit team did include the vendor quote summary and subsequent award. Concerns over purchase receipt approvals was addressed in PAE response to issue 1.</p>
		<p><b>Auditor's Rebuttal:</b></p> <ul style="list-style-type: none"> <li>• The Procurement Manual from the subcontractor states their micro purchase threshold is \$3,000 for purchases and \$250 for spare parts. This manual also outlines the subcontractor's requirement for procurement including the written RFQ process. The documentation provided did not follow the procurement policy in regard to solicitation support, to include some of the RFQ dates being after the date on the vendor quotes.</li> <li>• As such, our finding and recommendations remain.</li> </ul>

Issue #	Nature of Issue	PAE Response and Auditor Rebuttal
3	<p>Insufficient documentation to demonstrate that one subcontractor competitively bid a contract for security services. Additionally, on the same contract we noted unreasonable other direct costcharges:</p> <ul style="list-style-type: none"> <li>• █████ profit was applied plus an admin fee of roughly █████ to each invoice.</li> <li>• Each security personnel received a monthly bonus ranging from AFN 834-4160 (US \$11-\$56).</li> <li>• Monthly rentals of weapons such as AK47 and 9mm ranging from AFN 1000-3000 (US \$13-\$40).</li> <li>• Martyrdom contributions were charged monthly at a rate of AFN 500 (US \$6) per security personnel.</li> <li>• Burial expenses were charged monthly at a rate of AFN 400 (US \$5) per security personnel.</li> </ul>	<p><b>PAE disagrees with the auditor's assessment that the costs totaling \$738,852 are unsupported.</b></p> <p>PAE's Subcontractor established the APPF security contract during the predecessor program to the NMS-GVS contract, Afghan Technical Equipment Maintenance Program (ATEMP) at a time when Presidential decree 62 was in place, which mandated the use of Afghan Public Protection Force (APPF) for all security related requirements.</p> <p>Further, PAE's original proposal (with pricing), dated 4 October 2016, incorporated the APPF as a cornerstone of providing static and mobile security services to more than 3,000 NMS employees, operating at 28 'outside the wire' locations across Afghanistan, completely independent of, or reliant upon, US / Coalition security forces. PAE submitted a low-cost, low-profile security solution, in compliance with U.S. and Afghan laws, Afghan Presidential Decrees, and the U.S.-Afghanistan Bilateral Security Agreement. Third country PSCs are intuitively and demonstrably more expensive than LN wages and ODCs of the APPF, for similar services. The USG evaluated, accepted, and awarded the NMS-GVS contract to PAE, inclusive of this security model and funding, as being fair and reasonable. In point of fact, APPF costs incurred during performance were below funding included in the contract award.</p> <p>The Afghan Ministry of Interior with authority over the APPF, established a non-negotiable, fixed pricing schedule for security services and associated ODCs. Martyrdom contributions and burial expenses are consistent with provisions in Afghan Labor Law.</p>

Issue #	Nature of Issue	PAE Response and Auditor Rebuttal
		<p><b>Auditor's Rebuttal:</b>  PAE states this subcontractor is a low-cost, low-profile security solution for the security contract; however, this does not change the requirement for PAE to bid and document either with, competitive bidding or a sole source justification, the process of procuring a subcontractor. Without the adequate documentation, procedures having not been followed, and contract requirements having not been fulfilled, the ability to determine the reasonableness of the quoted prices is not available. As such, our finding and recommendations remain.</p>
4	Missing solicitation support. Missing RFQ or 3 competitive quotes.	<p><b>PAE disagrees with the auditor's assessment that the costs totaling \$123,517 are unsupported.</b>  Many of the procurements in the sample were under the micro-purchase threshold and were managed by the Subcontractor's ERP system. Additionally, the Subcontractor's practices for procurements were to issue verbal solicitations to multiple vendors who would then provide written quotes, as explained under issue #2 above. The file provided to the audit team did include the vendor quote summary and subsequent award.</p>
		<p><b>Auditor's Rebuttal:</b></p> <ul style="list-style-type: none"> <li>• The Procurement Manual from the subcontractor states their micro purchase threshold is \$3,000 for purchases and \$250 for spare parts. This manual also outlines the subcontractor's requirement for procurement including the written RFQ process, the documentation provided did not follow the procurement policy in regard to solicitation support.</li> <li>• For the ODC questioned samples, the procurement support indicated that quotes were received from the vendors however, no support for these quotes was provided during the audit.</li> <li>• For the FM questioned samples, the amounts were</li> </ul>

