New Century
BUILDING INTELLIGENT CAPACITY

By email

Senator Claire McCaskill
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate
Washington
DC 20610-6250

10 August 2017

Dear Senator McCaskill

I refer to your letter to Secretary James Mattis of 7 August 2017, published on your website on 9 August, in connection with a Government-restricted DCAA audit report dated 31 August 2016 of New Century Consulting's costs for the years 2008 to 2013.

Your letter refers to the questioned costs identified within that audit report and highlights a number of these, being vehicles, executive assistants, executive compensation, personnel base pay arrangements, personnel bonuses, alcohol costs and weapons procurement. A number of the points of concern made in your letter are factually inaccurate and incorrect, albeit this partly stems from the inaccuracies within the DCAA audit report itself. Accordingly, we wish to provide clarification to assist with your inquiries.

Verifying the Legacy programs' effectiveness

Your letter makes reference to the July 2017 SIGAR report's conclusion that it is "almost impossible" to "assess whether the hundreds of millions of dollars spent on the mentoring and training programs were effective." The precise text from the report is that, "Although the Legacy and ASOM programs provided some assistance to the ANDSF, it is almost impossible to assess whether this assistance was worth the $457.7 million spent on these programs." In other words, our reading of the SIGAR's conclusion is not whether the investment was effective, but that it was not possible to quantify the *extent* to which it was effective and, thus, as the report says, "to gauge the government's return on investment …"

Therefore, it would seem to us that additional information would be useful to allow the SIGAR, and others, to make that determination. Accordingly, we wrote to the SIGAR (copy attached) on 7 August (the same date as your letter to Secretary Mattis) highlighting what we consider to be a number of significant omissions of fact in his report which, if fully considered, would serve to demonstrate that the US government has secured an excellent return on its R&D investment in the programs in Afghanistan.

In addition, the US Government's investment is continuing to pay further dividends in the form of a now-validated and powerful exportable intelligence capacity-building model for use within other partner nations. This model has been briefed to US serving personnel for delivery as and when required, and it is New Century's understanding that it has already been used to good effect in other countries. As such, we would offer that the repeated and wider continued application of the Legacy program doctrine in partner nations other than Iraq and Afghanistan is a key indicator of not just success, but long-term success.

Questioned costs

Turning now to the various DCAA questioned costs that you highlighted in your letter, we have sought to provide further information on these here.

<u>Vehicles</u> (statement: "billed … luxury cars")

The audit covered more than six years and over this time period different vehicles were acquired and then replaced; generally there was no more than three vehicles operated across the entire company and in two separate geographic locations at any one time. At no time did the company have seven vehicles, much less "seven luxury cars." Some of the vehicles operated over the 6+ year audit period, such as a Land Rover and a Mini, are of a utility nature and can hardly be classified as "luxury", and there has never been an Alfa Romeo.

Further, the cost of the vehicles has not been "billed" to the US Government. The cost of company cars is funded by the company's own resources and then this cost is depreciated over a given timescale in accordance with UK GAAP, and the expense recorded as part of the business' overhead costs. The allowable element of this expense is apportioned across all NCC contracts and revenue centres, ie all NCC programs, including non-USG clients and fixed price contracts, not just the Legacy and ASOM cost-type programs.

<u>Executive assistants</u> (statement: "in 2012 the average salary … $420,000 each")

We have re-read the DCAA report to understand from where you might have obtained this incorrect value and it would appear that you have conflated the actual cost with that of an unrelated item. The actual payroll cost was just a fraction of the number you have quoted which, as for all employees in whatever role they fill, was established based upon market rates. For your further information, despite the fact that the CEO and COO are surely entitled to some form of administrative assistance to allow them to perform effectively just as in any enterprise, these costs have not been included in any charges to the programs, ie to the US Government, for the years that the DCAA and DCMA have cognisance of NCC's expenditure.

<u>Executive compensation</u> (statement: "2013 … $200,000 over the limit", "additional $680,000 was unreasonable")

Subsequent to the issue of the DCAA audit report the DCMA has determined that the compensation as reported only exceeded the FAR limit by a total of $15,000; not $200,000 as the DCAA reported. Furthermore, this occurred solely because it had been necessary to predict what the FAR limit for 2013 might be as the authorised limit for that year was not published until 2016.

Turning to the "unreasonableness" of executive pay, New Century retained the services of the UK offices of remuneration consultants Kepler Associates, now part of Mercer, to determine and report on fair pay levels. Executive pay fell within the parameters they had computed based upon relevant market analysis and the roles in question. The DCAA did not agree with Kepler's assessment and we did not agree with the DCAA, although one of the auditors stated on a phone call on 11 December 2015 after the audit fieldwork was completed that she thought the DCAA executive compensation evaluators had "made a mistake." Since then, for the sake of expediency and with an eye on pragmatism, we have agreed with the DCMA to effectively "meet in the middle" between the Kepler and DCAA positions as regards the allowable cost.

