

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 18-24 Financial Audit**

Department of Defense Task Force for Business  
and Stability Operations' Business Improvement  
Support: Audit of Costs Incurred by Leidos, Inc.

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



JANUARY  
2018

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On September 12, 2013, the Department of Defense's (DOD) Task Force for Business and Stability Operations (TFBSO), through the Army Research, Development, and Engineering Command (RDECOM), awarded a \$6,665,279 task order to Science Application International Corporation (SAIC). On September 27, 2013, SAIC split, and Leidos, Inc. assumed responsibility for the task order. The task order's objective was to provide direct business improvement support to various lines of operation to include vendor and user training, program management, data analysis, and communication support services in the United States and Afghanistan. After 12 modifications, the task order's ceiling was increased to \$10,817,573, and the period of performance was extended 1 year to September 19, 2015.

SIGAR's financial audit, performed by Williams Adley and Company-DC LLP (Williams Adley), reviewed \$10,752,713 in expenditures charged to the task order from September 20, 2013, to September 19, 2015. The objectives of the audit were to: (1) identify and report on significant deficiencies or material weaknesses in Leidos's internal controls related to the task order; (2) identify and report on instances of material noncompliance with the terms of the task order and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether Leidos has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of Leidos's Special Purpose Financial Statement. See Williams Adley'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, SIGAR oversaw the audit and reviewed its results. Our review disclosed no instances where Williams Adley did not comply, in all material respects, with U.S. generally accepted government auditing standards.

January 2018

## Department of Defense Task Force for Business and Stability Operations' Business Improvement Support: Audit of Costs Incurred by Leidos, Inc.

SIGAR 18-24-FA

### WHAT THE AUDIT FOUND

Williams Adley identified one significant weakness in Leidos's internal controls and two instances of noncompliance with the terms and conditions of the task order. These deficiencies resulted in two findings. Most notably, Williams Adley found that for two subcontracted awards, Leidos did not justify its decision to make sole-source awards. In addition, Leidos agreed to pay one subcontractor labor rates that were more than comparable market salaries.

Because of the excessive wages charged to the task order, Williams Adley questioned \$18,988 in costs, consisting entirely of ineligible costs—costs prohibited by the contract, applicable laws, or regulations. Williams Adley did not identify any unsupported costs—costs not supported with adequate documentation or that did not have required proper approval.

| Category        | Ineligible      | Unsupported | Total Questioned Costs |
|-----------------|-----------------|-------------|------------------------|
| Excessive Wages | \$18,988        | \$0         | \$18,988               |
| <b>Totals</b>   | <b>\$18,988</b> | <b>\$0</b>  | <b>\$18,988</b>        |

Williams Adley reviewed prior audit reports and corrective actions to determine their impact on the audit, but did not identify any findings or recommendations from prior engagements.

Williams Adley issued an unmodified opinion on Leidos's Special Purpose Financial Statement, noting that it presents fairly, in all material respects, the respective revenues earned, costs incurred, and items directly procured with U.S. government funds.

### WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the responsible DOD program officer coordinate with the Army RDECOM to:

- 1. Determine the allowability of and recover, as appropriate, \$18,988 in questioned costs identified in the report.**
- 2. Advise Leidos to address the report's internal control finding.**
- 3. Advise Leidos to address the report's two noncompliance findings.**



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

January 17, 2018

The Honorable James Mattis  
Secretary of Defense

General Joseph L. Votel  
Commander, U.S. Central Command

General John W. Nicholson, Jr.  
Commander, U.S. Forces–Afghanistan and  
Commander, Resolute Support

We contracted with Williams Adley-DC LLC (Williams Adley) to audit the costs incurred by Leidos Inc. (Leidos) under a Task Force for Business and Stability Operations (TFBSO) task order to provide business improvement support.<sup>1</sup> Williams Adley's audit covered \$10,752,713 in expenditures charged to the task order between September 20, 2013, and September 19, 2015. Our contract with Williams Adley required that the audit be performed in accordance with U.S. generally accepted government auditing standards issued by the Comptroller General of the United States.

Based on the results of audit, SIGAR recommends that the responsible DOD program officer coordinate with the Army Research, Development, and Engineering Command to:

- 1. Determine the allowability of and recover, as appropriate, \$18,988 in questioned costs identified in the report.**
- 2. Advise Leidos to address the report's internal control finding.**
- 3. Advise Leidos to address the reports two noncompliance findings.**

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

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<sup>1</sup> The Army Research, Development, and Engineering Command awarded task order W91CRB-11-D-0001-0052 to Science Application International Corporation (SAIC) on TFBSO's behalf. SAIC later split, and Leidos assumed responsibility for the task order. The task order was intended to provide direct business improvement support to various lines of operation to include vendor and user training, program management, data analysis, and communication support services in the United States and Afghanistan.



