

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 25-04 Financial Audit

Department of Defense's Afghanistan Automated Biometric Identification System Maintenance, Operations, and Sustainment Support Services: Audit of Costs Incurred by Ideal Innovations Inc.

In accordance with legal requirements, SIGAR has redacted from this report certain information because it is proprietary, could impact public safety, privacy, or security, or is otherwise sensitive.



NOVEMBER
2024

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On September 28, 2018, the Department of Defense (DOD) awarded a \$4,274,657 cost-plus-fixed-fee and cost-reimbursable contract to Ideal Innovations Inc. (Ideal Innovations) to support the Afghanistan Automated Biometric Identification System Maintenance, Operations, and Sustainment Support Services. The contract's purpose was to support the Afghan national biometrics program and provide biometrics training, systems administration, and coordination between Resolute Support and Afghan ministries. DOD modified the contract 12 times, increasing the total funding to \$13,136,777. The period of performance was not extended.

SIGAR's financial audit, performed by Conrad LLP (Conrad), reviewed \$11,411,785 in costs charged to the contract from September 30, 2018, through September 29, 2021. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in Ideal Innovations' internal controls related to the award; (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 Ideal Innovations has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of Ideal Innovations' 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.

November 2024

Department of Defense's Afghanistan Automated Biometric Identification System Maintenance, Operations, and Sustainment Support Services: Audit of Costs Incurred by Ideal Innovations Inc.

SIGAR 25-04-FA

WHAT SIGAR FOUND

Conrad identified four significant deficiencies in Ideal Innovations' internal controls and four instances of noncompliance with the terms of the contract. For example, Conrad found that Ideal Innovations did not bill for rate adjustments using the final rates within the timeframe required by the Federal Acquisition Regulation (FAR). Furthermore, Conrad found that Ideal Innovations charged business class fares to the contract without written approval from the funding agency and did not provide any supporting documentation to show that the economy class options were unavailable at the time of booking. In addition, Ideal Innovations did not follow FAR procurement requirements for reasonableness checks for 12 cost transactions. SIGAR notified Ideal Innovations of the deficiencies and compliance issues prior to publication of this report.

Because of the deficiencies in internal controls and the instances of noncompliance, Conrad identified \$42,850 in total questioned costs. The questioned costs consisted of \$2,898 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval, and \$39,952 in ineligible costs—costs prohibited by the contract and applicable laws and regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Labor and non-Labor	\$39,952	\$2,898	\$42,850
Total Costs	\$39,952	\$2,898	\$42,850

Conrad identified three prior audit findings pertaining to the contract activities under this audit. Conrad concluded that the reports did not have any findings that could have a material effect on the SPFS or other financial data significant to the audit objectives.

Conrad issued an unmodified opinion on Ideal Innovations' SPFS, noting that it presents fairly, in all material respects, revenues received and costs incurred for the period audited.

WHAT SIGAR RECOMMENDS

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

1. Determine the allowability of and recover, as appropriate, \$42,850 in questioned costs identified in the report.
2. Advise Ideal Innovations to address the report's four internal control findings.
3. Advise Ideal Innovations to address the report's four noncompliance findings.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

November 26, 2024

The Honorable Lloyd J. Austin III
Secretary of Defense

The Honorable Carlos Del Toro
Secretary of the Navy

We contracted with Conrad LLP (Conrad) to audit the costs incurred by Ideal Innovations Inc. (Ideal Innovations) under a cost-plus-fixed-fee and cost-reimbursable contract awarded by the Department of Defense (DOD) to support the Afghanistan Automated Biometric Identification System Maintenance, Operations, and Sustainment Support Services.¹ The contract's purpose was to support the Afghan national biometrics program and provide biometrics training, systems administration, and coordination between Resolute Support and Afghan ministries. Conrad reviewed \$11,411,785 in costs charged to the contract from September 30, 2018, through September 29, 2021. 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 contracting officer at DOD:

- 1. Determine the allowability of and recover, as appropriate, \$42,850 in questioned costs identified in the report.**
- 2. Advise Ideal Innovations to address the report's four internal control findings.**
- 3. Advise Ideal Innovations 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. We also inquired about Conrad's conclusions in the report and the firm's compliance with applicable standards. Our review, as differentiated from an audit of the financial statements 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 Ideal Innovations' Special Purpose Financial Statements, or conclusions about the effectiveness of internal control over financial reporting or on compliance with laws and other matters. Conrad is responsible for the attached auditor's report, dated October 21, 2024, and the conclusions expressed therein. However, our review disclosed no instances in which Conrad did not comply, in all material respects, with U.S. 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, within 60 days from the issue date of this report.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-298)

¹ The contract no. is N0003918C0035.

Ideal Innovations, Inc.

Contract No. N0003918C0035

Awarded by the Department of Defense's Space and Naval
Warfare Systems Command

in support of the Afghanistan Automated Biometric Identification System Maintenance,
Operations, and Sustainment Support Services

For the Period of September 30, 2018, through September 29, 2021

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October 21, 2024

Board of Directors
Ideal Innovations, Inc.
Arlington, VA

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

Conrad LLP (Conrad or we) hereby provides to you our final report, which reflects results from the procedures we completed during our audit of Ideal Innovations, Inc's Special Purpose Financial Statement under Contract No. N0003918C0035 awarded by the Department of Defense (DOD)'s Space and Naval Warfare Systems Command (NAVWAR) for the period of September 30, 2018, through September 29, 2021, supporting the Afghanistan Automated Biometric Identification System Maintenance, Operations, and Sustainment Support Services.

On September 4, 2024, we provided SIGAR with a draft report reflecting our audit procedures and results. Ideal Innovations, Inc. received a copy of the report on September 30, 2024 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 Ideal Innovation, Inc.'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, appearing to read "S Perera".

Sam Perera, CPA, CFE, CITP, CGMA
Partner

Ideal Innovations, Inc.

Financial Audit of the Special Purpose Financial Statements for
Contract No. N0003918C0035
Afghanistan Automated Biometric Identification System Maintenance, Operations, and
Sustainment Support Services

For the Period of September 30, 2018, through September 29, 2021

Background

On September 28, 2018, the Department of Defense (DOD)'s Space and Naval Warfare Systems Command, now known as Naval Information Warfare Systems Command (NAVWAR), awarded \$4,274,657 for Contract No. N0003918C0035 (Contract) to Ideal Innovations, Inc. (Ideal Innovations) in support of the Afghanistan Automated Biometric Identification System (AABIS) Maintenance, Operations, and Sustainment Support Services.

The purpose of the cost-plus fixed fee and cost-reimbursable contract was for AABIS Maintenance, Operations, and Sustainment to support the Afghan National Biometrics Program in Afghanistan. This support includes specialized biometrics training, systems administration of biometrics Information Technology (IT) systems, subsystems and peripherals, sustainment to proprietary and non-proprietary software that these systems utilize; extensive coordination and cooperation with International Security Assistance Force (ISAF), Resolute Support (RS), and Afghan Ministries; and continued transition of the long term enduring capability back to Government of Islamic Republic of Afghanistan (GIROA) coincident with the drawing down of U.S./Coalition Forces from Afghanistan. The contractor shall provide maintenance, sustainment, and training to Afghan Government personnel to include the following:

- Provide monitoring, diagnosis and correction of problems that affect system performance.
- Maintain and update system and user documentation including all affected documentation included in the AABIS System Operations and Technical Data Package.
- Perform preventative and corrective maintenance for hardware/software.
- Plan and conduct scheduled preventative maintenance testing and inspection.
- Provide maintenance of record report per the Maintenance Plan (MP).
- Provide technical support for MorphoTrak matching system and subsystem components, Pre-Processor/Post Processor Transaction Manager (P4TM).
- Provide software and hardware warranties for MorphoTrak system and subsystem components for the duration of the requirement.
- Maintain spare equipment inventory, projected consumptions, and proposed procurement planning and execution to ensure appropriate spare equipment available for maintenance and system life cycle support. This includes maintaining the current available spare equipment, procuring spare equipment required for maintenance and system life cycle support, and maintaining and tracking of all spare equipment.
- Perform and coordinate network and internet connection maintenance to include Very Small Aperture Terminal (VSAT) connectivity.

Ideal Innovations, Inc.

