

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 15-72 Financial Audit**

## Department of the Army's Ministry of Interior Program: Audit of Costs Incurred by L-3 Services, Inc.

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



JULY  
2015

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On April 30, 2010, the Army Contracting Command awarded a 1-year, \$32.2 million contract to L-3 Services, Inc. (L-3)—rebranded in 2015 as Engility LLC—to implement the Ministry of Interior Program. The purpose of the contract was to help develop the capabilities of the Afghan Ministry of Interior to independently plan, program, and manage the Afghan National Police. After subsequent modifications, program funding was decreased to \$24.5 million and the program completion date was set to April 30, 2011.

SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe Horwath), reviewed \$24,285,460 in expenses charged to the contract from May 10, 2010, through April 30, 2011. The audit objectives were to (1) identify and report on significant deficiencies or material weaknesses in L-3's internal controls related to the contract; (2) identify and report on instances of material noncompliance with the terms of the contract and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether L-3 has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of L-3's Special Purpose Financial Statement. See Crowe Horwath's report for the precise audit objectives.

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

July 2015

Department of the Army's Ministry of Interior Program: Audit of Costs Incurred by L-3 Services, Inc.

SIGAR 15-72-FA

### WHAT THE AUDIT FOUND

Crowe Horwath LLP (Crowe Horwath) identified two significant deficiencies in internal control and one instance of noncompliance with the terms and conditions of the contract. Combined, the deficiencies in internal control and one instance of noncompliance resulted in two findings relating to cash management procedures and financial reporting. Specifically, Crowe Horwath identified four invoices that did not receive proper review and approval by L-3 Services, Inc.'s (L-3) management before submission to the government for payment. Additionally, L-3 did not provide contract monitoring reports as required by the government.

Crowe Horwath did not identify any questioned costs, which would have included unsupported costs—costs not supported with adequate documentation or that did not have the required prior approval—or ineligible costs—costs prohibited by the contract, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Costs Incurred	\$0	\$0	\$0
<b>Totals</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Crowe Horwath did not identify any prior reviews or assessments that pertained to L-3's implementation of the Ministry of Interior Program or were material to the Special Purpose Financial Statement.

Crowe Horwath issued an unmodified opinion on L-3's Special Purpose Financial Statement, noting that it presents fairly, in all material aspects, revenues received, costs incurred, and the balance for the indicated period audited.

### WHAT SIGAR RECOMMENDS

For the entire scope of this audit, L-3 was the contractor. L-3 was rebranded in 2015 as Engility LLC (Engility). As a result, our recommendations refer to Engility, which is now responsible and accountable for addressing any findings related to L-3's work. Based on the results of the audit, SIGAR recommends that the responsible contracting officer at the Army Contracting Command:

- 1. Advise Engility to address the report's two internal control findings.**
- 2. Advise Engility to address the report's one noncompliance finding.**



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

July 13, 2015

The Honorable Ashton B. Carter  
Secretary of Defense

General Lloyd J. Austin III  
Commander, U.S. Central Command

General John F. Campbell  
Commander, U.S. Forces–Afghanistan and  
Commander, Resolute Support

General Dennis L. Via  
Commanding General, U.S. Army Materiel Command

Major General Theodore C. Harrison  
Commanding General, U.S. Army Contracting Command

We contracted with Crowe Horwath LLP (Crowe Horwath) to audit the costs incurred by L-3 Services, Inc. (L-3) under an Army Contracting Command contract to develop the capabilities of the Afghan Ministry of Interior.<sup>1</sup> Crowe Horwath's audit covered \$24,285,460 in expenditures charged to the contract from May 10, 2010, through April 30, 2011. Our contract required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

For the entire scope of this audit, L-3 was the contractor. L-3 was rebranded as Engility LLC (Engility).<sup>2</sup> As a result, our recommendations refer to Engility, which is now responsible and accountable for addressing any findings related to L-3's work. Based on the results of the audit, SIGAR recommends that the responsible contracting officer at the Army Contracting Command:

- 1. Advise Engility to address the report's two internal control findings.**
- 2. Advise Engility to address the report's one noncompliance finding.**

The results of Crowe Horwath's audit are further detailed in the attached report. We reviewed Crowe Horwath's report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on L-3's Special Purpose Financial Statement. We also express no opinion on the effectiveness of L-3's internal control or compliance with the contract, laws, and regulations. Crowe Horwath is responsible for the attached auditor's report and the conclusions expressed in the report. However, our review disclosed no instances where Crowe Horwath did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

We will be following up with your agency to obtain information on the corrective actions taken in response to our recommendations.