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

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-106)

**OFFICE OF THE  
SPECIAL INSPECTOR GENERAL FOR  
AFGHANISTAN RECONSTRUCTION**

**Financial Audit of Costs Incurred**

by

**Leidos, Inc.**

Under

Contract Number W91CRB-11-D-0001, Task Order 0052

For the Period

**September 20, 2013 to September 19, 2015**

Submitted by



January 11, 2018

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## Transmittal Letter

January 11, 2018

Leidos, Inc.  
11955 Freedom Drive  
Reston, VA 20190

Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR)  
Arlington, VA

Williams, Adley and Company-DC, LLP (referred to as “Williams Adley” or “we”) hereby provides to you our final report, which reflects results from the procedures we completed during our audit of Leidos, Inc. contract W91CRB-11-D-0001, Task Order 0052 with the United States Army Research, Development, and Engineering Command to support the Office of the Department of Defense Deputy Chief Management Officer Expeditionary Business Operations Support Office. This contract was funded by the Task Force for Business and Stability Operations.

On August 31, 2017, we provided SIGAR a draft report reflecting our audit procedures and results. Leidos received a copy of the report on October 27, 2017 and provided written responses subsequent thereto. These responses have been considered in the formation of the final report, along with the written and oral feedback provided by SIGAR and Leidos. Leidos’ responses and our corresponding auditor analysis are incorporated into this report following our audit reports.

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

Sincerely,

A handwritten signature in cursive script that reads 'Jocelyn Hill'.

Jocelyn A. Hill, CPA  
Partner

**WILLIAMS, ADLEY & COMPANY-DC, LLP**

*Certified Public Accountants / Management Consultants*

1030 15<sup>th</sup> Street, N.W., Suite 350 West • Washington, DC 20005 • (202) 371-1397 • Fax: (202) 371-9161

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## Summary

### Background

Congress created the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to provide independent and objective oversight of Afghanistan reconstruction projects and activities. Under the authority of Section 1229 of the National Defense Authorization Act for Fiscal Year 2008 (P.L. 110-181), SIGAR conducts audits and investigations to: 1) promote efficiency and effectiveness of reconstruction programs and 2) detect and prevent waste, fraud, and abuse. Thus, the United States Department of Defense (DoD) funded reconstruction activities in Afghanistan fall under the purview of SIGAR in fulfilling its mandate.

The Army Research, Development, and Engineering Command (RDECOM) executed a cost plus fixed fee contract number W91CRB-11-D-0001, task order 0052, that included \$10.8 million in total obligated funds, with Science Application International Corporation (SAIC). The funding for the task order was provided by the DoD's Task Force for Business and Stability Operations (TFBSO<sup>1</sup>) in Afghanistan. The TFBSO was DoD's principal vehicle for stimulating private sector growth and investment in Afghanistan's economy. The TFBSO's mandate was in the "development of economic opportunities, including private investment, industrial development, banking and financial system development, agriculture diversification and revitalization, and energy development" in Afghanistan.

Effective September 27, 2013, following completion of a spin-off transaction of its technical services and enterprise information technology services business from SAIC, a separate, independent and publicly traded company named Leidos, Inc. was formed. Through novation, Leidos, Inc. assumed responsibility for the contract under audit. The RDECOM contract was made to support the DoD Deputy Chief Management Officer Expeditionary Business Operations Support Office. The purpose of the contract was to provide direct business improvement support with an emphasis on contingency environments and stability operations in combatant commands. The scope of this contract encompassed four core functions to be performed in the United States and Afghanistan: 1) supporting refinements to business processes; 2) providing subject matter expertise; 3) solving business problems in theater and; 4) supporting and documenting the Warfighters business mission needs in 30 to 90 day increments. The scope of the contract was to enable data visibility throughout the business mission area to implement the following initiatives: 1) business information integration; 2) end-to-end processes; and 3) program management and deployment support.

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<sup>1</sup> TFBSO ceased operations on November 21, 2014.

**Table 1: Leidos Contract with Modifications**

|              | Start Date | End Date  | Amount Funded (Obligated) | Award Value       | Purpose  |
|--------------|------------|-----------|---------------------------|-------------------|--|
| Base Year    | 9/20/2013  | 9/19/2014 | 3,826,371                 | 6,665,279         | Expeditionary Business Operations Support  |
| Mod 1        |            |           | 932,846                   |                   | Incremental Funding  |
| Mod 2        |            |           | 907,653                   |                   | Incremental Funding  |
| Mod 3        |            |           | 1,484,120                 | 779,424           | Increase in total cost of contract, contractor name change and Incremental funding |
| Mod 4        |            |           | (305,230)                 |                   | De-Obligation  |
| Mod 5        |            |           | 99,148                    |                   | Incremental Funding  |
| Mod 6        |            |           | 250,000                   |                   | Incremental Funding  |
| Mod 7        |            |           | 249,000                   |                   | Incremental Funding  |
| Mod 8        | 9/20/2014  | 9/19/2015 | 2,000,000                 | 3,372,870         | Exercise Option Year 1   |
| Mod 9        |            |           | 85,635                    |                   | Incremental Funding  |
| Mod 10       |            |           | 718,243                   |                   | Incremental Funding  |
| Mod 11       |            |           | 414,580                   |                   | Incremental Funding  |
| Mod 12       |            |           | 154,412                   |                   | Incremental Funding  |
| <b>TOTAL</b> |            |           | <b>10,816,778</b>         | <b>10,817,573</b> |  |

SIGAR contracted Williams Adley and Company-DC, LLP (Williams Adley) to audit TFBSO funded costs incurred under contract W91CRB-11-D-0001, task order 0052, and associated modifications awarded to Leidos. The period of performance for the Leidos contract for audit purposes included a base year of September 20, 2013 to September 19, 2014 and an exercised option year through September 19, 2015.