<u>Personnel base pay</u> (statement: "consultants were supposed to be paid … only 60% when on leave")

This is not true: consultants were paid an annualised sum for the provision of their services and the regular (monthly) payments were simply smoothed over the deployed periods and leave periods. By way of example, if an individual was contracted for a year to undertake consecutive three months on / one month off rotation cycles[1] and they were to be paid $120,000 a year to do this, then they received their pay in the amount of $10,000 every month. The "60% when on leave" is just not the case as, if we paid just 60% when on leave, the individual would have then been paid three amounts of $11,000 when deployed and the sum of $7,000 on leave (ie still adding up to the same total). The overall financial impact is, of course, zero, and the asserted "excessive payments … [of] $15 million" is factually incorrect.

Simply put, we paid personnel approved pay rates – as presented in our cost models to the prime contractor and to US Government contracting officials –- and chose to pay these sums in equal monthly instalments (just as a teacher receives his or her annual pay whether during

[1] The ratio of time deployed to leave time was actually higher on the Legacy programs.

term time or in recess). The DCMA has reviewed our explanation and, following consultation with the DCAA, concurred with this and approved both our pay policy and the sums in question.

Completion bonuses (statement: "more than $2.2 million … in 2013 even though consultants did not fulfil their terms")

The DCAA was unwilling to accept our explanation of the arrangements pertaining to the completion bonus and the reasons why it was paid in certain instances where an individual did not work to the end of their contracted term. In sum, the completion bonus was designed to reward personnel to fulfil their contractual obligations. This (percentage of base pay) bonus was not paid to personnel whose contracts we terminated for cause. However, it was paid to individuals who did not complete their full term if that occurred as a result of matters outside their control.

Examples of where NCC was contractually bound to pay this bonus despite an individual not completing their contractual term were: on death; where an individual was withdrawn from theater suffering from PTSD to receive counselling; personnel still waiting to receive a security clearance after a given time period (only so much leeway was possible even though the lengthy adjudication timeframe was due to Government bureaucracy); where an individual required pressing and continuing medical care; and when a billet was no longer available such as when the US military closed a specific operating site.

You would have been right to say in your letter that these people did not "complete" their full terms but they did certainly "fulfil" their contractual service obligations, each having provided sterling service to the program, sometimes over many years. Therefore, to remain compliant with our contractual obligations, they were paid a completion bonus, naturally pro-rated to the length of time served. Accordingly, the US government never paid more than was set out in our cost proposals and approved as part of a program's contract.

Performance bonuses (statement: "more than $1 million in 2013 … despite the fact that those bonuses were not required by the consultants' contracts")

This is simply incorrect. The bonuses were contractual and paid in accordance with contractual arrangements. As with all other direct and fringe costs, this bonus arrangement was clearly presented in our cost models which formed part of our subcontracts / prime contract. When they fell due they were assessed using a documented and fully recorded evaluation process. The recommended awards were subject to multiple levels of review, by the in-theater management team, program manager and company COO.

Alcohol (statement: "$1,500 on alcohol in violation of the FAR")

Our supplier of residential facilities for new program personnel attending UK-based pre-deployment induction courses billed NCC a prearranged day rate per person. During the audit it became evident that within this day rate was not just the cost of classroom facilities, overnight accommodation, meals, refreshments, etc, but also an allowance for wine served with the evening meal. Once we became aware of this our accounts staff undertook a 100% check of this vendor's invoices and identified a total of £1,015 of such costs over two years within their overall billings. We notified the DCAA of this amount and that we had reallocated it to unallowable costs. This removal of the cost did not preclude the DCAA from stating in their subsequent report that they were questioning the sum.

Weapons purchase (statement: "$42,000 in cash … to circumvent the contract's prohibition on purchasing them")

This is inaccurate. We informed the DCAA of the facts both during the audit and after the audit. The weapons were not purchased by New Century. The weapons were purchased by the US Government for use on the program. The funds utilised to procure the weapons in Afghanistan were provided under the New Century subcontract into the hands of the Combined Security Transition Command – Afghanistan (CSTC-A) in-theater program manager, at his direction. This US Government official provided NCC with a signed receipt for the funds and, upon subsequent issue of the weapons in question, issued a memorandum of record on CSTC-A letterhead directing that the weapons be included in the contract's "Government Furnished Equipment list." These weapons were handed over to our prime contractor for return to the US Government at the completion of the Legacy subcontracts as we did not require them under the subsequent ASOM contract.

These weapons were certainly not purchased with cash "to circumvent the contract's prohibition on purchasing them" as: (a) there was no such prohibition – in fact, our subcontracts stated, "The Contractor will provide all weapons …"; (b) they were purchased in theater at the behest of the US Government program manager as they were urgently required to support upcoming outside-the-wire surveillance training; and (c) Afghanistan is / was very much a cash economy and the only way of procuring these items within the given timescale was with cash. We openly recorded the use of the funds in our books as a purchase of weapons (as clearly noted by the auditors), placed them on to the program's property record, itself shared with USG officials, and referred to them in our project reporting. These documented actions are clearly counter to any suggestion that we had sought to skirt around supposed contractual restrictions – something we would not be willing to do.

Other costs

You also refer to "millions of dollars in other questioned costs or unallowable expenses …" but for the sake of brevity we have not reviewed these here. However, when the DCAA issued to us on 30 June 2016 the draft of their audit report for comment we provided a detailed response justifying the costs. This response ran to 134 pages plus a supporting documentation appendix of a further 306 pages. Disappointingly, but in what we understand is common practice, the final version of the audit report was little changed from the draft, despite these detailed explanations. We would be happy to provide a copy of this response material to you if you would consider this helpful as it provides comprehensive explanations and corrections of all the items you refer to in considerable detail.