John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction

(F-062)

<sup>1</sup> The Army Contracting Command awarded contract number W91CRB-10-C-0100 to L-3 Services, Inc. The contract was intended to support the implementation of the Ministry of Interior Program, which was designed to help develop the capabilities of the Afghan Ministry of Interior to independently plan, program, and manage the Afghan National Police.

<sup>2</sup> Crowe Horwath's audit report refers solely to Engility Corporation, which was the responsible entity until February 2015 when it was rebranded as Engility LLC.



**Engility Corporation**  
**Special Purpose Financial Statement**  
**Ministry of Interior Program**  
**For the Period May 10, 2010, through April 30, 2011**  
**(With Independent Auditor's Report Thereon)**

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**Crowe Horwath LLP**

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## Transmittal Letter

June 8, 2015

To Mr. Mike Alber, Senior Vice President & Chief Financial Officer  
Engility Corporation  
3750 Centerview Drive  
Chantilly, VA 20151

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

We appreciate the opportunity to provide to you our report regarding the procedures that we have conducted during the course of our audit of Engility Services Inc. contract with the United States Department of Defense ("DOD") funding the contract W91CRB-10-C-0100 ("Ministry of Interior").

Within the pages that follow, we have provided a brief summary of the work performed. Following the summary, we have incorporated our report on the Special Purpose Financial Statement, report on internal control, and report on compliance. Accordingly, we do not express an opinion on the summary and any information preceding our reports. L-3 is a wholly owned subsidiary of Engility Corporation, therefore, this transmittal letter and the corresponding audit reports are addressed to those charged with governance and the management of Engility.

When preparing our report, we considered comments, feedback, and interpretations provided by Engility, the Office of the Special Inspector General for Afghanistan Reconstruction, and DOD both in writing and orally throughout the audit planning, fieldwork, and reporting phases. Management's final written response to audit is incorporated into the final report as **Appendix A**.

Thank you for providing us the opportunity to work with you and to conduct the financial audit of Engility's Ministry of Interior project.

Sincerely,

A handwritten signature in black ink, appearing to read "Bert Nuehring".

Bert Nuehring, CPA, Partner  
Crowe Horwath LLP



[www.crowehorwath.com](http://www.crowehorwath.com)

## Summary

### Background

The Engility Corporation entered into a contract with the United States Department of Defense (“DOD”). Under the Ministry of Interior project (“MOI”), Engility taught and mentored MOI and Afghan National Police (ANP) personnel in developing specific governmental systems.

The contract– W91CRB-10-C-0100 – incorporated an initial ceiling price of \$32,241,459 and a period of performance beginning May 10, 2010. Through subsequent modifications to the contract, the final completion date was established as April 30, 2011 in Afghanistan with a ceiling price of \$24,297,707. Engility

### Work Performed

Crowe Horwath LLP (“Crowe”) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) to conduct a financial audit of Engility’s Ministry of Interior Special Purpose Financial Statement (“SPFS”) for the period May 10, 2010, through April 30, 2011.

### Objectives Defined by SIGAR

The following audit objectives were defined within the *Performance Work Statement for Financial Audits of Costs Incurred by Organizations contracted by the U.S. Government for Reconstruction Activities in Afghanistan*:

#### *Audit Objective 1 – Special Purpose Financial Statement*

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

#### *Audit Objective 2 – Internal Controls*

Evaluate and obtain a sufficient understanding of Contractor’s internal control related to the contract; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.

#### *Audit Objective 3 – Compliance*

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

#### *Audit Objective 4 – Corrective Action on Prior Findings and Recommendations*

Determine and report on whether the Contractor 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 (SPFS).

## Scope

The scope of the audit included the period May 10, 2010, through April 30, 2011, for the Ministry of Interior project. The audit was limited to those matters and procedures pertinent to the contract that could have a direct and material effect on the SPFS and evaluation of the presentation, content, and underlying records of the SPFS. The audit included reviewing the financial records that support the SPFS to determine if there were material misstatements and if the SPFS was presented in the format required by SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

- Allowable Activities;
- Allowable Costs;
- Cash Management;
- Equipment and Real Property;
- Period of Availability of Federal Funds;
- Procurement;
- Reporting; and
- Special Tests and Conditions.