Financial Audit of the Special Purpose Financial Statements for
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- Provide maintenance on the available spare parts at the Afghan Ministry of Interior – Biometric Center (MoI-BC) to include the repair, kit assembly maintenance, modification, refurbishment, test, analysis, and upgrade of parts, assemblies, subassemblies, software, components, or end items that require shop facilities, tooling, support equipment, and/or personnel of higher technical skills, or processes beyond the capabilities available in the field.
- The contractor shall provide required maintenance services in connection with warranty work and training for Afghan Government personnel to conduct all required maintenance services in connection with warranty work to include coordinating warranty repairs, contacting vendors, shipping equipment, providing packing for shipment, coordinating, and tracking repair shipments including shipment tracking numbers and vendor documentation.

The initial contract amount was \$4,274,657 for the period of performance from September 30, 2018, through September 29, 2021. NAVWAR modified the contract twelve (12) times with no change to the period of performance and increased the total award amount to \$13,136,777. However, the total obligated amount at the end of the period of performance was \$11,696,473. See the *Summary of the Contract* below.

Summary of Contract

Contract Number	Original Budget and Period of Performance			Modified Budget and Period of Performance		
	Original Approved Budget (\$)	Start Date	End Date	No. of Modifications	Final Approved Budget (\$)	End Date
N0003918C0035*	\$4,274,657	9/30/2018	9/29/2021	12	\$13,136,777	9/29/2021

* - Indicates the Contract is a close-out.

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 Ideal Innovations' Special Purpose Financial Statement (SPFS) for revenues received under the Contract totaling \$11,408,785 and costs incurred under the Contract totaling \$11,411,785 with an outstanding fund balance of (\$3,000) for the period of performance from September 30, 2018, through September 29, 2021.

(Continued)

Ideal Innovations, Inc.

Financial Audit of the Special Purpose Financial Statements for
Contract No. N0003918C0035
Afghanistan Automated Biometric Identification System Maintenance, Operations, and
Sustainment Support Services

For the Period of September 30, 2018, through September 29, 2021

Objectives, Scope, and Methodology

Audit Objectives

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

- *Special Purpose Financial Statement (SPFS)* – Express an opinion on whether Ideal Innovations' 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 Ideal Innovations' 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 Ideal Innovations complied, in all material respects, with the Contract requirements and applicable laws and regulations and identify and report on instances of material noncompliance with terms of the 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 Ideal Innovation has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the special purpose financial statement or other financial data significant to the audit objectives.

In order to accomplish these objectives, we will perform the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS), 2018 Revision, as detailed in the *Audit Methodology* section of this Audit Plan. The planned audit procedures may be revised over time based on fieldwork observations, documents or information received, and procedures completed throughout the course of the audit.

Scope

The audit scope includes activity within the period from September 30, 2018, through September 29, 2021. Within the period under audit, the total revenues received amount is \$11,408,785 and the total costs incurred amount is \$11,411,785 with an outstanding fund balance of (\$3,000).

Audit Methodology

(Continued)

Ideal Innovations, Inc.

Financial Audit of the Special Purpose Financial Statements for
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For the Period of September 30, 2018, through September 29, 2021

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

Entrance Conference

An entrance conference was held on March 12, 2024, with representatives of Ideal Innovations, Conrad, SIGAR, and the DOD 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 Ideal Innovations. The scope of our audit includes Ideal Innovations' management and employees, internal and external factors that affected operations, accounting policies and procedures. We gained an understanding of Ideal Innovations through interviews, observations, and reading policies and procedure manuals. We interviewed top management and employees responsible for significant functions and/or programs. In addition, we reviewed the following:
 - Contract and modifications;
 - Any regulations that were specific to the contract's requirements, such as Federal Acquisition Regulation (FAR) Part 31, Defense Federal Acquisition Regulation Supplement (DFARS),;
 - Audited financial statements; and
 - Previous SIGAR and DOD financial audit reports.
- Financial reconciliation – obtained and reviewed all financial reports submitted during the audit period and reconciled these reports to the accounting records to ensure all costs were properly recorded.

Special Purpose Financial Statement

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;

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Ideal Innovations, Inc.

Financial Audit of the Special Purpose Financial Statements for
Contract No. N0003918C0035
Afghanistan Automated Biometric Identification System Maintenance, Operations, and
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For the Period of September 30, 2018, through September 29, 2021

- Sampled and tested the costs incurred to ensure the costs were allowable, reasonable, and allocable to the Contract;
- Reviewed personnel costs to ensure they were supported, authorized, reasonable, and allowable; and
- Recalculated the indirect cost using the approved provisional negotiated indirect cost rates to ensure that the rate was accurately applied.

Internal Controls Related to the Contract

We reviewed Ideal Innovations' internal controls related to the Contract to gain an understanding of the implemented system of internal control to obtain reasonable assurance of Ideal Innovations' 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 Requirements and Applicable Laws and Regulations

We performed tests to determine whether Ideal Innovations complied, in all material respects, with the Contract requirements, FAR 31, 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

We requested prior audit reports from Ideal Innovations and reviewed these reports to determine if there were any findings and recommendations that could have a material effect on Ideal Innovations' SPFS. In addition, we also conducted a search online of various governmental websites including SIGAR (www.sigar.mil), DOD (www.dod.gov), and other applicable Federal agencies, to identify previous engagements that could have a material effect on Ideal Innovations' 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 30.

Exit Conference

An exit conference was held on August 19, 2024, via conference call. Participants included representatives from Conrad, Ideal Innovations, SIGAR, and DOD. During the exit conference, we discussed the preliminary results of the audit and reporting process.

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Ideal Innovations, Inc.

Financial Audit of the Special Purpose Financial Statements for
Contract No. N0003918C0035
Afghanistan Automated Biometric Identification System Maintenance, Operations, and
Sustainment Support Services

For the Period of September 30, 2018, through September 29, 2021

Summary of Results

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 results in their entirety.

Auditor's Opinion on the SPFS

Conrad issued an unmodified opinion on the fairness of the presentation of the SPFS.

We identified \$42,850 in total questioned costs, which comprised of \$39,952 in ineligible costs and \$2,898 in unsupported costs. Ineligible costs are explicitly questioned because they are unreasonable, prohibited by the Contract's provisions or applicable laws and regulations, or not related to the Contract. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

Internal control findings were classified as a deficiency, a significant deficiency, or a material weakness based on their impact on Ideal Innovations' SPFS. 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*. In situations in which control and compliance findings pertained to the same matter, the findings were consolidated within a single finding.

Internal Controls

Our audit identified four (4) internal control findings which are considered to be significant deficiencies. See *Independent Auditor's Report on Internal Control* on page 17.

Compliance

The results of our testing identified four (4) instances of noncompliance. See the *Independent Auditor's Report on Compliance* on page 19.

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*. Ideal Innovations did not have any self-disclosed instances of alleged fraud. As such, there are no further communications warranting additional consideration.

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Ideal Innovations, Inc.

Financial Audit of the Special Purpose Financial Statements for
 Contract No. N0003918C0035
 Afghanistan Automated Biometric Identification System Maintenance, Operations, and
 Sustainment Support Services

For the Period of September 30, 2018, through September 29, 2021

Finding Number	Nature of Finding	Matter	Ineligible Costs	Unsupported Costs	Cumulative Questioned Cost
2024-01	Non-compliance and Internal Control – Significant Deficiency	Indirect Costs Billed were not Trued up using the Final Approved Rates.	\$ 29,081	\$ -	\$ 29,081
2024-02	Non-compliance and Internal Control – Significant Deficiency	Business Class Flights were Charged to the Contract.	10,846	-	39,927
2024-03	Non-compliance and Internal Control – Significant Deficiency	Lack of Adherence to Procurement Procedures and/or Reasonableness Determination.	-	2,898	42,825
2024-04	Non-compliance and Internal Control – Significant Deficiency	Unallowable Costs were Charged to the Contract.	25	-	42,850
Total Questioned Costs			\$ 39,952	\$ 2,898	\$ 42,850

Review of Prior Findings and Recommendations

We requested copies of prior audit reports and engagements from Ideal Innovations, SIGAR, and DOD pertinent to Ideal Innovations’ activities under the contract. We identified three (3) prior audit reports that

(Continued)

Ideal Innovations, Inc.

Financial Audit of the Special Purpose Financial Statements for
Contract No. N0003918C0035
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could have a material effect on the SPFS or other financial data significant to the audit objectives. However, we determined that the reports did not have any findings.

Summary of Ideal Innovations' Responses to Findings

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

- (1) **Finding 2024-01:** Ideal Innovations agreed with this finding.
- (2) **Finding 2024-02:** Ideal Innovations disagreed with this finding and noted that discussion and informal approval was made by the COR along with the difference in overcharge amount between the business class and economy class ticket.
- (3) **Finding 2024-03:** Ideal Innovations disagreed with this finding and noted various reasons as to why Ideal Innovations procurement policy was not followed.
- (4) **Finding 2024-04:** Ideal Innovations disagreed with this finding and noted that late fees were beyond the control of the employee.