Towards the end of your letter you observe that the DCAA "is now auditing NCC during its years as the prime contractor for Legacy East between 2013 and 2016." In fact, it is the "Afghanistan Source Operations Management – ASOM" prime contract that remains to be audited and only for the years 2014 to 2016 as 2013 was encompassed within the audit on which your letter comments. We have yet to be notified of an audit for 2014 onwards, but having been subjected to numerous DCAA, DCMA and SIGAR audits we will, of course, ensure that all the auditors' requirements are promptly addressed.

Information requested

Finally, you have requested some specific information of Secretary Mattis and the Department of Defense. We can offer some preliminary information in relation to a subset of your questions and we have taken the liberty of doing so below.

Q2 "Describe the approval process for the reimbursement of expenses submitted by NCC to Imperatis …"

NCC invoiced Imperatis (formerly Jorge Scientific) monthly in arrears for services provided under the various subcontracts. Our invoices provided a detailed analysis of costs incurred in the preceding month, such as payroll by position type and ODCs by expense incurred – a typical invoice would have over 50 lines of analysis on it and for each line we would provide the base cost and then the fringe, overhead, G&A and fee, to provide a transparent picture of the build-up (much more detail than we are contractually obliged to present). Jorge would on occasion seek clarification of a specific item or identify a particular expense and require us to provide documentary evidence of the cost incurred. In 2012 Jorge commissioned the international accounting firm, Deloitte, to undertake an independent review of our accounting systems. Their July 2012 report had no qualifications.

Q3 "Please provide any Contractor Performance Assessment Reports for … NCC from 2007 until the present."

NCC was a prime contractor for the ASOM program in the years 2013 to 2016. We have attached the CPARS assessments for this program and those years.

Q4 "In almost every instance of questioned costs in the audit, DCAA justified its conclusions because NCC failed to provide adequate documentation to support the charges, including in many instances no records at all."

This is not accurate and does not appear to reflect the content of the audit report. To quote the then senior DCAA auditor in a conference call in September 2015, "For the most part New Century did have supporting documentation for pretty much everything." Admittedly, there have been instances (few and far between) where we were unable to provide a specifically requested document, such as a sampled performance bonus appraisal form or receipt for a $50 local payment in theater (which is in any event below the mandatory threshold), but in all these circumstances the auditors were offered other material or explanations to address the FAR's absolute requirement that a cost is documented in order to be allowable.

This question of supporting documentation has previously been raised in an April 2015 report issued by the SIGAR in connection with the Legacy-East contract to which you refer in footnote 3 of your letter. We have addressed this matter in the attached copy letter sent to the SIGAR under the section therein entitled "There are no unsupported costs" by referring to the independent audit subsequently undertaken by the international accounting firm BDO which stated, "Our audit has concluded that the costs reviewed in our sample … were incurred by New Century and verified to supporting documentation … with no exceptions." We did previously furnish this to the SIGAR at the time of its publication and have attached a copy to this letter.

In closing, we would like to present one particular statistic which hopefully provides you and any reader of this letter with reassurance that the costs we have billed to the US Government are fair and reasonable (and indeed provide good value). An annual Government contractor survey undertaken by the accounting firm Grant Thornton reported that in 2013 the average General & Administrative (G&A) rate was 12%. NCC's final rate for 2013 is just 2.15%.

We would welcome the opportunity to discuss this further with you or your staff if that would be of interest.

Yours sincerely

Michael Grunberg
Chief Executive Officer
michael.grunberg@newcentcorp.com
for New Century Consulting Ltd

cc The Honorable James Mattis, Secretary of Defense
Senator Ron Johnson, Chairman, Committee on Homeland Security and Governmental Affairs

enc Letter to Mr JF Sopko, SIGAR, dated 7 August 2017
ASOM CPARS assessments 2014, 2015, 2016
BDO Legacy East costs audit 19 June 2015

New Century
BUILDING INTELLIGENT CAPACITY

By email

Mr JF Sopko
Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington
VA 22202

7 August 2017

Dear Mr Sopko

I am writing in connection with Audit Report 17-57, published in July 2017, entitled "Afghanistan National Defense and Security Forces: DOD Spent $457.7 Million on Intelligence Capacity-Building Programs, but Impact Cannot Be Fully Assessed Because of a Lack of Performance Metrics." We were not offered the opportunity to comment on this report prior to publication, but we have now read and digested the contents.

The subjective nature of the report's narrative upon which various negative and, in our view, unsubstantiated conclusions were drawn is a disappointment. This is compounded by the apparent absence of reference to available information which would have disproved what seems to have been a deliberate decision to inequitably denigrate programmatic performance. Notwithstanding, we note that the audit report does not contain any explicit criticism of New Century, our mentors and trainers, or the quality of the extensive package of doctrine, courseware and the high standards of the training we provided to the ANDSF throughout delivery of the various programs you reviewed.

In this letter we comment upon the report's contents pertaining to just the first of the three audit objectives stated on page 1 therein, namely: "… to determine the extent to which … NCC successfully performed the tasks required by the contracts and developed the ANDSF intelligence capability." It is not for us to comment on the two other audit objectives, namely: compliance by the awarding Government agency with federal and DOD regulations; and the extent to which Government monitored contract performance, as these are matters outwith our involvement.