## Methodology

To meet the aforementioned objectives, Crowe completed a series of tests and procedures to audit the SPFS, tested compliance and considered the auditee's internal controls over compliance and financial reporting, and determined if adequate corrective action was taken in response to prior audit findings.

For the purpose of meeting Audit Objective 1 pertaining to the SPFS, transactions were selected from the financial records underlying the SPFS and the transactions were tested to determine if the transactions were recorded in accordance with the basis of accounting identified by Engility; were incurred within the period covered by the SPFS and in alignment with specified cutoff dates; were charged to the appropriate accounts; and were adequately supported.

For purposes of meeting Audit Objective 2 regarding internal control, Crowe requested that the auditee provide copies of policies and procedures and verbally communicate those procedures that do not exist in written format to provide Crowe with an understanding of the system of internal control established by Engility. The system of internal control is intended to provide reasonable assurance of achieving reliable financial and performance reporting and compliance with applicable laws and regulations. Crowe corroborated internal controls identified by the auditee and conducted testing of select key controls to understand if they were implemented as designed.

Audit Objective 3 requires that tests be performed to obtain an understanding of the auditee's compliance with requirements applicable to the contract. Crowe identified – through review and evaluation of the contract executed by and between Engility and DOD, the Federal Acquisition Regulations ("FAR"), and applicable circulars issued by the United States Office of Management and Budget ("OMB") – the criteria against which to test the SPFS and supporting financial records and documentation to determine compliance and to assess the allowability of costs. Using sampling techniques, Crowe reviewed expenditures, vouchers submitted to DOD, procurements, cash disbursements, and project reports for audit. Supporting documentation was requested from the auditee to access compliance. Testing indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in accordance with the interim indirect cost rate associated restrictions and limitations and whether costs were treated consistently as direct or indirect charges.

To determine whether there was audit, monitoring, assessment, or other reports completed and that required corrective action as per Audit Objective 4, Crowe inquired of both Engility and DOD regarding the existence of such reports. No reports were identified and, therefore, no follow-up was necessary.



## Summary of Results.

Crowe issued an unmodified opinion on the SPFS.

Upon completion of Crowe's procedures, Crowe identified two findings because they met one or more of the following criteria: (1) significant deficiency in internal control, (2) material weakness in internal control, (3) deficiency that resulted in questioned costs, and/or (4) noncompliance with rules, laws, regulations, or the terms and conditions of the contract.

Crowe also reported on both Engility's compliance with the applicable laws, rules, regulations, and the terms and conditions of the contract and the internal controls over compliance. Two significant deficiencies in internal controls and one instance of noncompliance were reported. Where internal control and compliance findings pertained to the same matter, they were consolidated within a single finding. A summary of findings is presented in **TABLE A**.

Crowe conducted searches of publicly available information to locate prior audits, reviews, and evaluations pertinent to Engility's financial performance under the contract. In addition, Crowe inquired of both DOD and Engility regarding whether or not such work had been performed. Based on the results of Crowe's searches and, per communications with Engility and Army Contracting Command there were no audits or other reviews or assessments conducted in relation to the Ministry of Interior program.

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

**TABLE A: Summary of Findings and Questioned Costs**

Finding Number	Matter	Questioned Costs	Cumulative Questioned Costs
2015-01	Lack of Documented Approval of Invoices to Government	\$0	\$0
2015-02	Lack of Evidence of Reporting Submission.	\$0	\$0
<b>Total Questioned Cost</b>			<b>\$0</b>

### Summary of Management Comments

Engility in its management response disagreed with finding 2015-01 and agreed with findings 2015-02 and 2015-03 as presented in the draft report. Engility disagreed with draft report finding 2015-01 regarding lack of supporting documentation for travel costs. Engility located supporting documentation for the questioned cost and provided it with management's response to the draft report. We considered the supporting documentation provided and draft finding 2015-01 has been removed. The findings to which Engility agrees have thus been renumbered to findings 2015-01 and 2015-02

### References to the Appendix

**Appendix A** contains the Views of Responsible Officials, which are management's responses to the findings presented within the report.