(Continued)



INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Directors
Ideal Innovations, Inc.
Arlington, VA

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

Report on the Special Purpose Financial Statement

We have audited the accompanying Special Purpose Financial Statement of Ideal Innovations, Inc. and the related notes to the Special Purpose Financial Statement, with respect to the Contract No. N0003918C0035 (Contract) awarded by the Department of Defense's Space and Naval Warfare Systems Command in support of the Afghanistan Automated Biometric Identification System Maintenance, Operations, and Sustainment Support Services for the Period of September 30, 2018, through September 29, 2021

In our opinion, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received, costs incurred, and balances for the indicated period of September 30, 2018, through September 29, 2021, in accordance with the terms of the Contract and requirements provided by the Office of Special Inspector General for Afghanistan Reconstruction (SIGAR).

Basis for Opinion

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 Controller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Special Purpose Financial Statement section of our report. We are required to be independent of Ideal Innovations, Inc., and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis of Presentation and Accounting

We draw attention to Note 2 and 3 to the Special Purpose Financial Statement, which describes the basis of presentation and the basis of accounting. As described in Note 2 to the Special Purpose Financial Statement, the statement is prepared by Ideal Innovations, Inc. on the basis of the requirements provided by SIGAR, as well as accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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 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 it is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Special Purpose Financial Statement

Our objectives are to obtain reasonable assurance about whether the Special Purpose Financial Statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance, and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the Special Purpose Financial Statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Ideal Innovations, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 21, 2024 on our consideration of Ideal Innovations, Inc.'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 these reports is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing,

(Continued)

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 Ideal Innovations, Inc.'s internal control over financial reporting and compliance.

Restriction on Use

This report is intended for the information of Ideal Innovations, Inc., the Department of Defense (DOD), and the Special Inspector General for Afghanistan Reconstruction (SIGAR) and is not intended to be and should not be used by anyone other than these specified parties. The 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 the United States Congress and 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.

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

Lake Forest, California
October 21, 2024

Ideal Innovations, Inc.

Financial Audit of the Special Purpose Financial Statements for
 Contract No. N0003918C0035
 Afghanistan Automated Biometric Identification System Maintenance, Operations, and
 Sustainment Support Services

For the Period of September 30, 2018, through September 29, 2021

Special Purpose Financial Statement

	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	<u>Notes</u>
Revenues:				Questioned Costs		
Contract No. N0003918C0035	\$ 11,696,473	\$ 11,408,785	\$ -	\$ -	\$ -	
Total Revenues	<u>\$ 11,696,473</u>	<u>\$ 11,408,785</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	
Costs incurred and Fixed Fee:						
Labor and Non-Labor	<u>\$ 10,927,929</u>	<u>\$ 10,643,241</u>	<u>\$ 39,952</u>	<u>\$ 2,898</u>	<u>\$ 42,850</u>	(A)(B)
Fee Billed	-	730,888	-	-	-	
Unbilled Balance Fixed Fee	-	37,657	-	-	-	
Total Fee	768,545	768,545	-	-	-	
Total Costs incurred & Fee	<u>\$ 11,696,473</u>	<u>\$ 11,411,785</u>	<u>\$ 39,952</u>	<u>\$ 2,898</u>	<u>\$ 42,850</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ (3,000)</u>				

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

Ideal Innovations, Inc.

Financial Audit of the Special Purpose Financial Statements for
Contract No. N0003918C0035
Afghanistan Automated Biometric Identification System Maintenance, Operations, and
Sustainment Support Services

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Notes to the Special Purpose Financial Statement¹

(1) **Background**

Ideal Innovations Inc. (Ideal Innovations) provides technology development, consulting, and program management services to U.S. government agencies and international entities. The company specializes in using technology solutions for defense and security-related sectors. It offers biometric services, such as facial identification, full life cycle services, identity management, access control, automated biometric identification system development and support, and other products. Ideal Innovations' corporate headquarters is located in Arlington, Virginia and maintains several work locations throughout the D.C. Metro area. Ideal Innovations also has offices in West Virginia, Florida, and Washington State, and deploys employees to numerous overseas locations throughout the U.S. Central Command, Africa, Europe, and Asia.

The Department of Defense (DOD)'s Space and Naval Warfare Systems Command (NAVWAR) awarded Contract No. N0003918C0035 (Contract) to Ideal Innovations, Inc. in support of the Afghanistan Automated Biometric Identification System (AABIS) Maintenance, Operations, and Sustainment Support Services. The Total Estimated Amount (TEA) of this Contract is \$13,136,777.

(2) **Basis of Presentation**

The accompanying Special Purpose Financial Statement (SPFS) includes costs incurred under Contract No. N0003918C0035 for the period from September 30, 2018, through September 29, 2021. Because the SPFS presents only a selected portion of the operations of Ideal Innovations, Inc., it is not intended to, and does not present the financial position, changes in net assets, or cash flows of Ideal Innovations, Inc. The information in this SPFS 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 Contract. Therefore, some amounts presented in this SPFS may differ from amounts presented in, or used in, the preparation of the basic financial statements.

(3) **Basis of Accounting**

Expenditures and revenue reported on the SPFS are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

(4) **Foreign Currency Conversion Method**

For purposes of preparing the SPFS, in Afghanistan, the Afghani is the functional (local) currency. Costs incurred in Afghanistan that are denominated in United States dollars are converted into Afghani using the spot rate as of the effective date of the transaction.

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

Ideal Innovations, Inc.

Financial Audit of the Special Purpose Financial Statements for
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Notes to the Special Purpose Financial Statement¹ (Continued)

Conversions of those transactions back into United States dollars for consolidated financial reporting purposes are based on the average rate for the month, calculated by the accounting system based on the weighted average currency exchange rate of transactions recorded in each month. For this reason, differences in the United States dollar value of transactions as of the effective date of the transaction and the United States dollar value for those transactions in financial reports differ slightly, reflecting differences between the spot rate and the average rate for the month.

(5) Revenue

Revenues presented in the SPFS represent the amounts earned through the AABIS program for allowable, eligible costs incurred and fixed fee earned under the Contract during the period presented.

(6) Costs incurred by Budget Category

The budget categories and associated amounts presented reflect the budget line items presented within the final, approved contract budget adopted as a component of Contract No. N0003918C0035.

(7) Outstanding Fund Balance

For the period September 30, 2018, through September 29, 2021, Ideal Innovations received \$11,408,785 in funds from DOD. Expenditures in the same period are \$11,411,785. The difference of \$3,000 is the Outstanding Fund Balance and consists of advances received from DOD that have not yet been spent. This Outstanding Fund Balance represents the amount of cash on hand as of September 29, 2021, to cover expenses in the period beginning September 30, 2021.

(8) Program Status

The period of performance for the Contract is September 30, 2018, through September 29, 2021. The program was completed and is currently inactive.

(9) Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to September 30, 2018, through September 29, 2021, period covered by the SPFS. Management has performed their analysis through October 21, 2024.

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

(Continued)

Ideal Innovations, Inc.

Financial Audit of the Special Purpose Financial Statements for
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Notes to Questioned Costs Presented on the Special Purpose Financial Statement²

(A) Labor

Ideal Innovations reported a total of \$8,352,997 in labor for the period of September 30, 2018, to September 29, 2021.

- We looked at indirect costs as a whole, with five (5) rates across four (4) years (2018-2021). Ideal Innovations is required to bill updated rates within 60 days of receiving the final rates. Ideal Innovations still did not bill for rate adjustments using the final rates within the required time frame. All rates other than the Materials and Handling rate resulted in a questioned cost of \$39,027. See Finding No. **2024-01** in the Schedule of Findings and Questioned Costs section of this report.
- The indirect costs associated with questioned costs identified in Labor and Subcontract Labor resulted in total ineligible indirect costs of \$1,817 and total unsupported indirect costs of \$454. This resulted in total questioned indirect costs of \$2,271.

The issues identified above resulted in total Labor and Subcontract Labor questioned costs of \$41,298.

(B) Non-Labor (Travel, ODC, Materials)

Ideal Innovations reported a total of \$2,225,682 in non-labor for the period of September 30, 2018, to September 29, 2021.