## Objectives

The objectives of the audit are to:

1. Special Purpose Financial Statement – Express an opinion on whether the

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.

2. Internal Controls – Evaluate and obtain a sufficient understanding of Leidos’ internal controls related to the contract; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
3. Compliance – Perform tests to determine whether Leidos complied, in all material respects, with the contract requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the contract and applicable laws and regulations, including potential fraud or abuse that may have occurred.
4. Corrective Action on Prior Findings and Recommendations – Determine and report on whether Leidos has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the Special Purpose Financial Statement or other financial data significant to the audit objectives.

## Scope

In general, our scope of work includes the TFBSO funded cost plus fixed fee contract, number W91CRB-11-D-0001, Task Order 0052, and related modifications with a performance period between September 20, 2013 and September 19, 2015.

1. We performed a financial audit of incurred costs by Leidos under the contract listed above that was funded by the TFBSO.
2. We conducted sufficient testing to express an opinion on the engagement objectives. The major areas of review included the following:
  - i. Administrative Procedures and Fraud Risk Assessment
  - ii. Budget Management
  - iii. Cash Management
  - iv. Disbursement and Financial reporting
  - v. Procurement and Inventory Management
3. We performed compliance testing, including, but not limited to, activities allowed or disallowed; allowable costs under cost principles; cost determination for indirect costs; cash management; costs incurred eligibility; period of availability of Federal funds; procurement, suspension and debarment; program income; and reporting.

4. We reviewed transactions for the period from September 20, 2013 to September 19, 2015 and subsequent events and information that may have a significant impact on the findings and questioned costs for the audit period.
5. We expressed an opinion on the Special Purpose Financial Statement and related Notes for the audit period.

Our audit was conducted to form an opinion on the Special Purpose Financial Statement in accordance with the Special Purpose Financial Statement presentation requirements in Note 2. Therefore:

- The Transmittal Letter to SIGAR and the information presented in the Table of Contents, Summary, and Management Response to Audit Findings are presented for informational and organizational content purposes, or additional analysis, and are not required parts of the Special Purpose Financial Statement. Such information has not been subject to the auditing procedures applied in the audit of the Special Purpose Financial Statement, and accordingly, we do not express an opinion or provide any assurance on it.
- The scope of our audit does not include procedures to verify the efficacy of the TFBSO funded program, and accordingly, we do not express an opinion or provide any assurance on it.

## Methodology

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS), as published in the Government Accountability Office's Government Auditing Standards (or "Yellow Book"). Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the Special Purpose Financial Statement of the costs incurred under the award are free of material misstatement. An audit includes:

- Obtaining an understanding of Ledios' internal controls related to the award, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment.
- Examining, on a test basis, evidence supporting the amounts and disclosures presented in the Special Purpose Financial Statement.

To meet the audit objectives, we prepared an audit plan for the engagement. We reviewed applicable background materials, including contracts, auditee financial progress reports, DoD regulations, SIGAR's Afghanistan alert letters, audit reports and special program reports, and auditee single audits, performance audits and/or financial statement audits as applicable, to gain a thorough understanding of the control environment, the requirements of the contract, and any past findings and recommendations that may impact the audit. If prior audits indicated a need for corrective action to be taken by Leidos, we ensured through inquiry, observation and testing whether the necessary steps were

taken to adequately address those findings and recommendations. We requested and received supporting documentation for compliance evaluation of incurred costs and gained an understanding of the internal control related thereto. We assessed the control risk for sampling and testing purposes.

We used both statistical and judgmental sampling techniques to select direct labor, subcontract, travel, and other direct cost samples to test for allowable incurred costs based on our risk assessment, and reviewed procurement records to determine cost reasonableness and compliance with exclusion of parties not eligible to participate in federal awards, as applicable.

The scope of our audit reflects our assessment of control risk and includes tests of incurred costs to provide a reasonable basis for our opinion.

## Summary of Results

We issued an unmodified opinion on Leidos' Special Purpose Financial Statement. We also reported on Leidos' internal control and compliance with contract terms, laws and regulations.

There are two categories of questioned costs—ineligible and unsupported. Ineligible costs are those costs that are deemed unallowable in accordance with the terms of the contract and applicable laws and regulations, or are unnecessary or unreasonable expenditure of funds. Unsupported costs are those costs for which Leidos was unable to provide sufficient supporting documentation, including evidence of proper approvals, for us to determine the accuracy and allowability of the costs.