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

To Mr. Mike Alber, Senior Vice President & Chief Financial Officer  
Engility Corporation  
3750 Centerview Drive  
Chantilly, VA 20151

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

### ***Report on the Special Purpose Financial Statement***

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Statement") of Engility Corporation, ("Engility"), and related notes to the Statement, for the period May 10, 2010, through April 30, 2011, with respect to the Ministry of Interior Program funded by contract W91CRB-10-C-0100.

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

Management is responsible for the preparation and fair presentation of the Statement in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") in Appendix IV of Solicitation ID11140014 ("the Contract"). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a Statement that is free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Statement.

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

### ***Opinion***

In our opinion, the Statement referred to above presents fairly, in all material respects, revenues received, costs incurred, and balance for the indicated period in accordance with the requirements established by the Office of the Special Inspector General for Afghanistan Reconstruction in Appendix IV of the Contract and on the basis of accounting described in Note 1.

### ***Basis of Presentation***

We draw attention to Note 1 to the Statement, which describes the basis of presentation. The Statement was prepared by Engility in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction in Appendix IV of the Contract and presents those expenditures as permitted under the terms of contract number W91CRB-10-C-0100, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the Contract referred to above. Our opinion is not modified with respect to this matter.

### ***Restriction on Use***

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

### ***Report on Other Legal and Regulatory Requirements***

In accordance with *Government Auditing Standards*, we have also issued reports dated May 5, 2015, on our consideration of Engility's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Engility's internal control over financial reporting and compliance.



Crowe Horwath LLP

May 5, 2015  
Washington, D.C.

**Engility Corporation**  
**Special Purpose Financial Statement**  
**W91CRB-10-C-0100**  
**For the Period May 10, 2010, through April 30, 2011**

	Budget	Actual	Ineligible	Questioned Costs Unsupported	Notes
<i>Revenues</i>					
MOI - W91CRB-10-C-0100	\$24,551,732.83	\$24,285,459.54			
<b>Total Revenue</b>	<b>\$24,551,732.83</b>	<b>\$24,285,459.54</b>			<b>4</b>
<i>Costs Incurred</i>					
Direct Labor	\$8,179,526.66	\$8,179,526.66			
Danger Pay	\$2,788,690.40	\$2,788,690.40			
Shift Differential	\$3,064,247.25	\$3,064,247.25			
Direct Travel	\$484,636.04	\$447,278.46			
Supplies	\$858,625.22	\$853,284.73			
Direct Travel - Per Diem	\$18,277.92	\$0.00			
██████████	██████████	██████████			
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<b>Total Costs Incurred</b>	<b>\$21,890,593.53</b>	<b>\$21,623,320.54</b>			
Fixed Fee	\$2,662,139.00	\$2,662,139.00			
<b>Fund Balance</b>	<b>-</b>	<b><u>\$0.00</u></b>			<b>6</b>

The accompanying notes to the Special Purpose Financial Statement are an integral part of this Statement.

**Engility Corporation**  
**Notes to the Special Purpose Financial Statement**  
**W91CRB-10-C-0100**  
**For the Period May 10, 2010, through April 30, 2011**

**Note 1. Basis of Presentation**

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Contract Number W91CRB-10-C-0100 for the Afghan MOI for the period May 10, 2010 through April 30, 2011. Because the Statement presents only a selected portion of the operations of the Engility Corporation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Engility Corporation. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal contract. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Note 2. Basis of Accounting**

Expenditures reported on the Statement are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Federal Acquisition Regulation, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Note 3. Foreign Currency Conversion Method**

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

**Note 4. Revenues**

Revenues on the Statement represent the amount of funds to which Engility Corporation is entitled to receive from U.S. Army for allowable, eligible costs incurred under the contract during the period of performance.

**Note 5. Costs Incurred by Budget Category**

The budget categories presented and associated amounts reflect the break out of costs that roll up to the budget line items presented within the final, US Army-approved contract budget adopted as a component of the contract award to the contract dated April 29, 2010. .

**Note 6. Fund Balance**

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

**Note 7. Currency**

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

**Note 8. Subsequent Events**

Management has performed an analysis of the activities and transactions subsequent to May 10, 2010 through April 30, 2011, period of performance. Management has performed their analysis through May 5, 2015.