During our audit of these costs, we noted the following:

Travel

- Two (2) instances where Ideal Innovations charged business class flights to the Contract without written prior approval from the funding agency. Ideal Innovations purchased two (2) business-class seats during the height of COVID-19 pandemic for air travel. These instances resulted in total questioned costs of \$8,750. See Finding No. **2024-02** in the Schedule of Findings and Questioned Costs section of this report.
- Eight (8) instances where support showing that a reasonableness check for pre-paid cell phone top ups purchased was not provided. Afghanistan has telephone providers that provide pre-paid cell phones in the area and Ideal Innovations did not obtain quotes or do a market analysis to determine price reasonableness in accordance with FAR 31.201-3, Reasonableness. This

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

Ideal Innovations, Inc.

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Notes to Questioned Costs Presented on the Special Purpose Financial Statement² (Continued)

resulted in questioned costs of \$261. See Finding No. **2024-03** in the Schedule of Findings and Questioned Costs section of this report.

Other Direct Costs

- Four (4) instances where there was no support showing a competitive price analysis was performed in the selection of the vendor used for the repair of an HVAC installation, electrical work, refrigerator replacement, and a rental truck customs fee. Ideal Innovations did not act in accordance with their procurement policy and the requirements for FAR 31.201-3, Reasonableness. This resulted in total questioned costs of \$2,104. See Finding No. **2024-03** in the Schedule of Findings and Questioned Costs section of this report.
- One (1) instance where costs for a penalty fee was charged to the Contract. This resulted in a questioned cost of \$20. See Finding No. **2024-04** in the Schedule of Findings and Questioned Costs section of this report.

Indirect Costs

- We looked at indirect costs as a whole, with five (5) rates across four (4) years (2018-2021). Ideal Innovations is required to bill updated rates within 60 days of receiving the final rates. Ideal Innovations still did not bill for rate adjustments using the final rates within the required time frame. The Materials and Handling rate was underbilled by \$9,946. See Finding No. **2024-01** in the Schedule of Findings and Questioned Costs section of this report.
- The Non-Labor indirect costs associated with the questioned costs identified resulted in total ineligible indirect costs of \$284 and total unsupported indirect costs of \$79. This resulted in total questioned indirect costs of \$363.

The issues identified above resulted in total non-Labor questioned costs of \$1,552.

Total questioned ineligible costs and unsupported costs under Note A and B combined are \$39,952 and \$2,898, respectively.

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

(Continued)



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Board of Directors
Ideal Innovations, Inc.
Arlington, VA

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

We have audited, the Special Purpose Financial Statement (Statement) and related notes to the Statement, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, by Ideal Innovations, Inc. under Contract No. N0003918C0035 in support of the Afghanistan Automated Biometric Identification System Maintenance, Operations, and Sustainment Support Services for the Period of September 30, 2018, through September 29, 2021. We have issued our report thereon dated October 21, 2024 with an unmodified opinion.

Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement for the period of September 30, 2018 through September 29, 2021, we considered Ideal Innovations, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Special Purpose Financial Statement, but not for the purpose of expressing an opinion on the effectiveness of Ideal Innovations, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Ideal Innovations, Inc.'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.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified four (4) deficiencies in internal control as described in the accompanying *Schedule of Findings and Questioned Costs*. Findings 2024-01, 2024-02, 2024-03, 2024-04 are considered to be significant deficiencies.

Ideal Innovation, Inc.'s Response to Findings

Ideal Innovations, Inc.'s response to the findings identified in our audit is included verbatim at *Appendix A*. Ideal Innovations, Inc.'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 Ideal Innovations, Inc.'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 Ideal Innovations, Inc., the Department of Defense (DOD), and the Special Inspector General for Afghanistan Reconstruction (SIGAR) and is not intended to be and should not be used by anyone other than these specified parties. The financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905, should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.



Lake Forest, California
October 21, 2024

(Continued)



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Board of Directors
Ideal Innovations, Inc.
Arlington, Virginia

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

We have audited, the Special Purpose Financial Statement (Statement) and related notes to the Statement, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, by Ideal Innovations, Inc. under Contract No. N0003918C0035 in support of the Afghanistan Automated Biometric Identification System Maintenance, Operations, and Sustainment Support Services for the Period of September 30, 2018, through September 29, 2021. We have issued our report thereon dated October 21, 2024 with an unmodified opinion.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ideal Innovations, Inc.'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 (4) 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 2024-01, 2024-02, 2024-03, and 2024-04.

Ideal Innovation, Inc.'s Response to Findings

Ideal Innovation, Inc.'s response to the findings identified in our audit is included verbatim at *Appendix A*. Ideal Innovations, Inc.'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 compliance. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

This report is intended for the information of Ideal Innovations, Inc., the Department of Defense (DOD), and the Special Inspector General for Afghanistan Reconstruction (SIGAR) and is not intended to be and should not be used by anyone other than these specified parties. The 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
October 21, 2024

(Continued)

Ideal Innovations, Inc.

Financial Audit of the Special Purpose Financial Statements for
Contract No. N0003918C0035
Afghanistan Automated Biometric Identification System Maintenance, Operations, and
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Schedule of Findings and Questioned Costs

Finding 2024-01: Indirect costs billed were not trued up using the final approved rates

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

Condition: During our testing to determine the allowability of the indirect costs incurred, we noted that indirect costs were incorrectly billed to the contract. Ideal Innovations billed under the contract for indirect costs using provisional indirect rates. Ideal Innovations received the final approved indirect cost rates for FY 2018, 2019, 2020, and 2021 on 1/10/2020, 2/22/2021, 11/1/2021, and 11/16/2022 respectively. Per FAR 52, Ideal Innovations is required to update billings with final rates within 120 days after settlement of the final annual indirect cost rates for all years of this physically complete contract. Ideal Innovations did not update billings to reflect the final indirect cost rates within 120 days of receiving each of the final approved rates during each contract year, resulting in an overcharge to the contract over the course of four (4) years.

Cost Category	Overbilled/ (Underbilled)
Labor	
Fringe – CONUS	\$ 1,690
Fringe – OCONUS	91,296
Overhead	952
G&A Expenses	(54,911)
Total Labor	\$ 39,027
Non-Labor	
Materials and Handling	\$ (9,946)
Total Non-Labor	\$ (9,946)
Total	\$ 29,081

This resulted in ineligible costs of \$29,081.

Criteria:

Ideal Innovation, Inc.’s Government Contract Accounting Manual, “Policy”, states in part:

“It is the policy of Ideal Innovations to maintain accounting and financial records that are responsive to the Federal government requirements as it evolves. The external requirements include being compliant with prevailing generally accepted accounting principles (GAAP), and FAR and DFAR requirements set forth in the various requirements imposed on Ideal Innovations as it accepts Federal awards”

Ideal Innovations, Inc.

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Schedule of Findings and Questioned Costs (Continued)

FAR 52.216-7(d)(5), Final Indirect Cost Rates, states:

"Within 120 days (or longer period if approved in writing by the Contracting Officer) after settlement of the final annual indirect cost rates for all years of a physically complete contract, the Contractor shall submit a completion invoice or voucher to reflect the settled amounts and rates. The completion invoice or voucher shall include settled subcontract amounts and rates. The prime contractor is responsible for settling subcontractor amounts and rates included in the completion invoice or voucher and providing status of subcontractor audits to the contracting officer upon request."

Cause: Ideal Innovations was unaware of this FAR 52 requirement. Ideal Innovations' intent was to submit the close out invoice/final voucher and close out related documents once the SIGAR audit had been completed.

Effect: Ideal Innovations' failure to update billings with final rates within 120 days resulted in the U.S. government being overbilled for costs for a prolonged period.

Questioned Costs: We identified \$29,081 in total ineligible costs. Ideal Innovations issued a refund for the overbilled indirect costs in the amount of \$29,081 on 8/15/2024.

Recommendation:

- 1) We recommend that Ideal Innovations develop and implement a policy that ensures indirect costs are updated and adjusted in billings to the government within 120 days of the settlement of the final annual indirect cost rates for all years of a physically complete contract.

(Continued)

Ideal Innovations, Inc.

Financial Audit of the Special Purpose Financial Statements for
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Schedule of Findings and Questioned Costs (Continued)

Finding 2024-02: Business class flights were charged to the contract

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

Condition: Conrad tested 29 transactions out of 308 transactions for the Travel cost category to determine whether incurred costs were reasonable, allowable, and allocable.

Based on our testing, we noted two (2) instances where Ideal Innovations' employees charged business class fares to the contract without written prior approval from the funding agency. The flights were for an employee's emergency leave and for an employee evacuating Afghanistan in the summer of 2020 due to the COVID-19 pandemic. Due to the urgency of the situation and the lack of availability of economy class seats, Ideal Innovations purchased business class options to achieve the goal of getting personnel out of the country. Ideal Innovations was unable to provide documentation to show that economy class options were unavailable at the time of booking. Ideal Innovations also did not provide evidence that the funding agency approved these business class flights. These instances resulted in questioned costs of \$8,750.