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Issue #	Nature of Issue	PAE Response and Auditor Rebuttal
		<p>above the threshold and PAE confirmed they did not have the required quotes in the Procurement Manual.</p> <ul style="list-style-type: none"> <li>As such, our finding and recommendations remain.</li> </ul>
5	<p>Missing justification why quotes and invoices were pre-dated; One PO by four days and two POs ranging from 304-365 days.</p>	<p><b>PAE disagrees with the auditor's assessment that the costs totaling \$35,463 are unsupported.</b></p> <p>Supporting documentation was provided to the audit team with correct dates. Several confirmed issues were due to typographical errors.</p>
		<p><b>Auditor's Rebuttal:</b></p> <ul style="list-style-type: none"> <li>PAE states that the correct dated documents were provided. The documentation provided for these samples had invoicing that pre-dated the procurement documents.</li> <li>In one instance of the FM questioned sample, the invoice was dated March 17, 2018 and the purchase order was dated December 17, 2018. The second instance, the invoice was dated a year before the purchase order date.</li> <li>For the ODC questioned sample, initially the invoice was provided with a date which pre-dated the purchase order. When we asked PAE about this sample, they sent a copy of the same invoice with a new date without an explanation as to why they were submitting a duplicate invoice with a new date.</li> <li>As such, our finding and recommendations remain.</li> </ul>

(Continued)

Issue #	Nature of Issue	PAE Response and Auditor Rebuttal
6	<p>Missing employee signatures on travel request forms (TRF) during the first review of the support. PAE's subcontractor submitted seven signed TRFs at the end of fieldwork which appear to be signed after the fact and the signature appears to be different from other documentation that the employee's signed.</p>	<p><b>PAE disagrees with the auditor's finding that these costs totaling \$16,348 are questionable.</b>  PAE's Subcontractor did confirm the forms were not originally signed stating "In country HR team had the form signed for employees retroactively in response to the audit query." However, they also confirmed that the "TRFs were duly approved and signed by the project administration at the time of the travel request."</p>
		<p><b>Auditor's Rebuttal:</b></p> <ul style="list-style-type: none"> <li>• PAE states the forms were not originally signed and that the forms were signed for the employees after the auditors inquired about the missing signatures. When the forms were provided to the auditors with these signatures, the signatures did not match the employees signature on other travel documents. It seems as if the actual employee did not sign these, even after the fact.</li> <li>• PAE and the subcontractor did not follow the policy and procedure, and it also seems the documentation was doctored just for audit reasons. As such, the finding and recommendations remain.</li> </ul>
7	<p>Insufficient documentation for trainer and mentor qualifications:</p> <ul style="list-style-type: none"> <li>• There was insufficient documentation demonstrating that any of the 44 trainers and mentors sampled met the position qualifications detailed in the contract. As such we are questioning the costs associated with the trainer/mentors tested.</li> </ul> <p>Inaccurate amounts charged for trainers and mentors. More than half of the subcontractor billings for trainers and mentors were for individuals that were not found on</p>	<p><b>PAE disagrees with the auditor's assessment that the costs totaling \$892,100 are unsupported.</b>  PAE performs training contracts on six continents. Our experience in acquiring training talent from global sources informs our approach against exclusive reliance on CV / Resume accuracy due to disparate cultural norms across myriad, diverse nationalities. PAE ensures Trainers meet program requirements through vetting, formal evaluation/assessment during onboarding, probation periods, performance reviews and appraisals, while focusing on the results of training delivered.</p> <p>In executing this training and mentoring program, PAE and its majority Subcontractor, hire and employ staff that go through a</p>

(Continued)