By way of summary, amongst the points we make in this letter are that:

1. The human intelligence competencies of the ANDSF significantly increased from the zero base that existed before the Legacy programs deployed to an effective functional level by the time the effort was completed
2. This significant improvement in the human intelligence competencies has been widely acknowledged, even including within a 2015 SIGAR report to Congress
3. The extensive metrics generated by the comprehensive performance assessment model developed during the delivery of the programs allowed for programmatic impact to be assessed
4. The validity of the assessment model should not be discounted because it was operated by the contractor as its operation was appropriately firewalled akin to that of an internal audit function
5. Extensive empirical data existed in the form of operational statistics which can be considered to be "performance metrics", but the audit report does not refer to this data
6. Senior US and Afghan commanders across the battlespace sought the deployment of Legacy in their Areas of Operation due to awareness of its positive impact and they also universally commended its effectiveness
7. The RAND Corporation concluded that the programs in Afghanistan had "accomplished much", with the lead evaluator calling it "the gold standard"
8. An independent audit undertaken by an international accounting firm into the so-called "unsupported costs" concluded that the underlying documentation existed "with no exceptions."

Significant improvement

Whilst New Century is not in a position to know what data and information the auditors reviewed in order to form their opinion, it is evident from the absence of any foundational narrative on the pre-existing level of intelligence capability within the ANDSF, prior to the program's commencement in 2010, that no baseline values were established to quantitatively benchmark performance and achievements. Without these values it is not possible for the audit assessment to present any objective statement concerning the success or otherwise of the programs or quantifiably assess any change in intelligence capability within the ANDSF.

RAND, whose reports into the programs under review are quoted in your findings, observed in 2008 "The ANP was corrupt and often unable to perform basic patrolling, conduct counterinsurgency operations …. US officials argued even in 2008 that security concerns in the south and east precluded the deployment of mentoring teams to rural areas." In other words, there was no indigenous intelligence capability at that time.

Seven years later, in your report to Congress of January 2015, you state that the MOD and MOI intelligence capabilities were rated as high and 'partially capable'.

Clearly, there occurred a significant advancement in the intelligence capabilities of the ANDSF between 2008 and 2014, taking them from a zero competency level at the outset of this timeframe through to an effective set of capabilities in 2014, as set out in your own reporting in 2015. During this six-year timeframe the Legacy contracts were the primary human intelligence capacity-building programs. Therefore, the conclusion in your audit report that you have been unable to fully assess the impact of the programs would appear to be contradicted by your own 2015 report to Congress which noted the much improved state of the MOD and MOI intelligence capabilities.

Quantifiable performance measures

The Legacy programs incorporated a sophisticated compliance model (later enhanced to a more comprehensive performance and standards model), managed by a dedicated team of performance and compliance evaluation officers (being themselves intelligence officers but typically with management experience), and an integrated, structured and formal performance reporting system for the benefit of those tasked with oversight of the contracts. Your audit report derides this model because it was designed and operated by the contractor, claiming it is not "independent." However, whilst New Century did indeed design the compliance model, the enhanced performance assessment version was developed at the behest of the Government program managers and it was constructed in consultation with the COR. Furthermore, prior to its implementation a two-day conference was held, attended by all USG stakeholders, to review and approve each metric.

The operation of the performance assessment system mirrored that of an internal audit function found within large corporations and was designed to both maintain an optimal level of execution whilst ensuring that the programs delivered consistently across, at their peak, in excess of 100 locations, using the extensive written Legacy doctrine (a feature that is not acknowledged in your report). We find it peculiar that an audit organization should criticize rather than commend the integration of an audit-related function. Furthermore, the performance evaluation function was frequently praised by recipients of its outputs, commenting that it would have been a welcome addition to other programs to enhance their quantitative performance evaluation.

In addition, a range of valid empirical data was available to assist your investigators make a balanced judgment of the effective performance of the programs in building the intelligence capacity of the ANDSF. For example, data on counterinsurgency successes by the ANDSF based on intelligence-led operations provides overwhelming evidence of the impact and performance of the program in building capacity. Had the auditors conducted a review of this material then the report would have referenced data that showed, for example, the significant number of Afghan Intelligence Reports (AIRs) produced as a result of the program (from a zero start point); the number of insurgents captured based on intelligence collection from units being mentored by Legacy (we understand that there were over 200 arrests between January 2010 and May 2012 alone), and the number of intelligence-led police operations conducted by the Network Targeting Exploitation Center (NTEC), all as a consequence of mentoring delivered by NCC SMEs.

Training records

The report makes the observation that "… NCC did not retain complete training records …" and implies that this hampered the auditors' ability to evaluate programmatic effect. The statement is incorrect. Although there was no contractual requirement to maintain student or mentee records, following realization by NCC's Subject Matter Experts at the outset of their work that historical training records were either non-existent or incomplete, and that no centralized database to record which members of the ANDSF had received prior training and the courses they had attended existed, it was decided to design and introduce a comprehensive computerized database of student records. These records incorporated details on every student, including name, rank, personnel number, courses attended and hours of training. NC furnished this quite unique and extensive database to the SIGAR auditors at their request during the course of their investigatory work.