Criteria:

Ideal Innovation, Inc.'s Travel Policy, Section 3 "Airline Reservations", states in part:

"Only coach class/economy seats will be purchased. Any upgrade received increasing the cost of the ticket shall be at the traveler's expense and shall not be reimbursed..."

FAR 31.205-46(b), "Travel costs", states:

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

Contract, Section H – Special Contract Requirements, states in part:

"(a) Contractor Request and Government Approval of Travel

Any travel under this contract must be specifically requested in writing, by the contractor prior to incurring any travel costs..."

(Continued)

Ideal Innovations, Inc.

Financial Audit of the Special Purpose Financial Statements for
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Schedule of Findings and Questioned Costs (Continued)

...H-TXT-23. REIMBURSEMENT OF TRAVEL COSTS

(2) The contractor agrees, in the performance of necessary travel, to use the lowest cost mode commensurate with the requirements of the mission and in accordance with good traffic management principles. When it is necessary to use air or rail travel, the contractor agrees to use coach, tourist class or similar accommodations to the extent consistent with the successful and economical accomplishment of the mission for which the travel is being performed. Documentation must be provided to substantiate non-availability of coach or tourist if business or first class is proposed to accomplish travel requirements."

Cause: Ideal Innovations lacked a travel policy for emergency evacuation to 1) obtain approval on business class flights from the funding agency, and 2) provide evidence to demonstrate economy class seats were unavailable.

Effect: Ideal Innovations' lack of adherence to federal travel regulation requirements resulted in the U.S. government being overcharged for airfare.

Questioned Costs: We identified \$8,750 in ineligible costs, \$1,813 in labor indirect costs, and \$283 in non-labor indirect costs, which resulted in \$10,846 in total questioned costs.

Recommendation:

- 1) We recommend that Ideal Innovations provide support to demonstrate the costs incurred were allowed or return the questioned costs of \$10,846.
- 2) We recommend that Ideal Innovations develop and implement a policy to ensure when special circumstances arise, to request approval from the funding agency to purchase business class seats, document the approval, and to provide documentation of the absence of economy class options.

(Continued)

Ideal Innovations, Inc.

Financial Audit of the Special Purpose Financial Statements for
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Schedule of Findings and Questioned Costs (Continued)

Finding 2024-03: Lack of Adherence to Procurement Procedures and/or Reasonableness Determination

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

Condition: Conrad tested 29 transactions out of 308 transactions for Travel costs and 44 transactions out of 424 transactions for other direct costs category to determine whether the incurred costs were reasonable, allowable, and allocable, we noted the following twelve (12) instances where Ideal Innovations did not perform procurement procedures or reasonableness check on goods and services purchased as required per the procurement policy or FAR requirements:

- Eight (8) instances where support was not provided showing that a reasonableness check for pre-paid cell phone top ups for local nationals' cellular phones purchased. Afghanistan has telephone providers that provide pre-paid cell phones in the area and Ideal Innovations did not obtain quotes or do a market analysis to determine price reasonableness in accordance with FAR 31.201-3, Reasonableness. This resulted in questioned costs of \$261.
- Four (4) instances where there was no support to demonstrate competitive analysis was performed in the selection of the vendor used for repair of an HVAC installation, electrical work, refrigerator replacement, and a rental truck. Ideal Innovations did not act in accordance with their procurement policy. Ideal Innovations stated that these vendors were either a preferred vendor or the only vendor they could use during that time. However, sole source justification was not provided. This resulted in total questioned costs of \$2,104.

These instances resulted in questioned costs of \$2,365.

Criteria:

Ideal Innovation Inc.'s Procurement SOP Guidebook, states the following:

"The procurement system is the electronic system used by Ideal Innovations to capture pertinent information associated with a requisition and as a document capture system. All items over \$75.00 must be entered into Ideal Innovations procurement system for both Direct and Indirect requests."

Ideal Innovation Inc.'s Procurement SOP Guidebook, states the following:

"Sole Source is when the vendor is the only source from which particular goods or services can be purchased. Sole Source transactions occur when similar types of products/services may exist, but the item requested, for reasons of standardization, quality, compatibility with existing equipment, specifications, technical features, expertise and etc., is the only brand acceptable to

(Continued)

Ideal Innovations, Inc.

Financial Audit of the Special Purpose Financial Statements for
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Schedule of Findings and Questioned Costs (Continued)

the requester or Ideal Innovations. The Procurement Department must verify that the vendor is in fact the only provider for the requested goods/services. Sole Source Justification form (See figure 1.2) must accompany the purchase request..”

FAR 31.201-3, Determining reasonableness, states:

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

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

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

Cause: Ideal Innovations’ procurement policy did not require a check for price reasonableness for items under \$75 in compliance with FAR 31.201-3. In addition, Ideal Innovations did not properly follow its procurement policy on sole source vendors due to lack of management oversight, in particular the accounting department did not properly review these transactions against its procurement policy to ensure the requirements were followed.

Effect: Lack of adherence to procurement policy may have increased the risk for non-competitive purchases, which risks fraud, waste, and abuse and may have resulted in the U.S. government overpaying for goods and services.

Questioned Costs: We identified \$2,365 in unsupported costs, \$454 in labor indirect costs, and \$79 in non-labor indirect costs, which resulted in \$2,898 in total questioned costs.

Recommendation:

(Continued)

Ideal Innovations, Inc.

Financial Audit of the Special Purpose Financial Statements for
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Schedule of Findings and Questioned Costs (Continued)

- 1) We recommend that Ideal Innovations provide sufficient procurement documentation for the transactions or return the questioned costs of \$2,898.
- 2) We recommend that Ideal Innovations implement additional policies and procedures to ensure small purchases under \$75 require, to the maximum extent practical, a price reasonableness check is performed, and evidence is maintained.
- 3) We recommend that Ideal Innovations develop additional policies and procedures that require management and its accounting office to ensure compliance with its sole source requirements.

(Continued)

Ideal Innovations, Inc.

Financial Audit of the Special Purpose Financial Statements for
Contract No. N0003918C0035
Afghanistan Automated Biometric Identification System Maintenance, Operations, and
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For the Period of September 30, 2018, through September 29, 2021

Schedule of Findings and Questioned Costs (Continued)

Finding 2024-04: Unallowable Costs Charged to the Contract

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

Condition: Conrad tested 44 transactions out of 424 transactions in Other Direct Costs category to determine whether incurred costs were reasonable, allowable, and allocable. We noted one instance where a penalty imposed on visa being issued late was charged in the amount of \$20. The visa fee was incurred in May 2020 during the height of the COVID-19 pandemic when the visa office in Afghanistan was closed for weeks. Ideal Innovations stated that when the employee was able to request the visa, the penalty fee was still imposed despite the closure. This instance resulted in questioned costs of \$20.

Criteria:

Ideal Innovation, Inc.’s Government Contract Accounting Manual, “Policy”, states in part:

“It is the policy of Ideal Innovations to maintain accounting and financial records that are responsive to the Federal government requirements as it evolves. The external requirements include being compliant with prevailing generally accepted accounting principles (GAAP), and FAR and DFAR requirements set forth in the various requirements imposed on Ideal Innovations as it accepts Federal awards”

FAR 31.205-15, Fines, penalties, and mischarging costs, states:

“(a) Costs of fines and penalties resulting from violations of, or failure of the contractor to comply with, Federal, State, local, or foreign laws and regulations, are unallowable except when incurred as a result of compliance with specific terms and conditions of the contract or written instructions from the contracting officer.

(b) Costs incurred in connection with, or related to, the mischarging of costs on Government contracts are unallowable when the costs are caused by, or result from, alteration or destruction of records, or other false or improper charging or recording of costs. Such costs include those incurred to measure or otherwise determine the magnitude of the improper charging, and costs incurred to remedy or correct the mischarging, such as costs to rescreen and reconstruct records.”

FAR 31.201-6(a), Accounting for unallowable costs, states in part:

“Costs that are expressly unallowable or mutually agreed to be unallowable, including mutually agreed to be unallowable directly associated costs, shall be identified and excluded from any billing, claim, or proposal applicable to a Government contract...”

(Continued)

Ideal Innovations, Inc.