Issue #	Nature of Issue	PAE Response and Auditor Rebuttal
	<p>the subcontractors detailed list of trainers and mentors. A revised list was provided but was still significantly out of sync with actual billings.</p> <ul style="list-style-type: none"> <li>• We found that some individuals floated among multiple positions during the period of the audit and we were unable to determine who served as a mentor or trainer. For example: <ul style="list-style-type: none"> <li>○ One individual started as a Maintenance Trainer/Mentor for nine months, the following five months this same person was listed as a Cleaner, then one month as a Laborer, and the subsequent four months back to a Training Supervisor.</li> <li>○ Another individual worked one month as an Automotive Painter, one month as a Supply Trainer/Mentor, the next 12 months back to an Automotive Painter or Painter, the next month to Quality Trainer/Mentor, and then the remaining five months as either a Trainer/Mentor or Quality Trainer/Mentor.</li> <li>○ A third individual was listed as Trainer and Mentor on the provided list. However, the individual was billed as a Mechanic.</li> </ul> </li> </ul> <p>Given all the issues identified above, it brings substantial doubt on qualifications for ALL trainers and mentors on the Contract. The estimated cost claimed by these trainers and mentors is \$7,613,339.</p>	<p>comprehensive onboarding training &amp; instructional course that ensures they possess the necessary skills, experience, and understanding of the curriculum, in order to effectively deliver the NMS-GVS training program to the ANDSF at a high standard. Results are what matter most. PAE has successfully delivered a robust training and mentoring program that demonstrably performs above contractual obligations. Both the USG and ANDSF benefited greatly from training provided by PAE. This is expressed in terms of exponential growth in vehicle repair volume, and repair task complexity performed by the ANDSF. Afghan Ministry Officials have embraced as their own, the contractor training solution PAE provided. They have incorporated PAE's curricula into their National Level training courses at the CSS School. They have hired former NMS-GVS local national trainers as instructors. The foundation of the NMS-GVS training/mentoring program successful results are in validating that the trainer/mentors possess the necessary skills, competence, and understanding of training curriculum. Once onboarded to the program, PAE ensures they receive robust instruction and are capable of delivering to our standardized requirements. Additionally, the NMS-GVS contract was comprised of more than 3,000 employees operating in a very dynamic environment (31 locations with persistent presence of mobile teams in all 34 provinces) where it was not uncommon for personnel to move into different positions, sometimes quite often, based on mission requirements.</p>

(Continued)

Issue #	Nature of Issue	PAE Response and Auditor Rebuttal
		<p><b>Auditor's Rebuttal:</b></p> <ul style="list-style-type: none"> <li>• PAE has stated their experience in acquiring the trainers/mentors for the program. However, the DOD Contract listed specific requirements for hiring the trainers/mentors. These requirements of the DOD Contract were not met with the provided support documentation.</li> <li>• In addition, PAE did not provide an explanation or a final accurate list of trainers/mentors throughout the audit process.</li> <li>• PAE has stated the staff would move into different positions based on the mission requirement. However, during the audit PAE did not provide any documentation that would support how the personnel was qualified for each of the positions they held.</li> <li>• PAE did not meet the Contract requirements and there was a significant number of unsupported positions and positions movements.</li> <li>• As such, the finding and recommendations remain.</li> </ul>
8	<p>Insufficient documentation to show subcontractor employee's payroll payments were in accordance with the employment contract and/or payroll register (<b>Costs already included in Issue #7</b>).</p>	<p><b>PAE partially agrees with the auditor's assessment that the costs totaling \$114,270 are unsupported.</b></p> <p>PAE was requested to provide supporting documentation for the payroll periods of February 2018, November 2018, March 2019, and July 2019. PAE has reviewed and determined there were 5 total instances in which there were discrepancies in proof of payment documentation that detailed the salary invoiced was higher than what was paid to the employee, or which there was no proof of payment provided. The total dollar amount for these 5 instances is approximately \$950. For the 5 instances noted, PAE is working with the Subcontractor to validate the discrepancy and will provide credits to the Government, where appropriate.</p>

Issue #	Nature of Issue	PAE Response and Auditor Rebuttal
		<p><b>Auditor's Rebuttal:</b>  The support documentation provided by PAE for these costs was not complete and had variances. In our sample selected, there were 10 employees who had payment issues:</p> <ul style="list-style-type: none"> <li>• four employees where we were not provided payroll registers during the audit process</li> <li>• three employees where the payment documentation received did not tie to the employment contract</li> <li>• three employees where the payment documentation did not tie to the labor detail used to bill PAE by the subcontractor.</li> </ul> <p>As such, the finding and recommendations remain.</p>
9	Missing or Insufficient Support to Demonstrate Personnel Met the Onboarding and Deployment Readiness Requirements.	<p><b>PAE disagrees with the auditor's assessment that the costs totaling \$102,608 are unsupported.</b>  PAE's Subcontractor has confirmed the individual in question had an active Secret clearance at the time of onboarding and this met their criteria for having a background check. Further, the individual was an American National and therefore went through CRC prior to deployment. PAE's Subcontractor has stated that in order to attend CRC, the individual would have had to have at least an interim NACI clearance prior to attending CRC.</p>
		<p><b>Auditor's Rebuttal:</b>  PAE has stated that the individual had clearance, however, during the audit process support documentation was requested numerous times, giving PAE and the subcontractor an opportunity to show that the background check and security clearance had been performed. No auditable support or evidence was provided. As such, our finding and recommendations remain.</p>
		<p><b>PAE disagrees with the auditor's assessment that the costs totaling \$58,009 are unsupported.</b>  This individual, served as a Security Manager for PAE's</p>

(Continued)