Demand-led

An impartial observer reading the SIGAR's audit report would conclude that the Legacy programs did not meet expectations. What the observer will not realize from the audit report's content is that the requirement for the provision of the Legacy doctrine, training and mentoring of nascent intelligence officers in the ANDSF stemmed from an unprecedented number of demand signals generated across the battlespace by senior US commanders. These are a selection of excerpts from various memorandum pertaining to the capability:

- General Stan McChrystal, Commander ISAF: "The effects of the LEGACY approach are potentially game-changing in Afghanistan" … "To that end, I have immediate operational requirements for further development of LEGACY …".
- Major-General John Campbell, Commander, RC-East (later COMISAF): "The LEGACY program has demonstrated the potential to rapidly increase the capacity and capability of host-nation security forces …".
- Major-General John Toolan, Commander, RC-South-West: "The Legacy program possesses an unequalled ability to enable the ANSF police and military intelligence forces to penetrate insurgent and criminal networks."
- Major-General James Mallory, Deputy-Commander, NTM-A/CSTC-A: "Legacy continues to demonstrate the ability to rapidly develop security force intelligence capability."

In the words of one US Government official familiar with the Legacy programs: “It has been identified as a critical need by so many stars [General Officers] it would make your head spin.”

The demand signals are not restricted to just senior US military personnel. The Afghan recipients of the training and mentoring had observations of their own. Below is a statement issued by Colonel Hayatullah, the Afghan National Intelligence Training Center (ANITC) Commandant, as a case in point: “The Legacy Program is not only helping the Afghan students but the Afghan Nation. In all my 35 years in the DI this is one of the best programs I have seen and I want the training to remain long after the Legacy program is gone.”

Colonel Hayatullah’s US counterpart, Colonel Chester, the CSTC-A MOI Divisional Chief responsible for training activities at the ANITC, observed, “Legacy instructors are the best Coalition instructors in Afghanistan, you will not find better anywhere.”

In addition, the CAAT (Counterinsurgency Advisory and Assistance Teams), reporting to COMISAF, observed in an inspection report of the program in RC-South: “This is one of the best observed programs providing tangible capability to ANSF forces.”

Wider recognition

There are also the observations published by the US Congress (to which SIGAR reports) House Armed Services Committee in consecutive National Defense Authorizations Acts (2011 and 2012). To quote from these: “Proven to be immediately effective in disrupting terrorist network activities, saving lives, and building a leave-behind indigenous capability, Legacy successes have been documented and validated in an independent Department of Defense commissioned study.”; and “The [House Armed Services] committee directs the Secretary of Defense to conduct an assessment of … options for an appropriate management structure within the Department to institutionalize and sustain the capabilities that Legacy … provides.”

Then there is the Department of Defense December 2015 report to Congress entitled “Enhancing Security and Stability in Afghanistan” which observes, “The Directorate of Police Intelligence [mentored by New Century under the Legacy and ASOM programs] has become increasingly capable at providing quality analysis and targeting information by relying on human intelligence and its most mature intelligence capability, the Network Targeting and Exploitation Center (NTEC).”

Perhaps one of the most enduring validations of the positive impact and success of the Legacy programs in Afghanistan is the publication in late 2012 by the US Marine Corps Intelligence Department of a 50-page Concept of Operations (CONOPS) for an Exportable Intelligence Capability (EIC). Chapter 1 of this document is entitled “The Exportable Intelligence Capability

– A Global Capability" and observes that the EIC is "designed to build intelligence capability in partner nations by the US Government." Chapter 2 of the document states that, "… analyses [by] RAND in both Iraq and Afghanistan confirmed the effectiveness of the EIC in transforming intelligence capability within a host organization." The EIC – the exportable intelligence model provided by the US to partner nations – is none other than the Legacy model.

The SIGAR report's conclusion that the Legacy programs' impact "cannot be fully assessed because of a lack of performance metrics" would seem to be contradicted by all the above. We would argue that a perfect set of independent performance metrics is not the only method by which the impact of the programs could be assessed and that the (extensive) performance metrics and operational data that was available to the auditors were adequately supplemented by the views of those who have been exposed to or employed the Legacy model in an operational setting and who were unanimous in making it clear that the programs have had significantly positive effect.

What else did RAND say?

Much has been made in the audit report of RAND Corporation's supposed misgivings of programmatic effect. We are of the view that the audit findings have rather selectively harvested the content of RAND's numerous and detailed assessments to suggest a negative, as opposed to a balanced, view. Therefore, to offset this, below are some quotes extracted from RAND's studies speaking quite resoundingly to the programs' success:

- Project evaluation report (re Iraq), October 2008: "The level of success achieved has exceeded what experienced observers expected."
- Project evaluation report, August 2010: "Intelligence is being collected routinely and processed in a way that leads to operational success. Bearing in mind that Afghanistan is now the equivalent of a developing country that has been wracked by war, insurgency and violent sectarian conflict, the progress that has occurred in [Legacy] has been remarkable."
- Project evaluation report, July 2013: "In three years, the Legacy program has significantly expanded the capacity of the MoI to collect, analyze and exploit intelligence."
- Project evaluation report, July 2013: "The Legacy program offers a coherent approach to HUMINT operations and the integration of military and police intelligence activities." Also: "Overall, the Legacy Afghanistan program had accomplished much."
- Executive summary of RAND's various analyses of the Legacy programs, 2014: "Although operational impact is harder to measure, evidence suggests that intelligence produced by Legacy methods has played a significant role in facilitating counter-insurgency operations in Iraq and Afghanistan …"

Dr Jim Bruce, the Senior Political Scientist at RAND who oversaw the monitoring of the Legacy programs, observed in October 2011 at a US Government conference in Washington DC: “The Legacy program is the gold standard for intelligence-led military operations … Legacy as part of a COIN strategy is a no brainer …. This is no longer a good idea; this is a good program.”