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To Mr. Mike Alber, Senior Vice President & Chief Financial Officer  
Engility Corporation  
3750 Centerview Drive  
Chantilly, VA 20151

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Statement") of Engility Corporation, and related notes to the Statement, for the period May 10, 2010, through April 30, 2011, with respect to the Ministry of Interior project funded by contract W91CRB-10-C-0100, and have issued our report thereon dated May 5, 2015.

### Internal Control over Financial Reporting

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

In planning and performing our audit of the Special Purpose Financial Statement for the period May 10, 2010, through April 30, 2011, we considered Engility's internal controls to determine 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 Engility's internal control. Accordingly, we do not express an opinion on the effectiveness of Engility'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 Special Purpose Financial Statement will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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(Continued)

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not 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 did identify certain deficiencies in internal control, described in the accompanying *Special Purpose Financial Statements* that we consider to be deficiencies and significant deficiencies. We consider findings 2015-01 and 2015-02 to be significant deficiencies.

### **Response to Findings**

Engility's response to findings was not subject to the auditing procedures applied in the audit of the special purpose financial statement and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 Engility, the United States Department of Defense, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.



Crowe Horwath LLP

May 5, 2015  
Washington, D.C.

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To Mr. Mike Alber, Senior Vice President & Chief Financial Officer  
Engility Corporation  
3750 Centerview Drive  
Chantilly, VA 20151

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement of Engility and related notes to the Statement, for the period May 10, 2010, through April 30, 2011, with respect to the Ministry of Interior project funded by contract W91CRB-10-C-0100. We have issued our report thereon dated May 5, 2015.

### Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the contract is the responsibility of the management of Engility.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Finding 2015-02 in the accompanying Schedule of Findings and Questioned Costs.

### Engility's Response to Findings

Engility's response to findings 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 Engility, the United States Department of Defense, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

*Crowe Horwath LLP*

Crowe Horwath LLP

May 5, 2015  
Washington, D.C.

**SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS****Finding 2015-01: Cash Management: Approval of Invoices to Government**

## Significant Deficiency

Criteria: FAR 52.203-13: Recipients of Federal funds are responsible for establishing a system of internal control that is sufficient to detect and correct misstatements and matters of noncompliance.

Condition: During our testing of cash management activity we noted that Engility was unable to provide us with supporting documentation showing management review and approval of invoices submitted to the government. This was noted in all four invoices that were selected for testing.

Questioned costs: None.

Effect: The likelihood of errors and omissions in payment requests to DOD and noncompliance with contractual requirements and applicable regulations is increased.

Cause: No written policy exists requiring the documentation of review and approval of invoices to be maintained.

Recommendation: We recommend that Engility establish a written policy requiring documented review and approval of invoices prior to submission for reimbursement.

**Finding 2015-02: Reporting: Evidence of Report Submission**

## Non-Compliance and Significant Deficiency

## Criteria:

## FAR 4.703 - Contractor Records Retention

(a) Except as stated in 4.703(b), contractors shall make available records, which includes books, documents, accounting procedures and practices, and other data, regardless of type and regardless of whether such items are in written form, in the form of computer data, or in any other form, and other supporting evidence to satisfy contract negotiation, administration, and audit requirements of the contracting agencies and the Comptroller General for—

- (1) 3 years after final payment or, for certain records;
- (2) The period specified in 4.705 through 4.705-3, whichever of these periods expires first.

## Task Order clause 952.225-0005

Contractor shall provide monthly employee census information to the Contracting Officer, by province, for this contract. Information shall be submitted either electronically or by hard-copy. Information shall be current as of the 25th day of each month and received by the Contracting Officer no later than the first day of the following month. The following information shall be provided for each province in which work was performed:

- (1) The total number (prime and subcontractors at all tiers) employees.
- (2) The total number (prime and subcontractors at all tiers) of U.S. citizens.
- (3) The total number (prime and subcontractors at all tiers) of local nationals (LN).
- (4) The total number (prime and subcontractors at all tiers) of third-country nationals (TCN).
- (5) Name of province in which the work was performed.
- (6) The names of all company employees who enter and update employee data in the Synchronized Predeployment & Operational Tracker (SPOT) IAW DFARS 252.225-7040 or DFARS DOD class deviation 2007-O0010.