Issue #	Nature of Issue	PAE Response and Auditor Rebuttal
10	<p>Higher compensation for local national employee identified without justification. One local national employee was receiving a salary (in USD) equivalent to the pay of an expatriate.No support or explanation was given for the unusually higher compensation of this individual. [REDACTED]</p>	<p>Subcontractor from the beginning of the NMS-GVS contract until June 2018.</p> <p>Under the relevant Security Modification (awarded and executed August 2018 for funding from inception of Base Year), which provided the funding for the individual's employment as part of the NMS-GVS program, no distinction was made between "local national" or "expatriate" employees that served in the Security Manager role. Accordingly, the individual's employment agreement mirrored those of other Security Managers for the Subcontractor, who were internationally contracted employees.</p> <p>The individual's role and experience made the payment of a salary commensurate with internationally contracted employees reasonable. Indeed, in a war-torn country like Afghanistan, effective Security Managers were relied upon, day-to-day, to ensure the functioning of all of NMS-GVS operations and the safety of associated staff. Moreover, the Subcontractor was not aware of any less costly alternatives to fulfil this mission-critical position. Before the Subcontractor was awarded the NMS-GVS sub-contract, the individual had served as a Security Manager in connection with the ATEMP contract. PAE's Subcontractor was not aware of any other local national that had equivalent company and country-specific expertise that could have filled this role at lesser cost. Therefore, the individual was awarded a contract that provided compensation similar to "the pay of an expatriate."</p> <p>Finally, as requested by the audit team, PAE provided the employment contract for the individual on March 18, 2021.The employment contract demonstrated the amount invoiced for the individual's salary was in accordance with the salary stated in his employment contract.</p>

(Continued)

Issue #	Nature of Issue	PAE Response and Auditor Rebuttal
		<p><b>Auditor's Rebuttal:</b></p> <ul style="list-style-type: none"> <li>• PAE has stated the funding for this position was provided and executed in a modification in August 2018. We have reviewed all of the Contract and modifications, specifically re-reviewed the modifications executed in August 2018, and did not see a modification which included additional funding or approval for this position. Also, PAE had numerous opportunities throughout the audit to provide support for this questioned cost, and an explanation and/or the modification was never provided.</li> <li>• PAE stated that the experience and role of this individual there is no distinction between a "local national" and "expatriate". Auditors do not agree to the conclusion that local nationals should get the same pay scale as an expatriate or that it is reasonable. For example, auditor reviewed the National Technical Assistance Salary Scale and Implementation Guideline issued by the Islamic Republic of Afghanistan that became effective in January 2016, for a manager level position Grade C with the highest Step 10 the monthly salary would be approximately 140,000 AFN with an average currency conversion rate of 74.00 is roughly \$1,900 per month, while this Security Manager is getting paid \$8,000 which is 400% more than a local manager level personnel would receive.</li> <li>• PAE has stated the employment contract demonstrated the same amount paid to the individual in their salary. The contract alone does not demonstrate allowability and reasonableness of the salary rate of this local national. PAE has not provided any further justification or analysis to determine the reasonableness of this individual's salary rate.</li> <li>• [REDACTED]</li> <li>• As such, the finding and recommendations remain.</li> </ul>

(Continued)



Issue #	Nature of Issue	PAE Response and Auditor Rebuttal
11	<p>Inaccurate pay rates for subcontractor employees. We noted, 15 instances where subcontractor employees were assigned to a relief assignment and were paid wages based on the pay rate of the person being relieved, this rate could be twice to four times the employee's normal payroll rate. There was no justification for charging approximately twice to four times the regular payroll rate while an employee relieves someone for time off. In addition, there was no support to show the employee on the relief assignment is properly qualified.</p>	<p><b>PAE disagrees with the auditor's assessment that the costs totaling \$10,031 are unsupported.</b>  PAE's Subcontractor had business practices whereby when an employee filled, if even for a short duration, a more senior position due to requirements to R&amp;R coverage, that individual would be compensated in accordance with the rate for that position. This was meant to compensate the employee for taking on the additional responsibilities. This practice was consistently applied to personnel across the program for the Subcontract. Site/Operational leadership made the assessments as to personnel qualifications to be able to fill the positions and ensures if there were specific PWS requirements, they were met as well.</p>
		<p><b>Auditor's Rebuttal:</b>  PAE has stated this is normal business practices for the subcontractor however, no policy or procedure was provided regarding how the rate is calculated or what basis they qualify the individual who will be doing the relief assignment. No support was provided for the justification of paying the individual a rate which was 2-4 times their normal pay, and no support provided to justify how that individual qualified to fill the higher position. Several of these instances involved an individual filling a trainer/mentor position which according to the Contract has specific experience requirements. As such, our finding and recommendations remain.</p>
12	<p>Lack of support for charges for work performed. One subcontractor charged PAE for Contract Team (CT) mission hours without support that the work was performed, individuals were properly qualified, or that the rates charged were reasonable. Additionally, the subcontractor did not provide policies or procedures related to CT missions.</p>	<p><b>PAE disagrees with the auditor's assessment that the costs totaling \$5,646 are unsupported.</b>  Site/Operational leadership made the assessments as to qualifications and rates to be paid based on the tasks and positions needed to complete the mission. This is consistent with the Subcontractor's payroll policy and practice. Additionally, PAE has the ability to pull all work orders completed for each CT mission from CDRL A008. Finally, PAE provided the audit team</p>