Financial Audit of the Special Purpose Financial Statements for
Contract No. N0003918C0035
Afghanistan Automated Biometric Identification System Maintenance, Operations, and
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Schedule of Findings and Questioned Costs (Continued)

Cause: Ideal Innovations did not adhere to its Government Contract Accounting Manual which required adherence to FAR regulations. Ideal Innovations did not request approval from the funding agency on unallowable expenses, such as late visa fee, during the special circumstance or situation.

Effect: Ideal Innovations' lack of adherence to their policies and procedures, and Federal regulation requirements resulted in ineligible costs being charged.

Questioned Costs: We identified \$20 in ineligible costs, \$4 in Labor indirect costs, and \$1 in non-Labor indirect costs, which resulted in \$25 in total questioned costs.

Recommendation:

- 1) We recommend that Ideal Innovations provide support to demonstrate that the costs in question were allowed or return the questioned costs of \$25.
- 2) We recommend that Ideal Innovations develop policy and procedures to ensure approval from the funding agency is obtained on any unallowable expenses, such as late visa fees, that are unavoidable during special circumstances and situations.

(Continued)

Ideal Innovations, Inc.

Financial Audit of the Special Purpose Financial Statements for
Contract No. N0003918C0035
Afghanistan Automated Biometric Identification System Maintenance, Operations, and
Sustainment Support Services

For the Period of September 30, 2018, through September 29, 2021

Status of Prior Audit Findings

We requested prior audit reports, evaluations, and reviews from Ideal Innovations, SIGAR, and DOD pertaining to Contract activities under this audit. We identified three (3) prior audit reports that could have a material effect on the SPFS or other financial data significant to the audit objectives. However, we determined that the reports did not have any findings.

(Continued)

Ideal Innovations, Inc.

Financial Audit of the Special Purpose Financial Statements for
 Contract No. N0003918C0035
 Afghanistan Automated Biometric Identification System Maintenance, Operations, and
 Sustainment Support Services

For the Period of September 30, 2018, through September 29, 2021

Ideal Innovations, Inc.'s Responses to Audit Findings



October 15, 2024

Conrad LLP
 23161 Lake Center Drive
 Suite 200
 Lake Forest, CA 92360

Attention: Sam Pera, Partner

RE: SIGAR AUDIT of CONTRACT NO N0003918C0035

Dear Mr. Perera:

Thank you for providing Ideal Innovations Incorporated (I-3) with the SIGAR draft report and giving us the opportunity to review it and provide our response.

I-3 always strives for excellence when implementing projects in partnership with the U.S. Government: whether it is providing technical solutions in difficult field operations, reporting, accounting for its work, or in complying with federal regulations.

This is demonstrated in previous Government audit reports, including a previous SIGAR audit, which contained no findings for the same work and client.

While I-3 will take the Conrad report findings and recommendations at heart and will take corrective actions where needed, it is important to note the following:

- Of the \$11,411,785 total costs and fee incurred under Contract No. N0003918C0035, Conrad reports a total of \$42,850 of questioned costs or 0.3 % of the total. No direct labor cost or material costs were questioned.
- Of \$42,850 Costs Questioned by Conrad, \$29,081 was for the partial true up of indirect rates not completed within 120 days of DCAA finalizing I-3's rates. The true up has been completed and funds sent to DFAS.
- There were exceptional contextual situations that affected operations in Afghanistan during the period of performance of the contract
 - o COVID and the mandated evacuation of U.S. contractors
 - o Evacuation of Afghanistan by U.S. Forces

Below you will find I-3's response to the issues raised by Conrad:

Finding #2024-01 Indirect Costs Billed were not trued up using the Final Approved Rates: \$29,081

I-3 concurs with the finding that rates were partially not trued up within 120 days of DCAA finalizing our indirect rates.

Ideal Innovations, Inc.

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Ideal Innovations, Inc.'s Responses to Audit Findings (Continued)



I-3 makes every effort to actualize indirect rates in its billings as soon as actual rates are known and billing for the adjustment is feasible. At contract close outs, final adjustments are made if there are any residual adjustments required.

Under Contract No. N0003918C0035 POP: 9/29/18 – 9/30/21

- 2018 Indirect rates were true up in Billing #0007 (April 2019 Billing)
- 2019 Indirect rates were true up in Billing #0021 (June 2020 Billing)
- 2020 Indirect rates were true up in Billing #0031 (April 2021 Billing)

While true ups were made for current active CLINS within the 120 days, I-3 did not true up rates on previous options and inactive CLINS. I-3 planned to settle the incomplete refund (\$29K) at the same time as the billing of the unbilled fixed fee balance (\$34K) at contract close out.

I-3 refunded the Government \$29,081 by sending funds to DFAS on 8/15/2024 and has submitted a separate voucher for the balance of the fixed fee on the contract.

I-3 will ensure future true ups to final rates are completed within 120 days of receiving final approved rates.

Finding #2024-02 Business Class Flights were charged to the contract: \$10,086

Summary Response #2024-02:

During the height of Covid-19 and the mandated evacuation of U.S. contractor personnel back to the U.S., U.S. Carriers suspended operations and foreign carrier flights from Kabul were limited to one a week and disappearing fast. Pressured to comply with Government direction, ensuring the safety of its employees, and securing a seat, I-3 booked the only remaining airfare class with available seats, "Business Class" as there were no economy class seats available. While it was discussed with the COR, and the COR approved the travel and price, written approval for specific use of "Business Class" versus Economy Class was not secured. Business Class was \$4,581 per ticket versus \$2,295 for Economy Class. The additional cost of Business over Economy Class was \$2,286 per ticket or \$4,572 total before indirect cost allocation. Conrad lists the full price of the 2 tickets plus indirect allocation burden as questioned cost.

Detailed Response #2024-02:

The need to evacuate U.S. contractors from Afghanistan in the summer of 2020 took place during the height of Covid-19. U.S. Carriers suspended international operations and options to fly from Afghanistan to the U.S. on an American Carrier ceased to exist.

On 9 June 2020, I-3 personnel were notified by the U.S. Embassy, via [REDACTED] that Qatar Airways would begin operating ad-hoc flights out of Kabul, Afghanistan, which were provided. However, these were not routinely scheduled flights. There was, on average, one flight per week.

On 12 June 2020, the COR requested a demobilization plan to have all U.S. Nationals out of Afghanistan by 1 August 2020, with [REDACTED] being the first to leave given his high-risk health status, the COVID situation in Afghanistan, and lack of medical services to support contractor personnel diagnosed with COVID (See COR Email).

(Continued)

Ideal Innovations, Inc.

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Ideal Innovations, Inc.'s Responses to Audit Findings (Continued)



I-3 worked closely with our travel agency to secure tickets for the 13 June 2020 flight, but it was sold out. As flights were added, they quickly filled up. We did not know when flights would occur and/or if the airline would continue adding flights. When a new flight was added for 20 June 2020, we tried to purchase an Economy Class ticket. The Economy Class, which was listed at \$2,295, was sold out. We internally reviewed the cost of the next highest option, Business Class. In the time it took us to consider that option, the cost of Business Class increased by \$400 due to extreme demand and low availability. The Business Class option at the time of increase was offered at \$4,581.

To lock in the limited availability, I-3 decided to purchase the Business Class option to achieve the mandated goal of getting contractor personnel out of Afghanistan. Time was of the essence. This was done through close phone communication with our travel agent.

The three options in the Joint Travel Regulations to consider before purchasing Business Class were not possible in this situation. (1) traveling a day earlier (2) arranging routing with a layover (3) using premium economy.

JTR: Chapter 2, Page 9: The flight length alone is insufficient justification to authorize or approve business-class travel. The AO must first consider using economy or coach-class fare and scheduling the traveler to arrive the day before TDY begins to allow appropriate rest. The second choice is to use economy or coach-class fare and arrange a rest stop, preferably at a no-cost point allowed by the airline with the traveler scheduled to arrive on the day TDY starts. The third choice is to use premium economy accommodations when scheduled flight time exceeds eight hours and travel is to, from, or between foreign and non-foreign OCONUS locations. The last option is to use Business Class accommodations with a scheduled arrival on the day TDY starts.

On June 15, 2020, the Government provided approval to I-3 for [REDACTED] Emergency leave with an estimated cost of \$4,581. Although specific approval for Business Class was not given, it is definitely implied given that the COR approved the cost of [REDACTED] Business Class flight when the Economy class Fare was \$2,295 as cited above. Additionally, there were telephone conversations with COR regarding the flight availability and the option of using Business Class. [REDACTED] had already been approved to depart first as part of demobilization plan. The price of his ticket was \$4,172.18.

I-3 will develop an emergency evacuation policy and document conversations with Government officials when special circumstances arise.