We identified reportable conditions for Leidos' internal control and compliance with contract terms, laws and regulations as required under the contract with SIGAR. We identified one finding, which is considered a significant weakness in internal control and noncompliance for documentation of sole source awards, and one reportable noncompliance issue that resulted in questioned ineligible costs in the amount of \$18,988. These findings pertain to costs incurred under sole source contracts awarded to Leidos' subcontractors, [REDACTED] and [REDACTED] as indicated below:

| Finding | Description                                     | Ineligible Costs | Unsupported Costs | Total Questioned Cost |
|---------|---|------------------|-------------------|-----------------------|
| 2017-01 | Sole source awards to [REDACTED] and [REDACTED] | \$0              | \$0               | \$0                   |
| 2017-02 | Cost reasonableness of [REDACTED] award         | \$18,988         | \$0               | \$18,988              |
| Totals  |   |                  |                   | \$18,988              |

## Summary of Prior Audit Reports

We requested prior audit reports and corrective action recommendations to determine the impact on our audit, as well as to evaluate the adequacy of the corrective actions implemented. We reviewed Leidos' Financial Statement audits performed by Deloitte & Touche, LLP for fiscal years 2014 and 2015 for which Leidos received an unqualified opinion. There were no findings or corrective action plans in the audited financial statements.

## Summary of Management Comments on Audit Report

Leidos management disagreed with both findings in this report. According to Leidos, for Finding 2017-01, it selected "subcontractors on a competitive basis to the maximum practical extent consistent with the objectives and requirements of the contract," followed all aspects of its internal controls in completing a sole source award to these contractors and has provided sufficient documentation to support the awards. Further, management contends that even if Leidos agreed that a reimbursement of any amount was required, it would be inequitable for the Government to receive a full refund of all amounts paid. With regards to Finding 2017-02, Leidos maintains that the rationale provided in the price analysis supports its price reasonableness determination in accordance with FAR/DFARS requirements. The full text of management response is in Attachment B of this report. Our response to management's comments is provided in Attachment C.

## Attachments

The auditor's reports are supplemented by three attachments:

Attachment A includes the Schedule of Findings and Questioned Costs.

Attachment B contains Leidos' official management response to the draft report.

Attachment C contains the auditor's response to management comments.



## **Independent Auditor's Report on the Special Purpose Financial Statement**

Board of Directors  
Leidos, Inc.  
11955 Freedom Drive  
Reston, VA 20190

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

We have audited the special purpose financial statement of Leidos, Inc. (hereinafter "Leidos") under contract number W91CRB-11-D-0001, task order 0052, funded by the Task Force for Business and Stability Operations for the period September 20, 2013 through September 19, 2015. The special purpose financial statement ("Statement") is the responsibility of Leidos' management.

### ***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 methods of preparation described in Note 2; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements (including the Statement) that are free from material misstatement, whether due to fraud or error.

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

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit of the Statement in accordance with generally accepted government auditing standards (GAGAS) 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 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, the respective revenues earned, costs incurred, items directly procured by the U.S. Government, and balance for the period September 20, 2013 through September 19, 2015 in accordance with the terms of the agreement and in conformity with the basis of accounting described in Note 2 of the Statement.

### ***Other Reporting Required by GAGAS***

In accordance with GAGAS, we have also issued our reports, dated September 19, 2017, on our consideration of Leidos' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, agreements 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 GAGAS in considering Leidos' internal control over financial reporting and compliance.

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

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

*Williams, Adley & Company - DC, LLP*

Washington, D.C.  
September 19, 2017

**Leidos, Inc.**  
**Special Purpose Financial Statement for Costs Incurred**  
 Under Contract Task Order W91CRB-11-D-0001-0052  
 For the Period of September 20, 2013 to September 19, 2015

| Revenues                                | Budget              | Actual              | Questioned Cost |             | Notes <sup>2</sup> |
|---|---------------------|---------------------|-----------------|-------------|--------------------|
|   |                     |                     | Ineligible      | Unsupported |                    |
| W91CRB-11-D-0001-0052<br>Cost<br>Fee    |                     |                     |                 |             |                    |
| <b>Total Revenue</b>                    | <b>\$10,816,778</b> | <b>\$10,752,713</b> |                 |             | 1                  |
| <b>Costs Incurred</b>                   |                     |                     |                 |             |                    |
| Direct Labor                            |                     |                     |                 |             |                    |
| Subcontractor Costs                     |                     |                     | \$18,988        |             | A                  |
| Other Direct Costs – Non-Labor          |                     |                     |                 |             |                    |
| Indirect Costs (NICRA)                  |                     |                     |                 |             |                    |
| Cost of Money                           |                     |                     |                 |             |                    |
| Fee                                     |                     |                     |                 |             |                    |
| <b>Total Costs Incurred<sup>3</sup></b> | <b>\$10,816,778</b> | <b>\$10,752,713</b> |                 |             |                    |
| <i>Outstanding Balance</i>              | \$0                 | \$0                 | \$18,988        |             |                    |

<sup>2</sup> The Notes to the Special Purpose Financial Statement are an integral part of the financial statement.

<sup>3</sup> The actual detailed costs incurred are off by \$1 each due to rounding.

### Notes to the Special Purpose Financial Statement<sup>4</sup>

For the Period of September 20, 2013 to September 19, 2015

#### Note 1. Status and Operation

Leidos, Inc. is a for-profit corporation organized for the purposes of delivering solutions and services that leverage expertise in the national security, health and engineering markets. Leidos is incorporated in the state of Delaware, with three core areas of technical expertise: data analytics, systems engineering and cybersecurity.