(Continued)



Issue #	Nature of Issue	PAE Response and Auditor Rebuttal
		the NMS-GVS Standard Operating Procedure <i>NMS-GVS-410 Contact Team Operations SOP V. 1.0</i> to the audit team on March 1 <sup>st</sup> , 2021.
		<p><b>Auditor's Rebuttal:</b>  Auditor agrees that PAE provided the NMS-GVS Standard Operating Procedure <i>NMS-GVS-410 Contact Team Operations SOP V. 1.0</i>; however, PAE or the subcontractor does not have, or did not provide, the actual policy and procedures regarding how the individual would be qualified for the mission, the justification for the additional pay or the calculation for the additional pay which was about twice the normal pay rate. In addition, there is no evidence of actual justification or comparable analysis to demonstrate the salary pay for the CT Missions are reasonable. As such, our finding and recommendations remain.</p>
13	Miscalculation of hourly rate charges. One subcontractor calculated the hourly rate for Thursday work based on a 5-hour day rather than according to their policy of an 8-hour day. Due to this, the hourly rate for the first 5 hours of work and the overtime hours charged on each Thursday were charged at a higher rate than allowable per the subcontractor policies and procedures. This issue impacts 6 Cost Categories listed to the right. ( <i>Conrad expanded testing to the entire audit period and noted 3 months with this issue</i> ).	<p><b>PAE disagrees with the auditor's assessment that the costs totaling \$5,347 are unsupported.</b>  The payroll processing that governed this practice was based on the subcontractor's interpretations of Afghan Labor law and were applied consistently across the program.</p>
		<p><b>Auditor's Rebuttal:</b>  PAE provided the subcontractor's policy which had a written description on how the Thursday pay was calculated, which stated the hourly calculation was based on an 8-hour day. The subcontractor did not follow their policy and procedure for calculating and charging the Thursday rates for the costs incurred on this program. As such, the finding and recommendations remain.</p>

(Continued)

Issue #	Nature of Issue	PAE Response and Auditor Rebuttal
14	Overtime Charge is not Supported on 2 Subcontractor employees and No Support Provided for 1 Subcontractor Employee's LaborCharged.	<p><b>PAE disagrees with the auditor's assessment that the costs totaling \$3,946 are unsupported.</b></p> <p>The sample support for the majority of these costs (\$3,740) was provided to the audit team. PAE agrees that \$206 for overtime costs for 3 employees was incorrectly billed and will be refunded to the customer.</p>
		<p><b>Auditor's Rebuttal:</b></p> <p>PAE has stated sample support was provided however, for one sample's questioned costs the support for the overtime adjustment was not provided. For the other sample, PAE in their response to the auditor agreed that the hours were billed and incurred to the program incorrectly under overtime hours. As such, our finding and recommendations remain.</p>
15	<p>Incorrect foreign currency rates: In 2018, one subcontractor used a static foreign currency rate for the first ten months of the contract rather than the current market rate for foreign currency. This resulted in overcharges in the foreign currency conversion rate to the program. <i>(Conrad expanded testing to the entire audit period and noted 8 months with this issue).</i></p>	<p><b>PAE agrees with the auditor's assessment that the costs totaling \$325,680 are unsupported.</b></p> <p>PAE's Subcontractor used a static foreign currency rate for the first ten months of the contract, which resulted in overcharges to the program. PAE's Subcontractor had provided an explanation to PAE at the time of the invoice that per the employment agreements, a fixed Fx rate had been defined. However, a Fx rate true-up invoice should have been issued to PAE for the difference between the employee agreed rate, and the applicable month's exchange rate per accounting practices.</p>
		<p><b>Auditor's Rebuttal:</b></p> <p>PAE agrees with this finding, as such, the finding and recommendations remain.</p>

(Continued)