Finding #2024-03 Lack of Adherence to Procurement Procedure and/or reasonableness determination: \$2,898

1. 8 instances of cellular phone minutes purchase – No reasonableness check conducted \$261

I-3 paid for the top up of cell minutes for its local Nationals' cellular phones. The 8 instances questioned (6 instances at \$25.95 and 2 instances at \$51.90) occurred during the summer of 2021 when the Taliban was taking over Afghanistan, and Kabul specifically. U.S. Forces were leaving Afghanistan. Cellular phone contact was essential to enable constant contact between local nationals, officials, and I-3. Cellular phones were the only way to stay in contact since local nationals did not have access to land lines or computers outside of the Afghan Ministry of Interior (MOI) Office. At that time, no I-3 U.S.

(Continued)

Ideal Innovations, Inc.

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Ideal Innovations, Inc.'s Responses to Audit Findings (Continued)



Nationals were in country. Local Nationals and non Taliban officials were in charge of the whole AABIS operations inside the MOI in Kabul, Afghanistan.

- We purchased cards of a certain value (amount of minutes) to add value so we think competition would not make any difference.
- 4 instances of the above were for top up minutes through the provider Roshan, and 4 instances with the provider Afghan Wireless. According to Wikipedia (below) there are 6 telephone providers with varying degrees of control by the Afghan government. Roshan and Afghan Wireless are listed below and receipts were provided previously.

We are happy to report all Local Nationals and their family were successfully evacuated out of Afghanistan by 18 September 2021.

Below is an excerpt from the Government issued CONTRACTOR PERFORMANCE ASSESSMENT REPORT (CPAR) for the period 09/29/2020 - 09/28/2021:



We can also say that local operations were successfully closed before the Taliban took over. Below is another excerpt from the Government issued CPAR for the period 09/29/2020 - 09/28/2021.



(Continued)

Ideal Innovations, Inc.

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(Continued)

Ideal Innovations, Inc.

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Ideal Innovations, Inc.’s Responses to Audit Findings (Continued)



I-3 thinks the purchase of cell minutes were reasonable costs necessary to achieve the above, per FAR 31.201-3, which states: "What is reasonable depends upon a variety of considerations and circumstances, including- (1) Whether it is the type of cost generally recognized as ordinary and necessary for the conduct of the contractor's business or the contract performance; (2) Generally accepted sound business practices, arm's-length bargaining, and Federal and State laws and regulations; (3) The contractor's responsibilities to the Government, other customers, the owners of the business, employees, and the public at large; and (4) Any significant deviations from the contractor's established practices. We think we have met the required burden of proof.

I-3 will ensure that price reasonableness is conducted on items above the Micro-purchase threshold per FAR 13.203 Purchase guidelines, and revise its Procurement Policy accordingly. FAR 13.203 (a) (3) states "The administrative cost of verifying the reasonableness of the price for purchases may more than offset the potential savings from detecting instances of overpricing. Therefore, the action to verify price reasonableness need only be taken if" - (i) the price may not be reasonable; (ii) there is no comparable pricing information reasonably available. I-3's petty cash fund for AABIS was \$4,000.00

2. Four (4) instances No Support demonstrating competitive analysis was conducted or sole source justification provided

ODC-33 Petty Cash PC Aug 2020—Customs Fees and Rental Truck \$900

Equipment shipped to Afghanistan must be processed through Afghan customs in Kabul prior to being released to the end customer. **There is no advertised cost from Aghan Customs and so the cost is not known until the equipment arrives and has been processed and cannot be reviewed through a competitive analysis.** Due to the size of the equipment, a vehicle was also required to transport the equipment from the customs facility to the Ministry of Interior. FAR 213.305 Imprest funds and third party drafts states "(iii) Imprest funds are authorized for use without further approval for— (A) Overseas transactions at or below the micro-purchase threshold in support of a contingency operation as defined in 10 U.S.C. 101" Per the Treasury Department webpage Imprest funds are the same as petty cash. See

[https://tfx.treasury.gov/taxonomy/term/10551#:~:text=An%20imprest%20fund%20is%20fixed,the%20Treasury%20\(Treasury\)%22](https://tfx.treasury.gov/taxonomy/term/10551#:~:text=An%20imprest%20fund%20is%20fixed,the%20Treasury%20(Treasury)%22).

I-3 will revise its Procurement Policy accordingly to reference the FAR guidance.

ODC-39 PETTY CASH PC MAR 2020 HVAC REPAIR \$400

This mission critical repair service was performed by a local vendor and paid out of petty cash. **The team on the ground did gather informal quotes on the phone, to ensure the cost was reasonable but the effort was not documented.** Further, the ABIS is located on a secure base controlled by the Afghans, who only allow certain vendors on the site. The HVAC is located inside the Ministry of Interior's server room and is required to keep the servers for the AABIS from overheating and shutting down, which can permanently damage hard drives and other hardware, or even melt the equipment. Additionally, an increase in temperature can cause a 50% reduction in long term reliability, which could cost the U.S. Government anywhere from \$3-5M dollars in equipment replacement costs depending on

(Continued)

Ideal Innovations, Inc.

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For the Period of September 30, 2018, through September 29, 2021

Ideal Innovations, Inc.’s Responses to Audit Findings (Continued)



the severity of the damage. FAR 213.305 Imprest funds and third party drafts states “(iii) Imprest funds are authorized for use without further approval for—

(A) Overseas transactions at or below the micro-purchase threshold in support of a contingency operation as defined in 10 U.S.C. 101(a)(13) or a humanitarian or peacekeeping operation as defined in 10 U.S.C. 3015(2). Per the Treasury Department webpage Imprest funds are the same as petty cash.

See:

[https://tfx.treasury.gov/taxonomy/term/10551#:~:text=An%20imprest%20fund%20is%20fixed,the%20Treasury%20\(Treasury\)%22](https://tfx.treasury.gov/taxonomy/term/10551#:~:text=An%20imprest%20fund%20is%20fixed,the%20Treasury%20(Treasury)%22).

I-3 will revise its Procurement Policy accordingly to reference the FAR guidance.

ODC-42 PETTY CASH PC MAY 2020 OFFICE REFRIG REPLACEMENT \$109

This is a local purchase made out of petty cash from the Post Exchange to urgently replace the refrigerator at the Ministry of Interior used to store food and water for our staff when onsite. When the team travels to the Ministry of Interior for the daily duties, they do not return to the base until the end of the workday (Arrival and Departure schedule dictated by US Military Force Protection Escort (Guardian Angel). A working refrigerator was therefore required to store lunch meals. The price of the fridge was deemed reasonable but 3 quotes were not gathered given the limited supply for fridges in Afghanistan. AR 213.305 Imprest funds and third party drafts states “(iii) Imprest funds are authorized for use without further approval for—

(A) Overseas transactions at or below the micro-purchase threshold in support of a contingency operation as defined in 10 U.S.C. 101(a)(13) or a humanitarian or peacekeeping operation as defined in 10 U.S.C. 3015(2). Per the Treasury Department webpage Imprest funds are the same as petty cash.

See

[https://tfx.treasury.gov/taxonomy/term/10551#:~:text=An%20imprest%20fund%20is%20fixed,the%20Treasury%20\(Treasury\)%22](https://tfx.treasury.gov/taxonomy/term/10551#:~:text=An%20imprest%20fund%20is%20fixed,the%20Treasury%20(Treasury)%22). I-3’s petty cash for AABIS was \$4,000.00

I-3 will revise its Procurement Policy accordingly to reference the FAR guidance.

ODC-34 AP Patuxent Electrical Services for \$695

I-3 selected Patuxent Electrical Services Inc. to install a NEMA L6-30 Flanged Mount Locking 30-Amp 250-volt Recessed Industrial Round Outlet in the Springfield, VA location.

The NEMA L6-30 is used for input on the domestic APC Matrix-UPS, Smart-UPS T models, and Symmetra RM 2-6kva UPS. The NEMA L6-30 receptacle is also used as an output receptacle for supplying 208 VAC in the Matrix-UPS, the Smart-UPS T models, and single phase Symmetra systems (Power Array, RM, LX).

The NEMA L6-30 receptacle was required to test, power and charge the Automated Biometric Identification System (ABIS) and supplemental components, which was contractually required by the contract before it shipped to Afghanistan. The work needed to be done so that Experis Technology group could initialize and test the Automated Biometric Identification System (ABIS) servers and UPS batteries.

Patuxent Electrical Services Inc. was selected for the following reasons:

(Continued)

Ideal Innovations, Inc.