There are no “unsupported costs”

Although unrelated to the stated audit objective of assessing impact, the report repeats the conclusions of a 2015 SIGAR audit of a specific Legacy contract (Legacy-East) that the prime contractor to whom we were subcontracted and to whom we billed our costs “did not have the supporting documentation for NCC’s costs, preventing our auditors from performing a complete review of subcontractor invoice costs, leading us to question more than $134 million in unsupported costs.” This statement caused consternation amongst other New Century clients such that we were obliged to prove its inaccuracy, which we did. With respect to the SIGAR, repeating a false allegation does not make it true: it is as inaccurate now as it was when the claim was first made. The following paragraphs explain this statement.

The original claim that costs were “unsupported” was made by Crowe Horwath, being the audit firm appointed by SIGAR to examine the costs in the prime contractor’s books. During the course of their work they learned that the extensive documentation underlying the $130m of costs billed by NCC under Legacy-E were not held at the prime’s offices in Arlington, VA, but at our offices, in the UK. This is hardly unusual as, for example, one would not expect the accounting records for Rolls-Royce relating to the manufacture of a jet engine for attachment to a Boeing 787 to be held at Boeing’s offices.

Crowe Horwath had planned to conduct their audit in the US and when they realized that the only option available to inspect the tens of thousands of supporting documents for NCC’s costs was through a team in the UK they declared that they had insufficient funds allocated by the SIGAR to do so and ended their work. They then issued a report to you which said that they were “not able to determine if the costs claimed were incurred …” They did not report that they were invited by both the prime and ourselves to physically inspect the documentation underpinning every single item of expense at our offices and declined to do so.

It is not fair or equitable to publish a report saying that an entire cost base is questioned but not clarifying this to say that this is because the auditors chose to not inspect the relevant records. The documentation existed but the auditors did not review it – they were never “prevented” from doing so as was claimed in the audit report (except as a result of not having a sufficient budget provided by the SIGAR to undertake this work in the UK).

To counter the incomplete nature of Crowe Horwath's audit and to correct the record for both yourselves and for others who had expressed concern relating to the above, NCC, at our own cost, retained the services of another international accounting firm, BDO, to conduct a thorough, independent review of the documentation underlying the $130m we had invoiced to the prime contractor. They reported: "Our audit has concluded that the costs reviewed in our sample … were incurred by New Century and verified to supporting documentation … with no exceptions." In other words, appropriate documentation existed for the entire $130m as billed by New Century.

Our Counsel presented a copy of BDO's report to you on 19 June 2015. They did not receive a response, and neither the existence or conclusions of BDO's audit are acknowledged in your current audit report. An impartial observer might presume that the absence of any reference to the BDO report is because its findings preclude the opportunity to repeat in your audit report that a sizeable sum (of $134m) was "unsupported" by documentation. BDO's independent audit findings discredited this claim, but it has still found its way into your latest report.

A sound success story

With respect, we regret the general negative tone of the wording in your report, and the way it has portrayed both New Century and the highly professional US Government entities who have managed programmatic delivery, such as ARL and CTTSO. This has led to sensationalized press comment labeling the programs a "failure" when these programs are regarded by all exposed to them in an operational setting as hugely successful and a sound investment by the US Government.

We have always striven to deliver a valuable and cost-effective service in support of what have been (and continues to be) very challenging missions. We are fully aware that if we do not consistently deliver tangible, positive results then our services will no longer be in demand. We are proud that the majority of our work comes from second and subsequent contracts with the same clients, so we are reassured that what we offer is valued, relevant and effective.

Our personnel had deployed in support of Coalition Forces in Afghanistan in a very challenging and hostile environment, initially to a province where some other contractors would not even deploy due to the level of threat. We are disappointed that the audit report has failed to acknowledge the dedication, professionalism and commitment of the mentors and trainers who delivered the programs; or recognize that in their delivery one of our personnel, Ken McGonigle, paid the ultimate sacrifice whilst preventing an RPG attack on an Osprey aircraft carrying Vice-Admiral Robert Harward and his staff. Despite being a contractor, Ken was decorated by the US Government for his bravery and was posthumously awarded the Queen's Gallantry Medal in the United Kingdom.

As referred to earlier, one of the objectives of the audit was to determine the extent to which New Century successfully performed the tasks required by the contracts and developed the ANDSF intelligence capability. We do not consider that the report has answered this question, namely, did New Century successfully perform the tasks it was given, claiming that the absence of performance metrics inhibited the capacity to draw a conclusion. The undeniable fact is that, based upon demand for the programs stemming from multiple battlefield consumers, coupled with the plethora of operational data Legacy and ASOM produced, the answer to the question is a resounding 'yes': NCC did indeed develop an intelligence model which was proven to be both successful and effective. In sum, the R&D nature of the programs bore fruit, delivering an impressive, positive outcome.