Condition: For the period May 10, 2010 through April 30, 2011 Engility was required to submit monthly census reports to the government. We requested a sample of the four census reports. Engility was unable to provide either the census reports or documentation of submission.

Cause: Engility did not have a policy in place requiring the retention of reports and documentation of submission of reports required under DOD contracts.

Effect: Failure to develop and submit reports to DOD may have inhibited the Agency's ability to monitor the project to the extent desired.

Questioned costs: None.

Recommendation: We recommend that Engility implement a policy requiring the retention of reports and documentation of submission of reports required under DOD contracts.

**APPENDIX A – Views of Responsible Parties.**

**Frank J. Beatty**  
Director, Regulatory Compliance  
Engility Holdings, Inc.  
3750 Centerview Drive  
Chantilly, VA 20151  
[Frank.Beatty@EngilityCorp.com](mailto:Frank.Beatty@EngilityCorp.com)  
Phone: (703) 375-6520

May 18, 2015

Mr. Bert Nuchring, CPA, Partner  
Crowe Horwath LLP  
1325 G Street, NW  
Suite 500  
Washington, D.C. 20005-3136

**Subject:** Response to SIGAR Financial Audit Report on L-3 Services Inc. Contract No. W91CRB-10-C-0100 (Ministry of Interior) for the period May 10, 2010 to April 20, 2011

Dear Mr. Nuchring:

### 1. Background

L-3 Services, Inc., now known as Engility Corporation (“Engility”) entered into a contract with the U.S. Department of Defense (“DoD”). Under the Afghanistan Ministry of Interior project (“MoI”), Engility taught and mentored MoI and Afghan National Police (ANP) personnel in developing specific governmental systems.

The subject contract had an initial ceiling price of \$32,241,459 and a period of performance starting on May 10, 2010. Through subsequent modifications the final completion date was established as April 30, 2011 with a ceiling price of \$24,297,707.

### 2. Summary of Results of Audit

Crowe Horwath LLP (“Crowe”) was retained to conduct an independent audit of the subject contract. Crowe identified three findings that met one or more of the following criteria:

- (1) significant deficiency in internal control,
- (2) material weakness in internal control,
- (3) deficiency that resulted in questioned costs, and/or
- (4) noncompliance with rules, laws, regulations, or the terms and conditions of the contract.

Crowe reported on both Engility’s compliance with the applicable laws, rules, regulations, and the terms and conditions of the contract and the internal controls over compliance. One deficiency and two significant deficiencies in internal controls and two instances of noncompliance were reported. Where internal control and compliance findings pertained to the same matter, they were consolidated within a single finding.

The audit disclosed \$156 in costs was questioned as presented in the table below. The auditors consider Finding 2015-01 to be a deficiency and Findings 2015-02 and 2015-03 to be significant deficiencies.

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[www.crowehorwath.com](http://www.crowehorwath.com)

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### Summary of Findings and Questioned Costs

<u>Finding No.</u>	<u>Matter</u>	<u>Questioned Costs</u>	<u>Cumulative Questioned Costs</u>
2015-01	Unallowable Costs –Missing Supporting Documentation of Expenditure	\$156	\$156
2015-02	Lack of Documented Approval of Invoices to Government		
2015-03	Lack of Evidence of Reporting Submission.		
Total Questioned Costs			\$156

### 3. Summary of Management Comments:

#### Finding 2015-01: Unallowable Costs: Lack of Supporting Documentation

**Deficiency:** The auditors identified \$156 in questioned costs that resulted from a lack of supporting documentation for an invoice relating to travel costs.

**Effect:** The Government may have incurred costs that were unallowable to the Ministry of Interior contract.

**Cause:** Engility is unable to locate the specific supporting documentation of the item. Documentation was misplaced and unable to be located.

**Recommendation:** The auditors recommended that Engility provide DoD with sufficient supporting documentation to demonstrate that the costs invoiced and paid were allowable to the Ministry of Interior contract or otherwise refund the Government \$156.

**Engility Response:** Engility does not concur with this finding. Engility was not initially able to locate the supporting documentations to support the costs incurred related to the \$156. Subsequent to the audit, Engility was able to locate the original invoice. The support documents were provided to the auditors on May 5, 2015 via email (see attachment).