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Ideal Innovations, Inc.'s Responses to Audit Findings (Continued)



Patuxent Electrical Services Inc. has been used as a vendor for several different projects over the years and is a reliable vendor. Their costs have always been comparable to other vendors.

- Patuxent Electrical Services Inc. agreed to only use U.S. citizens for the project as requested by the Vice President, Security and Logistics for Ideal Innovations, Inc. (due to National Security concerns).
- Patuxent Electrical Services Inc. was also recommended by the Property Manager as a "preferred vendor" with a Certificate of Insurance (COI) on file.
- Patuxent Electrical Services Inc. agreed to provide next day service. Other vendors could not do the installation as quickly.
- Patuxent Electrical Services Inc. is vetted and approved vendor in Ideal Innovation's billing and invoicing system, reducing administrative costs.
- Patuxent Electrical Services Inc. is a vetted and approved vendor in Ideal Innovations' systems, reducing administrative costs.
- Patuxent Electrical Services Inc demonstrated extensive expertise and knowledge in discussing the needs and requirements.

I-3 thinks the purchase of electrical services were reasonable costs necessary to achieve the above, per FAR 31.201-3, which states: "What is reasonable depends upon a variety of considerations and circumstances, including - (1) Whether it is the type of cost generally recognized as ordinary and necessary for the conduct of the contractor's business or the contract performance; (2) Generally accepted sound business practices, arm's-length bargaining, and Federal and State laws and regulations; (3) The contractor's responsibilities to the Government, other customers, the owners of the business, employees, and the public at large; and (4) Any significant deviations from the contractor's established practices. We think we have met the required burden of proof.

I-3 will ensure price reasonableness is conducted on items above the Micro-purchase threshold per FAR 13.203 Purchase guidelines, and revise its Procurement Policy accordingly. FAR 13.203 (a) (3) states "The administrative cost of verify ing the reasonableness of the price for purchases may more than offset the potential savings from detecting instances of overpricing. Therefore, the action to verify price reasonableness need only be taken if" - (i) the price may not be reasonable; (ii) there is no comparable pricing information reasonably available.

Finding #2024-04 Unallowable coss were charged to the contract: \$25

In May 2020, during the height of the COVID Pandemic, our employee went to renew his Afghan Visa in Kabul. The Afghan Visa office had been closed for weeks because of the pandemic. When the employee was able to request the visa, a late fee of \$20 was still imposed. The \$20 surcharge for renewing the visa was beyond our employee's control.

(Continued)

Ideal Innovations, Inc.

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Ideal Innovations, Inc.'s Responses to Audit Findings (Continued)



Thank you for giving us the opportunity to address your report and we hope SIGAR and DOD will take our comments into consideration.

Best,



President/CFO
Ideal Innovations Incorporated

Cc: Jason Baek

(Continued)

Ideal Innovations, Inc.

Financial Audit of the Special Purpose Financial Statements for
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Auditor's Rebuttal to Ideal Innovations, Inc.'s Responses to Audit Findings

Ideal Innovations, Inc. (Ideal Innovations) disagreed with the questioned costs for Finding 2024-02, Finding 2024-03 and Finding 2024-04; and agreed with the questioned costs for Finding 2024-01. Auditor's rebuttal to Ideal Innovation's responses received related to the audit findings identified in this report are presented below:

(1) Finding 2024-01:

Ideal Innovations acknowledged the issue identified in **Finding No. 2024-01** where Indirect Costs Billed were not trued up within 120 days of the Final Approved Rates. Ideal Innovations has since refunded the Government for the questioned cost amount under this finding.

Auditor's Rebuttal:

Based on Ideal Innovation's management response, Conrad concludes that Ideal Innovations concurred with the finding. As such, no rebuttal is deemed necessary.

(2) Finding 2024-02:

Ideal Innovations did not agree with the issue identified for Travel in **Finding No. 2024-02** where Ideal Innovations charged business class airfare to the Program. Ideal Innovations' purchased business class flights for employees leaving Afghanistan during the height of the COVID-19 pandemic. Ideal Innovations stated that due to the pressure to comply with the Governments direction, flights were scarce, and the only remaining airfare class available was business class as no economy seats remained. Ideal Innovations noted that there was discussion and approval with the COR, but no written approval was provided regarding the use of the business class flights. In addition, Ideal Innovations stated the business class ticket was \$4,581 per ticket versus \$2,295 for economy class, resulting in \$4,572 in as the difference in price for both tickets.

Auditor's Rebuttal:

Ideal Innovations did not obtain sufficient approval from the funding agency prior to charging ineligible costs to the Program. We did receive support for approval from the funding agency for both flights, however, the request and approval did not specifically state the employee will be flying and charging for business class flights.

We did not receive support from Ideal Innovations showing a net overcharge of \$4,572 for both tickets as the difference between a business flight ticket of \$4,581 and an economy class flight of \$2,295. There was no support showing the initial price of the economy class to determine the calculation for an overcharge.

As such, our finding and recommendations remained unchanged.

(3) Finding 2024-03:

Ideal Innovations, Inc.

Financial Audit of the Special Purpose Financial Statements for
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**Auditor's Rebuttal to Ideal Innovations, Inc.'s Responses to Audit Findings
(Continued)**

Ideal Innovations did not agree with the issues identified in **Finding No. 2024-03** where Ideal Innovations lacked adherence to Procurement Procedures and/or reasonableness determination.

In eight (8) instances of cell phone minutes purchased, no reasonableness check was conducted. Ideal Innovations stated that competition for the purchase of top up cards would not make a difference and that the minutes were purchased for two (2) out of six (6) telephone providers in Afghanistan.

There were also four (4) instances where there was no support demonstrating that competitive analysis was conducted, or sole source justification provided.

- 1) Ideal Innovations stated that there was no advertised cost from Afghan Customs for the customs fees of the rental truck so the cost was not known until the equipment arrived therefore it could not have been reviewed through a competitive analysis.
- 2) Informal quotes were gathered via phone call for a repair of an HVAC but was not documented. Ideal Innovations stated that the repair was essential and could have cost the U.S. Government between three and five million dollars.
- 3) For the cost of the replacement of an office refrigerator, Ideal Innovations stated that three quotes were not gathered due to the limited supply of refrigerators in the country.
- 4) The selection of the electrical services of a vendor to install a socket before being shipped out to Afghanistan are noted by Ideal Innovations to be reasonable. Ideal Innovations stated that the vendor has been used for several different projects over the years and is a reliable vendor therefore meeting the required burden of proof.

Auditor's Rebuttal:

Ideal Innovation's Procurement SOP Guidebook states all items over \$75 must be entered into Ideal Innovations procurement system and that if the vendor falls under a sole source transaction, that the procurement department must verify it.

In the eight (8) instances for the top up cards, multiple cards were purchased from the same vendor which exceeded Ideal Innovation's purchase threshold of \$75. For these instances, Ideal Innovations did not provide documentation of market pricing nor three (3) written quotations to support competitive bidding as required per their policy.

(Continued)

Ideal Innovations, Inc.

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**Auditor's Rebuttal to Ideal Innovations, Inc.'s Responses to Audit Findings
(Continued)**

For the remaining four (4) instances, the purchases were above the \$75 threshold and fell under the requirement to be entered into the procurement system by Ideal Innovations. Ideal Innovations failed to provide applicable written quotations and/or sole source justification documentation.

As such, our finding and recommendations remained unchanged.

(4) Finding 2024-04:

Ideal Innovations did not agree with the issue identified for in **Finding No. 2024-04**. Ideal Innovations charged an unallowable late visa fee to the contract and stated that this happened because the visa office in Afghanistan was closed for weeks during the pandemic, resulting in an imposed late fee of \$20 which was beyond the control of the employee.

Auditor's Rebuttal:

There was a lack of adherence to Ideal Innovations policies and procedures along with Federal regulation requirements which resulted in ineligible costs being charged.

As such, our finding and recommendations remained unchanged.

(Continued)

SIGAR's Mission

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

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

Obtaining Copies of SIGAR Reports and Testimonies

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

To Report Fraud, Waste, and Abuse in Afghanistan Reconstruction Programs

To help prevent fraud, waste, and abuse by reporting allegations of fraud, waste, abuse, mismanagement, and reprisal, contact SIGAR's hotline:

- Web: www.sigar.mil/fraud
- Email: sigar.pentagon.inv.mbx.hotline@mail.mil
- Phone International: +1-866-329-8893
- Phone DSN International: 312-664-0378
- U.S. fax: +1-703-601-4065

SIGAR's Mission

Public Affairs Officer

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