On 9/12/2013, RDECOM awarded Science Applications International Corporation, as novated to Leidos, Inc. on April 21, 2014, a Cost Plus Fixed Fee (CPFF) Contract No. W91CRB-11-D-0001, Task Order - 0052. The contract performance period is from 9/20/2013 through 9/19/2015 (that includes one (1) option period).

The original Task Order has the following periods of performance, Not-to-Exceed (NTE) amounts and obligated amounts.

|                        | <b>Period of Performance</b> | <b>NTE Amount</b>  | <b>Obligated Amount</b> |
|------------------------|------------------------------|--------------------|-------------------------|
| <b>Base Period</b>     | 9/20/2013 – 9/19/2014        | \$6,665,279        | \$6,665,279             |
| <b>Option Period 1</b> | 9/20/2014 - 9/19/2015        | \$2,602,433        | \$2,602,433             |
| <b>Total</b>           |                              | <b>\$9,267,712</b> | <b>\$9,267,712</b>      |

On April 21, 2014, RDECOM issued Task Order Modification No. 3 to increase the NTE amounts for all periods of performance and the obligated amount for the base and option periods as follows.

|                        | <b>Period of Performance</b> | <b>NTE Amount</b>     | <b>Obligated Amount</b> |
|------------------------|------------------------------|-----------------------|-------------------------|
| <b>Base Period</b>     | 9/20/2013 – 9/19/2014        | \$779,424.00          | \$778,628.80            |
| <b>Option Period 1</b> | 9/20/2014 - 9/19/2015        | \$770,437.00          | \$770,437.00            |
| <b>Total</b>           |                              | <b>\$1,549,861.00</b> | <b>\$1,549,065.80</b>   |

#### Note 2. Summary of Significant Accounting Policies

*a. Basis of Accounting*

The Statement has been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are reported on the income statement when they are earned and expenses are matched with the related revenues and/or are reported when the expense occurs.

*b. Foreign Currency Conversion Method*

<sup>4</sup>Numeric notes to the Special Purpose Financial Statement were developed by and are the responsibility of Leidos' management.

The Special Purpose Financial Statement is presented in United States Dollars.

### **Note 3. Revenues**

Revenue on the Special Purpose Financial Statement represents the total amount billed to date to RDECOM in accordance with the terms and conditions of the task order during the period of performance.

#### **(a) Labor**

Whereas Task Order No. 0052 is a CPFF task order under the RDECOM contract, Leidos, Inc. billed labor hours to RDECOM at Leidos, Inc.'s DCMA approved Provisional Billing Rates.

#### **(b) Materials**

All other costs incurred by Leidos, Inc. under Task Order 0052 were billed to RDECOM at cost plus Leidos' applicable burdens at the provisional rates approved in the DCMA letter for Provisional Billing Rates dated April 15, 2014.

### **Note 4. Cost Categories**

The budget categories and the associated amounts reflect the total cost by category. The costs incurred reported on the Statement are presented in accordance with our proposal to RDECOM. All costs reported under 'Materials' are fully burden using the approved provisional rates.

**Notes to the Questioned Amounts Presented on the Special Purpose Financial Statement<sup>5</sup>**

**Note A: Questioned Costs – Subcontractor Cost Reasonableness**

Finding 2017-02 questions \$18,988 in costs based on Leidos' price analysis of labor rates that were below the labor rates paid under its subcontract with [REDACTED]

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<sup>5</sup> Alphabetic notes to the questioned amounts presented on the special purpose financial statement were developed by and are the responsibility of the auditor



### **Independent Auditor's Report on Internal Control**

Board of Directors  
Leidos, Inc.  
11955 Freedom Drive  
Reston, VA 20190

We have audited the special purpose financial statement ("Statement") of Leidos, Inc. (hereinafter "Leidos") for the period September 20, 2013 through September 19, 2015, and have issued our report on it dated September 19, 2017.

We conducted our audit in accordance with generally accepted 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.

#### ***Internal Control over Financial Reporting***

The management of Leidos is responsible for establishing and maintaining 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 agreements; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of accounting described in Note 2 to the Statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of Leidos' Statement for the period September 20, 2013 through September 19, 2015, we obtained an understanding of internal control. With respect to internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the Statement and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants (AICPA). 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not note findings on matters involving internal control and its operation that we consider to be a material weakness as defined above. However, we did identify one instance, described in the accompanying Schedule of Findings and Questioned Costs as finding 2017-01, which we consider to be a significant deficiency in internal control.

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

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

*Williams, Adley & Company PC, LLP*

Washington, D.C.  
September 19, 2017



## Independent Auditor's Report on Compliance

Board of Directors  
Leidos, Inc.  
11955 Freedom Drive  
Reston, VA 20190

We have audited the special purpose financial statement ("Statement") of Leidos, Inc. (hereinafter "Leidos") for the period September 20, 2013 through September 19, 2015, and have issued our report on it dated September 19, 2017.

We conducted our audit in accordance with generally accepted 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 resulting from violations of agreement terms and laws and regulations that have a direct and material effect on the determination of the Statement amounts.