Issue #	Nature of Issue	PAE Response and Auditor Rebuttal
16	Indirect cost charged which was not approved in the subcontractor agreement.	<p><b>PAE partially agrees with the auditor’s assessment that the costs totaling \$304 are unsupported.</b></p> <p>PAE has subsequently performed a full review of submitted subcontractor invoices for the two subcontractors that do not have approved indirect costs in their subcontract agreements. PAE identified \$13,324 of refund due to the U.S. Government and has issued a refund/credit back to the Customer.</p>
		<p><b>Auditor’s Rebuttal:</b></p> <p>PAE agrees with this finding and has calculated the return amount for the US government funds. As such, the finding and recommendations remain.</p>

**FINDING 2021-02**

PAE disagrees with Finding 2021-02 that the costs totaling \$791,447 are unsupported. PAE agrees there was one individual for which PAE did not provide the background/medical check. The documentation missing however, is for an American citizen, who would’ve been required to complete CRC training, which requires a positive background and drug screen prior to U.S. Government granting attendance. PAE was able to demonstrate that the individual did successfully complete CRC training.

During the course of the NMS-GVS program, PAE had a turnover of staff in addition to vendors who performed the background checks and drug screens. PAE was able to retain the documentation from the employees and vendor, however, they’ve been archived in various formats which can be difficult to search due to the sheer volume of documents. PAE believes that with further time, the document may be found, if requested by Conrad and SIGAR. PAE has adjusted our process and will be storing items in a secure storage area and reassessed our processes to ensure the capture of the proper documentation.

**Auditor’s Rebuttal:**

PAE states there was one individual which support documentation was not provided regarding the background/medical check. However, our audit found six instances in our sample selection where either the security/background check, fitness to deploy examinations or both of these documents were missing. The DOD Contract lists specific requirements for hiring in regard to the

security/background checks, fitness to deploy examinations and clearance, and the annual fitness examination for continued deployment. These requirements of the DOD Contract were not met with the provided support documentation.

Auditors conducted four separate webinars with PAE human resources, allowing them all requested time to access the not readily available documents. However, PAE still cannot provide evidence to support the findings identified. PAE did not meet the Contract requirements. As such, the finding and recommendations remain.

### **FINDING 2021-03**

#### **PAE partially agrees with Finding 2021-03.**

PAE agrees that the remaining portion of the 2018 rate true-up was not issued with the contractual time frame, however, PAE did not lack an understanding that there was a pending true-up due to the Government.

PAE completed the indirect rate true-up for all contract CLINs for 2018, with the exception of Training & Mentoring (T&M) and CLS. PAE has planned for the remaining indirect rate true-up for T&M and CLS to be processed at the same time as the T&M & CLS incentive fee award that PAE is due. For simplicity purposes, PAE wanted to process these at the same time since the amounts would essentially offset one another. PAE had estimated the pending indirect rate true-up, which has consistently included this amount in the monthly customer deliverable CDRL A013 Performance and Cost Report. The Government has not questioned PAE about performing the indirect rate true-up for T&M and CLS.

Finally, PAE has submitted its proposal for the award of the incentive fee. This has been delayed from the anticipated award timeframe and pushed back the final indirect rate true-up.

#### **Auditor's Rebuttal:**

PAE agrees that the remaining portion of the 2018 rate true-up was not issued in accordance with the Contract requirements. During the audit, PAE did acknowledge they had not performed a complete true up which represents an understanding; however, they also stated they were unaware of the 60-day Contract requirement where it states the true-up billing should be performed within 60 days after settlement of final indirect cost rates.

PAE states they did not complete the true up for simplicity purposes and that it would offset the incentive fee furthers the lack of care for the Contract requirement. The audit showed there were variances in fringe, overhead, and general and administrative costs based on the true up portion that had been completed, these variances spread across all cost categories depending on the base of allocation for the rate. As such, our finding and recommendations remain.

(Continued)

## **FINDING 2021-04**

### **PAE partially agrees with Finding 2021-04.**

PAE agrees with the auditors that indirect costs for the travel flights were charged by both the Subcontractor and PAE. PAE does not agree that indirect costs were incorrectly applied, however, and therefore, the costs should not be questioned.

PAE acknowledges PAE should have fully documented the cost savings and received prior approval for the deviation from PAE travel policy. As per PAE policy, prior approval from the designated travel approver (DTA) will be obtained for bookings outside of the designated PAE Travel Agency. Should PAE have its Subcontractor book travel for PAE in the future, PAE will obtain this approval and will also develop a cost analysis demonstrating the fully burdened cost efficiency of the alternate booking methodology.