The enduring proof of this is that the core (Legacy) model and various derivatives arising out of it are currently being utilized by the DoD across a number of countries, methodically and quantifiably enhancing partner nations' capacity and producing consistently successful results. Recent DoD reports arising out of inspection visits to other Legacy-related training programs robustly affirm this.

In respect of determining if New Century successfully developed the ANDSF intelligence capability, the answer to this is also 'yes'. Whilst the SIGAR has, in our view, unfairly sought to understate the impact, the evidence, both in training and operational outcomes, has been to the contrary. This positive conclusion has been widely supported by operational commanders in theatre, as demonstrated by the extensive range of plaudits the programs have received from senior US, Coalition Forces and host nation sources.

We remain committed to delivering significantly material and measurable effect for and on behalf of our clients and we look forward to receiving any comments the SIGAR might wish to make on the above.

Yours sincerely

Michael Grunberg
Chief Executive Officer
michael.grunberg@newcentcorp.com
for New Century Consulting Ltd

ASOM CPARS assessments 2013 to 2016

FOUO documentation, therefore excluded

New Century Consulting

Direct Cost Audit

Report Dated:
19 June 2015

TABLE OF CONTENTS

1 INTRODUCTION AND TERMS OF REFERENCE

Background

1.1 New Century Consulting Limited ("New Century") provides specialist training in security sector reform. The Legacy East ("Legacy E") contract was in respect of an intelligence mentoring and training programme for the Afghan National Security Force ("ANSF"). The contract was awarded to Imperatis (formerly Jorge Scientific) ("the prime contractor") which in turn appointed New Century as a subcontractor ("the subcontractor").

1.2 New Century informed us that all invoices and supporting information requested by the prime contractor in respect of the Legacy E contract was provided to them. Services were provided by New Century under the Legacy E contract between October 2011 and September 2013. At the date of this Report, the total amount invoiced to Imperatis under the Legacy E contract was £82,688,160 with a US Dollar equivalent value of $129,807,326 (using the exchange rate recorded by New Century at the date of each invoice).

1.3 On a monthly basis New Century provided Imperatis with an invoice and a summary schedule to support the invoice. There were 23 invoices issued for services rendered over the approximate two year timeframe stated above.

1.4 New Century prepared, for internal purposes only, a Pay and Expenses back-up support schedule. The back-up schedule is the analysed listing of all transactions from which each invoice was generated.

Instructions

1.5 We have been instructed to perform an audit of direct costs using statistical sampling techniques, in relation to payroll and expenses, which together comprise the entire value of the direct costs, incurred in respect of the Legacy E contract and invoiced to Imperatis.

Confidentiality

1.6 This Report has been prepared solely for use by New Century. As per the terms of our engagement letter, New Century may disclose the Report and its findings to their legal advisors and to US Government agencies or officials. We note however that the procedures performed were not designed for the use of any party other than New Century and we will not accept liability to any party other than New Century.

1.7 In all other respects, this Report is confidential and should not be used, reproduced, or circulated for any other purpose, in whole, or in part, without our prior written consent.

Legal and factual issues

1.8 This Report should not be read as expressing any opinion on legal or factual matters where expert opinion is reliant upon facts which may be disputed. This Report sets out the facts as we understand them based on our review of accounting records, documents and interviews.

Preparation of Report

1.9 Any opinions or views expressed in this Report are subject to any further information which may be made available.

Limitations

1.10 We have not been instructed to review the Legacy E subcontract or to consider whether the costs reviewed and verified by us were accounted for in accordance with any provisions set out within it. We have only reviewed direct costs as part of our review, therefore we have not considered indirect costs (Fringe, Overheads and G&A), the contract fee or apportionment of expenses between Legacy E and other Legacy subcontracts running concurrently.

1.11 We have not considered New Century's compliance with any relevant US Federal Acquisition Regulations ("FARs").

1.12 We reserve the right to change the content and conclusions contained within this Report if new information comes to light which was not available to us during the course of our work.

2 SCOPE OF WORK

2.1 The scope of our work was to carry out the following audit review and procedures for the Legacy E programme:

(a) obtain a full list of relevant invoices submitted to Imperatis for work performed;

(b) for each selected invoice, obtain the detailed back-up file and relevant supporting information;

(c) sample a minimum of 60 payroll expenses and 60 other expenses (i.e. equipment, insurance and other costs including vehicle hire, communications and utilities etc); and

(d) match the selected expenses to underlying documentary support, to be provided by New Century.

2.2 Our sample size was calculated according to the guidance set out by the American Institute of Certified Public Accountants ("AICPA") and provides assurance of 95 per cent (confidence level), based on a population tolerable deviation of five per cent and an expected sample deviation rate of zero (i.e. no exceptions identified).