### ***Compliance and Other Matters***

Compliance with agreement terms and laws and regulations applicable to Leidos is the responsibility of Leidos' management. As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of Leidos' compliance with certain provisions of agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

In performing our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. Evidence of possible fraud or abuse was not indicated by our testing.

Material instances of noncompliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the Statement. The results of our tests did not disclose instances of noncompliance that are required to be reported under GAGAS. However, we identified two instances of noncompliance that are not material to the Statement, which are required to be reported in accordance with the contract with SIGAR. These instances of noncompliance are described in the

accompanying Schedule of Findings and Questioned Costs as findings 2017-01 and 2017-02.

***Restriction on Use***

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

*Williams, Adley & Company - DC, LLP*

Washington, D.C.  
September 19, 2017

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## Attachment A – Schedule of Findings and Questioned Costs

### Finding 2017-01: Noncompetitive Procurement

**Nature of Finding:** Significant Deficiency in Internal Control and Noncompliance

**Condition:** We noted two awards Leidos made to vendors that were not subject to competition and for which Leidos did not produce a complete justification to support its decision not to subject these subcontracted awards to competition. Based on the scope of work in the subcontracts, the subcontractors, [REDACTED] and [REDACTED] were required to provide services such as technology planning, support, and review of systems or provide techniques, strategies, information management tools, software and services for the management and analysis of authoritative acquisition information. These types of services are widely available and not specialized to the awarded subcontractors.

The [REDACTED] contract required the subcontractor to provide all labor, management, supervision, supplies, material, and equipment to develop an operational contracting support command suite for the Joint Contingency Acquisition Support Office. The subcontractor was also tasked with coordinating with the Defense Logistics Agency and other DoD organizations to understand and capture technical requirements for hosting, developing and managing a web-based command suite. Further, [REDACTED] was required to provide engineering and technology innovation support for the Defense Acquisition Visibility Environment. The total contract value was [REDACTED].

[REDACTED] was required to provide data analysis and decision support for the Joint Contingency Contracting System and Acquisition Cross Servicing Agreement Global Automated Tracking and Reporting System. These services included providing development manager support for managing technology initiatives across the Systems Development Lifecycle and to develop, manage and complete individual project/tool releases within the Contingency Program. Further, [REDACTED] was required to provide engineering and technology innovation support for the Defense Acquisition Visibility Environment. The total contract value was [REDACTED]. Total amount of both the [REDACTED] and [REDACTED] contracts is \$1,186,964.

In its “Single/Sole Source Vendor Recommendation” forms, Leidos confirms that neither vendor has specialized or complex facilities or equipment that may be exclusive and vital to the work effort or other capability and/or capacity that makes either vendor the only source that can perform the work for which it was contracted.

The justification to contract with [REDACTED] was based on “it being a leader in DoD executive-level solutions development”, and having “pioneered the use of [REDACTED] and Development for DoD data and transactional services.” Further Leidos states that the project must be completed in 6 months or less and only a vendor with in-depth

understanding of the client, the DoD business mission area, and a proven track-record of rapid development in the DoD environment will be successful. The justification includes a statement that “use of a different vendor would entail excessive schedule risk” due to the need to become familiar with the client and subject matter. Leidos concludes its justification by stating it did not know of any other subcontractors available to perform the work.

Leidos justifies its sole source selection of [REDACTED] based on [REDACTED] current experience with the customer that “would require any other vendor at least 6 months to be ready to execute at the level [REDACTED] already can perform, resulting in a timeline and budget that would exceed the requirements for both. Leidos further explains that funding delays required completion of the required tasks in a shortened timeframe (thru May 2014), and that [REDACTED] was “the only source” with fully trained and experienced personnel immediately available to complete the tasks in the available time. This conclusion is based on Leidos’ perception that [REDACTED] has an excellent reputation with the client, exceptional understanding of the client’s operational requirements, and experience with all of the client’s tools in order to refine them into a complete expeditionary business suite. However, Leidos fails to provide a basis for determining how long it would take for any other vendor to execute at [REDACTED] level, which also is not defined, or how it arrived at its conclusion that [REDACTED] was the only source with fully trained and experienced personnel available to complete the tasks.

In our judgment, Leidos did not provide clear evidence to substantiate the claims made therein. Leidos management did not document in the procurement files how it determined the required level of expertise precluded selection on a competitive basis or follow its policies and procedures to provide adequate “market analysis” that demonstrated there were no acceptable alternative sources. RDECOM issued a scope of work for which the subcontracts were based on November 27, 2013; however, the subcontract with [REDACTED] was executed on January 7, 2014, and was extended through September 19, 2015; and for [REDACTED] the subcontract was not effective until May 19, 2014, and was for the period through September 27, 2014. These timeframes contradict, in part, Leidos’ basis for the sole source awards.