### **Auditor's Rebuttal:**

Cost savings is not the determinant of whether PAE should adhere to their policies and procedures. PAE stated they agree that the indirect costs were charged by both the subcontractor and PAE in relation to these travel costs. Should PAE had followed its travel policy and procure these travel costs directly under PAE, the subcontractor indirect costs applied would have not occurred. As PAE did not follow their travel policy, it resulted in charging indirect cost from a subcontractor on PAE personnel travel. PAE's travel policy specifically states it requires all employees use PAE's designated travel agency to book business travel. As such, our finding and recommendations remain.

## **Status of Prior Audit Findings:**

### **SIGAR Financial Audit 19-06**

#### *Finding No. 2018-01: Employee Worked More than the Authorized Six Consecutive Days*

**Issue:** PAE did not have an adequate procedure in place to prevent individuals from working more than the authorized number of consecutive days. PAE also lacked an adequate internal detective control to identify instances of noncompliance with the provision and to ensure that the corresponding costs were not invoiced to the government, which resulted in \$724 of ineligible questioned costs.

**Status:** For the current engagement, there were no instances noted where PAE employees worked more than the authorized number of consecutive days. However, during the testing of the subcontractor personnel, we noted that labor charges were not in adherence to the subcontractor's personnel policy which resulted in an overcharge of personnel cost. This issue is described in Finding 2021-01. Conrad concluded that adequate corrective action was not taken with respect to this matter.

**PAE Response:** PAE disagrees with the audit team that the proper corrective action in response to previous audit finding no. 2018-01 was not completed. Finding 2018-01 was specific to PAE controls of internal systems and process and as the status clearly states, no

(Continued)

incidents of PAE control failures were identified as part of this audit. The current finding deals with a subcontractor finding which we addressed as part of our detailed response to finding 2021-01 issues #10, 11, 12, 13, 14.

**Auditor's Rebuttal:** PAE has ultimate prime oversight responsibilities of the contract, including its subcontractor's operations. If prior findings are identified at the prime level, PAE should have implemented corrective action not only at its prime level but also ensure it does not occur at the subcontractor's level. In addition, we have provided our rebuttal to 2021-01, issues #10, 11, 12, 13, 14 and the findings remain. As such, our conclusion to the status of this prior finding remains unchanged.

*Finding No. 2018-02: Failure to Comply with Working Hours Restrictions*

**Issue:** A PAE employee failed to work either the minimum number of hours per day or exceeded the maximum number of hours per day. PAE did not have adequate internal controls over compliance with labor charges. PAE lacked a process to monitor compliance with the working hours restrictions appearing in the Contract. In addition, PAE did not believe that the requirement applied to security personnel. This resulted in a total ineligible questioned cost of \$965

**Status:** For the current engagement, there were no instances noted where employees failed to work either the minimum number of hours per day or exceeded the maximum number of hours per day. However, during the testing of the subcontractor personnel, we noted that labor charges were not in adherence to the subcontractor's personnel policy which resulted in an overcharge of personnel cost. This issue is described in Finding 2021-01. Conrad concluded that adequate corrective action was not taken with respect to this matter.

**PAE Response:** PAE disagrees with the audit team that the proper corrective action in response to previous audit finding no. 2018-02 was not completed. Finding 2018-02 was specific to PAE controls of internal systems and process and as the status clearly states, no incidents of PAE control failures were identified as part of this audit. The current finding referenced deals with a subcontractor finding which we addressed this finding as part of our detailed response to finding 2021-01 issues #10, 11, 12, 13, 14.

**Auditor's Rebuttal:** PAE has ultimate prime oversight responsibilities of the contract, including its subcontractor's operations. If prior findings are identified at the prime level, PAE should have implemented corrective action not only at its prime level but also ensure it does not occur at the subcontractor's level. In addition, we have provided our rebuttal to 2021-01, issues #10, 11, 12, 13, 14 and the findings remain. As such, our conclusion to the status of this prior finding remains unchanged.

*Finding No. 2018-03: Insufficient Support for Cost or Price Reasonableness*

**Issue:** Management lacked internal controls and procedures to ensure that procurement files included required documentation to justify noncompetitive acquisitions. This resulted in a total ineligible questioned cost of \$28,333.

**Status:** During our testing, we noted a lack of internal controls and procedures to ensure subcontractor procurement files included required documentation to justify noncompetitive acquisitions. This issue is described in Finding 2021-01. Conrad concluded that adequate corrective action was not taken with respect to this matter.

(Continued)

**PAE Response:** PAE disagrees with the audit team that the proper corrective action in response to previous audit finding no. 2018-03 was not completed. Finding 2018-03 was specific to PAE controls of internal systems and process and as the status clearly states, no incidents of PAE control failures were identified as part of this audit. The current finding referenced deals with a subcontractor finding which we addressed this finding as part of our detailed response to finding 2021-03 issue #3.