Sources of Information

2.3 The sources of information used for the purposes of preparing this Report are set out below.

Documents and records

2.4 The following documentation was provided to us by New Century in order to perform our work:

(a) Excel spreadsheet extracts from SAGE[1] records of 'Supplier Activity Reports' detailing each item of expenditure;

(b) bank statements;

(c) supplier and contractor invoices;

(d) purchase orders;

(e) consultancy agreements and contracts of employment;

(f) travel itineraries for deployed personnel;

(g) deployment records from the Morpheus[2] database;

[1] SAGE is the commercial accounting package then in use by New Century.
[2] Morpheus is the bespoke HR system developed and used by New Century.

(h) New Century's Company Handbook;

(i) Procurement Process guidance note; and

(j) various other internal policy documents as required.

3 WORK PERFORMED

Preparing the sample

3.1 Our sample was identified as follows:

(a) All detailed payroll and expense back-up files provided to us by New Century were set out in 23 separate Excel spreadsheets (one to support each invoice). The data from these back-up files was combined into one working spreadsheet for the purpose of generating a random sample.

(b) The Excel RAND function was used to generate a random number between 0 and 1 for each line item in the payroll list, and each line item over £1,000 in the expenses list. The random numbers were copied and pasted as values to prevent them from changing each time the workbook was opened.

(c) The Excel RANK function was used to rank records in the payroll list and expenses list separately according to the size of the random numbers assigned.

(d) The top 60 payroll records and top 60 expenses records, according to the random ranking, were selected for review.

(e) Additional line items were added (four for payroll and seven other expenses) to ensure all categories on the monthly summary sheet were covered within the sample[3]. The additional items were selected on a judgemental basis.

Audit work - Payroll

3.2 During the audit we took the following steps to verify the existence of such costs identified in our sample:

(a) Verified from deployed personnel consultancy agreements and contracts of employment that:

(i) the contract period covered the period of the cost identified in the sample; and

(ii) the contract amount was the same as the cost identified in the sample.

(b) Verified from the consultancy agreement that:

(i) the contract period covered the period of the cost identified in the sample;

(ii) the contract amount was the same as the cost identified in the sample; and

(iii) the invoice prepared by the contractor, was matched to (i) and (ii) above.

[3] The categories "other personnel" and "other costs" contained a number of sub-categories which changed from month to month. As a result not all sub-categories were included in our sample for testing.

(c) Checked from payroll records (excel spreadsheet extracted from SAGE) that the entry was correctly recorded.

(d) Established from New Century's Morpheus system that the duration of deployment covered the period identified by the sample (for deployed personnel only).

(e) Checked travel itineraries for deployed personnel to confirm that they were physically at the location during the period identified by the sample.

(f) Verified, from bank statements, that payments were made to the correct individuals by confirming New Century's personnel codes to bank statements.

3.3 No exceptions were identified during our review of payroll expenses.

Audit work - Expenses

3.4 During the audit we took the following steps to verify the existence of such costs identified in our sample:

(a) Agreed supplier invoices to purchase orders and confirmed that each was supported by a business case[4], three quotations and relevant approvals in-line with New Century's defined policies and procedures which, New Century has informed us are designed to track FARs.

(b) Ensured that the invoice content matched the content covered by the purchase order.

(c) Checked the invoice amount and date matched to the lines of expenditure on the detailed back-up files provided.

(d) Obtained additional explanations from New Century staff or supporting contracts with suppliers for invoices without purchase orders with a value in excess of the approval threshold per the policy and procedures guidance.

(e) Cross-referenced the 'Expenses Supplier Activity Report' (which is a report from SAGE in GBP and USD, depending on the currency used in the transaction) with the supplier invoice and/or line item per the detailed back-up schedule.

(f) Verified from bank statements that the invoice had been paid. Where payments were in excess of the invoice or line item amount we checked against the 'Expenses Supplier Activity Report' for details of what other invoices made up the total payment value.

[4] New Century has informed us that this is a standard format document setting out a requirement, with associated costs, justification and recommendation for approval internally, by the prime contractor, and by the US Government programme office.

3.5 No exceptions were identified during our review of other expenses.

Audit work – Fieldwork Expenses

3.6 One of the expense items sampled for testing was line item reference 5870 'Field Expenses'. Field expenses are sums paid out of cash advances provided to deployed personnel to cover day-to-day expenditure which, New Century has informed us, can only or most cost-effectively be expended in Afghanistan.

3.7 The New Century field expense policy requires receipts to be obtained and retained for all expenditure over a *de minimis* threshold of $25 per expense as previously established by the US Programme Office[5].

3.8 We obtained all field expense report spreadsheets for deployed personnel.

3.9 We agreed total payments per item reference 5870 to the individual payments received by deployed personnel per the expense report spreadsheets.

3.10 We selected a judgemental sample of 30 field expenses from the expense report spreadsheets and obtained and reviewed the relevant back-up receipts retained by New Century.

3.11 No exceptions were identified during our review of fieldwork expenses.

[5] In accordance with guidance issued by the US Department of Defense Combatting Terrorism Technical Support Office ("CTTSO") in a letter dated 15 April 2010.

4 CONCLUSION

4.1 Our audit has concluded that the costs reviewed in our sample, as defined in paragraphs 2.1 to 2.2, were incurred by New Century and verified to supporting documentation, as described in section 3, with no exceptions.

4.2 We note that we received full and unfettered cooperation from New Century employees in the course of our procedures. We received immediate access to all systems and documentation and all information requested by us, and required to complete our review, was readily available for inspection.