**Criteria:** *Title 48 CFR, Section 52.244-5 (a) “Competition in Subcontract” (a) The Contractor shall select subcontractors (including suppliers) on a competitive basis to the maximum practical extent consistent with the objectives and requirements of the contract.*

Per Leidos “Subcontract Administration” Policy, it states, [REDACTED]

Per Leidos, “Government – Single/Source Vendor Recommendation” form, [REDACTED]

[REDACTED]

**Cause:** Leidos did not fully meet the standard for sole source procurement because management assumed competition was not available to perform the required services and limited its selection process to vendors Leidos believed could provide the required services within the limited performance timeframe. Leidos issued a request for proposal (RFP) on December 2, 2013 to which [REDACTED] responded on December 5, 2013. Leidos did not present evidence the RFP was issued to any other firm. Although Leidos' subcontract administrator released a RFP on March 27, 2014 to support another RDECOM effort, Leidos did not provide evidence the RFP was issued to any vendor other than [REDACTED]. For these reasons, we determined the sole source vendor selection process was lacking in its market analysis of alternative sources and did not provide sufficient evidence to allow a prudent person to reasonably determine the same non-competitive selections.

**Effect:** Because Leidos' sole source awards to [REDACTED] in the amount of [REDACTED], and [REDACTED] in the amount of [REDACTED] did not fully comply with federal regulations and its internal policy concerning market analysis of alternative sources, Leidos may have prevented potential vendors from providing the government with a better value for the required services.

**Recommendation:** We recommend that Leidos improve its sole source selection documentation so that clear, objective evidence fully supports its claim that other vendors could not have adequately performed the required work, in the required timeframes, and at a better value to the Government.

**Finding 2017-02: Cost Reasonableness Determination****Nature of Finding:** Noncompliance

**Condition:** Leidos performed a price analysis of market rates for hourly compensation of certain labor categories that were not defined as to skills, level of experience required, or required degrees/certifications. This analysis was performed to provide a basis for comparison with the [REDACTED] or [REDACTED] subcontracted labor rates. Nevertheless, Leidos did not justify hourly labor rates for the [REDACTED] subcontract that exceeded those identified in the price analysis of market rates. Accordingly, we concluded that Leidos did not provide us adequate evidence of cost reasonableness for the [REDACTED] subcontract.

Thus, \$18,988 in costs incurred for the [REDACTED] subcontract were unreasonable. This amount represents the difference in the labor hour rate that was charged on the [REDACTED] contract and the maximum labor rate found in Leidos' price analysis. Specifically, the following presents the differences between amounts charged and maximum amounts identified in Leidos' price analysis:

| Labor Category                  | Hourly Rate Per Contract** | Original Contract Amount (rounded) | Hours*     | Maximum Rate per Price Analysis | Recalculated Contract Amount | Difference |
|---------------------------------|----------------------------|------------------------------------|------------|---------------------------------|------------------------------|------------|
| Senior Technical Architect/PM   | [REDACTED]                 | [REDACTED]                         | [REDACTED] | [REDACTED]                      | [REDACTED]                   | \$906      |
| Senior Technical Architect/SME  | [REDACTED]                 | [REDACTED]                         | [REDACTED] | [REDACTED]                      | [REDACTED]                   | \$5,210    |
| Technical Consultant/ Developer | [REDACTED]                 | [REDACTED]                         | [REDACTED] | [REDACTED]                      | [REDACTED]                   | \$1,417    |
| Senior Technical Architect/PM   | [REDACTED]                 | [REDACTED]                         | [REDACTED] | [REDACTED]                      | [REDACTED]                   | \$3,134    |
| Senior Technical Architect/SME  | [REDACTED]                 | [REDACTED]                         | [REDACTED] | [REDACTED]                      | [REDACTED]                   | \$0        |
| Technical Consultant/ Developer | [REDACTED]                 | [REDACTED]                         | [REDACTED] | [REDACTED]                      | [REDACTED]                   | \$8,321    |
| <b>TOTAL</b>                    |                            | \$967,465                          | 6,246      |                                 |                              | \$18,988   |

\*we estimated labor hours per labor category as Leidos did not provide a complete proposal with the hours for the de-obligated funds.

\*\*Per the [REDACTED] cost proposal and modifications 1 and 5.

**Criteria:** Pursuant to Title 48 CFR, at section 31.201-2, Determining Allowability:

"(a) A cost is allowable only when the cost complies with all of the following requirements:

- (1) Reasonableness.
- (5) Any limitations set forth in this subpart.

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

Pursuant to Title 48 CFR, section 31.201-3, Determining reasonableness:

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

**Cause:** Leidos did not meet the standard for cost reasonableness because Leidos management did not act prudently in the competitive selection of this subcontract. Leidos should have used hourly rates no greater than the price analysis' salary survey maximum for each labor category to determine the fixed price amount.

**Effect:** Because Leidos did not adequately determine cost reasonableness for the [REDACTED] contract, which included labor rates higher than the price analysis indicated, the Government was at increased risk of waste, fraud and abuse of Federal funds through the payment of excessive labor costs.

**Recommendation:** We recommend that Leidos:

1. Review the requirements for documenting the cost reasonableness of non-competitive awards under Federal contracts, and update its policy and procedures to ensure future compliance with these requirements, including justification for labor rates that exceed price analysis results, level of effort analysis for firm-fixed price contracts, and well-defined skill sets upon which an independent reviewer could compare labor rates with the required labor categories.
2. Provide the Department of Defense with support to justify the labor rates paid to [REDACTED] that exceeded the salary survey labor rates or reimburse the Department of Defense the \$18,988 in costs we questioned as unreasonable.