**Auditor's Rebuttal:** PAE has ultimate prime oversight responsibilities of the contract, including its subcontractor's operations. If prior findings are identified at the prime level, PAE should have implemented corrective action not only at its prime level but also ensure it does not occur at the subcontractor's level. In addition, we have provided our rebuttal to 2021-01, issue #3 and the finding remains. As such, our conclusion to the status of this prior finding remains unchanged.

*Finding No. 2018-06: Foreign Currency Translations Resulted in Overcharge to USG*

**Issue:** Management may have applied an incorrect transaction date when completing the currency translation, which resulted in \$953 of ineligible questioned costs.

**Status:** During our testing, we noted an agreed upon foreign currency rate was used to calculate subcontract labor charges rather than applying the current foreign currency rate. This issue is described in Finding 2021-01. Conrad concluded that adequate corrective action was not taken with respect to this matter.

**PAE Response:** PAE does agree there was an issue with the date used for currency translations; however, this was not a PAE internal control failure, rather an issue identified impacting a subcontractor. PAE did identify the issue, it was corrected but we agree a true-up invoice should have been submitted but has not been submitted as of yet. PAE addressed this in our detailed response to finding 2021-01 issue #15.

**Auditor's Rebuttal:** PAE has ultimate prime oversight responsibilities of the contract, including its subcontractor's operations. If prior findings are identified at the prime level, PAE should have implemented corrective action not only at its prime level but also ensure it does not occur at the subcontractor's level. In addition, we have provided our rebuttal to 2021-01, issue #15 and the finding remains. As such, our conclusion to the status of this prior finding remains unchanged.

**SIGAR Financial Audit 19-12**

*Finding No. 2018-07: Supporting Documentation Not Provided for Costs Incurred*

**Issue:** PAE did not have adequate procedures in place to ensure that costs charged to the Contract are adequately supported, which resulted in \$1,032 of ineligible questioned costs.

**Status:** During our testing, we noted missing or insufficient supporting documentation to ensure that costs charged to the Contract are adequately supported. This issue is described in Finding 2021-01, Finding 2021-02, and 2021-04. Conrad concluded that adequate corrective action was not taken with respect to this matter.

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**PAE Response:** PAE disagrees with the audit team that the proper corrective action in response to previous audit finding no. 2018-07 was not completed. PAE has provided a detailed response to findings 2021-01 issues #1, 2, 4, finding 2021-02 and finding 2021-04.

**Auditor's Rebuttal:** PAE has ultimate prime oversight responsibilities of the contract, including its subcontractor's operations. If prior findings are identified at the prime level, PAE should have implemented corrective action not only at its prime level but also ensure it does not occur at the subcontractor's level. In addition, we have provided our rebuttal to finding 2021-01, issues #1, 2, 4, finding 2021-02, and finding 2021-04, and the findings remain. As such, our conclusion to the status of this prior finding remains unchanged.

### **SIGAR Financial Audit 19-40**

#### **Finding No. 2019-01: Supporting Documentation Not Provided for Costs Incurred**

**Issue:** PAE indicated that its internal policies include only providing documentation to auditors which support transactions incurred if PAE has internally reviewed, approved and billed the transaction to the government. PAE further indicated that it had not internally reviewed, approved and had not yet decided whether it would bill the government or not for the identified transactions. Since these transactions were incurred in some cases more than two years prior to conducting our audit, and the U.S. government was billed for these costs, this does not explain PAE's lack of documentation. In addition, PAE lacks procedures to retain documentation. This resulted in a total ineligible questioned cost of \$140,011.

**Status:** During our testing, we noted missing or insufficient supporting documentation to ensure that costs charged to the Contract are adequately supported. This issue is described in Finding 2021-01, Finding 2021-02, and 2021-04. Conrad concluded that adequate corrective action was not taken with respect to this matter.

**PAE Response:** PAE disagrees with the audit team that the proper corrective action in response to previous audit finding no. 2019-01 was not completed. PAE has provided a detailed response to findings 2021-01 issues #1, 2, 4, finding 2021-02 and finding 2021-04.

**Auditor's Rebuttal:** PAE has ultimate prime oversight responsibilities of the contract, including its subcontractor's operations. If prior findings are identified at the prime level, PAE should have implemented corrective action not only at its prime level but also ensure it does not occur at the subcontractor's level. In addition, we have provided our rebuttal to finding 2021-01, issues #1, 2, 4, finding 2021-02, and finding 2021-04, and the findings remain. As such, our conclusion to the status of this prior finding remains unchanged.



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## SIGAR's Mission

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