#### Finding 2015-02: Cash Management: Approval of Invoices to Government

**Significant Deficiency:** Recipients of Federal funds are responsible for establishing a system of internal control that is sufficient to detect and correct misstatements and matters of noncompliance.

**Condition:** During the testing of cash management activity, the auditors noted that Engility was unable to provide supporting documentation demonstrating that a management review and approval of invoices took place for the invoices submitted to the government. This lack of documented approval was noted in all four invoices that were selected for testing.

**Questioned Costs:** None.

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**Effect:** The likelihood of errors and omissions in payment requests to DoD and noncompliance with contractual requirements and applicable regulations is increased.

**Cause:** No written policy exists requiring the documentation of review and approval of invoices to be maintained.

**Recommendation:** The auditors recommend that Engility establish a written policy requiring documented review and approval of invoices prior to submission for reimbursement.

**Engility Response:** Engility concurs with the recommendation. Engility has a Record Retention Procedure, No. 6.01.02, that complies with the various federal records retention requirements. A copy of the Procedure is enclosed. Engility is currently normalizing its policies and procedures as a result of the recent acquisition of TASC, Inc. Leadership will consider amending the procedures to incorporate the step of documenting the invoice review and approval process.

#### **Finding 2015-03: Reporting: Evidence of Report Submission**

**Non-Compliance and Significant Deficiency** with FAR 4.703 - Contractor Records Retention. FAR 4.703(b) states that contractors shall make available records for 3 years after final payment or, for certain records the period specified in 4.705 through 4.705-3, whichever of these periods expires first.

Task Order clause 952.225-0005 states that the contractor shall provide monthly employee census information to the Contracting Officer, by province, for this contract. Information shall be submitted either electronically or by hard-copy. Information shall be current as of the 25th day of each month and received by the Contracting Officer no later than the first day of the following month.

The following information shall be provided for each province in which work was performed:

- (1) The total number (prime and subcontractors at all tiers) employees.
- (2) The total number (prime and subcontractors at all tiers) of U.S. citizens.
- (3) The total number (prime and subcontractors at all tiers) of local nationals (L.N).
- (4) The total number (prime and subcontractors at all tiers) of third-country nationals (TCN).
- (5) Name of province in which the work was performed.
- (6) The names of all company employees who enter and update employee data in the Synchronized Predeployment & Operational Tracker (SPOT) IAW DFARS 252.225-7040 or DFARS DOD class deviation 2007-O0010.

**Condition:** The contractor was required to submit monthly "Census Reports" to the Government. The auditors requested a sample of four monthly census reports. The contractor was unable to provide the requested census reports or documentation of the submission.

**Cause:** Engility did not have a policy in place requiring the retention of reports and documentation of submission of reports required under DoD contracts.

**Effect:** Failure to develop and submit reports to DoD may have inhibited the Agency's ability to monitor the project to the extent desired.

**Questioned Costs:** None.

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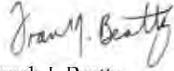
Recommendation: The auditors recommend that the contractor implement a policy requiring the retention of reports and documentation of submission of reports required under DoD contracts.

Engility Response: Engility concurs with the recommendation. Engility has a Record Retention Procedure that complies with the various federal records retention requirements. Engility is currently normalizing its policies and procedures as a result of the recent acquisition of TASC, Inc. Leadership will consider amending the procedures to incorporate the recommendation to retain deliverables under a contract and retain sufficient proof of delivery of contract required deliverables.

#### 4. Concluding Comments

Should you have any questions or comments on this matter, please contact me via email at [Frank.Beatty@EngilityCorp.com](mailto:Frank.Beatty@EngilityCorp.com) or by telephone at (703) 375-6520.

Sincerely,



Frank J. Beatty  
Director, Regulatory Compliance  
Engility Holdings, Inc.

Engility Corporation  
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## SIGAR's Mission

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

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

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## To 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:

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- Email: [sigar.pentagon.inv.mbx.hotline@mail.mil](mailto:sigar.pentagon.inv.mbx.hotline@mail.mil)
- Phone Afghanistan: +93 (0) 700-10-7300
- Phone DSN Afghanistan: 318-237-3912 ext. 7303
- Phone International: +1-866-329-8893
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## Public Affairs

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