**Attachment B – Management’s Response to Audit Findings**

November 9, 2017

[REDACTED]  
Sr. Administrator Contracts

Williams, Adley & Company-DC, LLP  
1030 15th Street, NW, Suite 350 West  
Washington, DC 20005  
Attention: Ms. Valerie Young

Subject: Leidos response to “Leidos Final Draft (Audit F-106)”

Reference: a) Final Findings Letter received on 10/27/2017  
b) Leidos, Inc. Contract #W91CRB-11-D-0001-0052

Dear Ms. Young,

Leidos, Inc. is in receipt of Williams, Adley & Company’s final findings reference a) with regards to reference b) contract. Leidos is not in agreement with these findings and has the following to offer to dispute the findings.

Williams Adley has indicated it identified “ineligible” costs under reference a), citing “a material weakness in internal controls” that resulted in questioned costs in the amount of \$1,186,964. This finding pertains to costs incurred under reference b) for Leidos’ sub-contractors: [REDACTED] and [REDACTED]. Leidos disagrees with this finding as the subcontractor costs identified by Williams Adley are eligible under the contract and allowable under FAR Part 31. In fact, Williams Adley failed to cite any applicable contract provision or FAR with respect to the eligibility of costs. Their finding focused on the FAR Part 52.244-5 which speaks solely to the competition of subcontracts, which in Leidos’ view, has been misinterpreted.

Leidos maintains that FAR Part 52.244-5 “Competition in Subcontract” cited in your letter encourages competition; but does not make it an absolute requirement. Leidos selected “subcontractors on a competitive basis to the maximum practical extent consistent with the objectives and requirements of the contract” (Emphasis added). Williams Adley’s position that these subcontracts must be competitively bid is unsupported by applicable law and regulation.

Leidos has an approved purchasing system which has been audited by DCAA and External Auditors, Deloitte, with an unqualified opinion on its control environment. Leidos followed all aspects of its internal controls in completing a sole source award to these contractors and has provided sufficient documentation to support the awards.

Finally, the government received value for services performed by the subcontractors in question and the auditor’s preliminary finding that the entire value of the subcontracts should be disallowed is unreasonable.

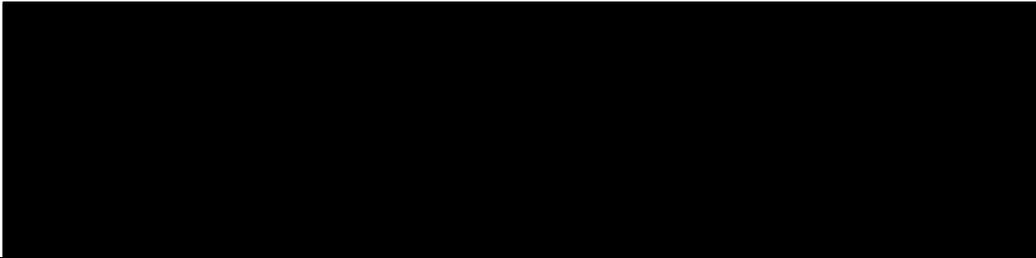


Leidos has taken the Findings for 2017-01 and 2017-02 from reference a) and provides the following responses.

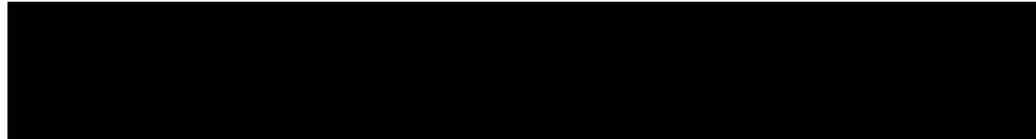
**Finding 2017-01: Noncompetitive Procurement**

Recommendation #1: provide the Department of Defense with an adequate justification as to why non-competitive awards were made to [REDACTED] and [REDACTED]. Justifications for noncompetitive subcontracts should include clear, objective evidence to support the claim that no other vendors could have adequately performed the required work, in the required timeframes, at a better value to the Government.

**Leidos response:** Leidos has provided Williams Adley the sole source justifications in support of our use of [REDACTED] and [REDACTED].



Leidos maintains that the supporting rationale contained in these documented justifications adequately supports these non-competitive procurements.



Recommendation #2: Reimburse the Department of Defense \$1,186,964 in costs we questioned for the noncompetitive awards, if justifications that meet federal requirements are not provided.

**Leidos response:** For the reasons stated in this letter, Leidos maintains that the government is not entitled to a reimbursement of any of the payments identified by Williams Adley. Moreover, even if Leidos agreed that a reimbursement of any amount was required, it would be inequitable for the Government to receive a full refund of all amounts paid. It is undisputed that satisfactory services were furnished by the subcontractors in question, and the Government should pay for the value of these services.

  
**Finding 2017-02: Cost Reasonableness Determination**

**Recommendation #1:** Review the requirements for documenting the cost reasonableness of non-competitive awards under Federal contracts, and update its policy and procedures to ensure future compliance with these requirements, including justification for labor rates that exceed market analysis results, level of effort analysis for firm-fixed price contracts, and well-defined skill sets upon which an independent reviewer could compare labor rates with the required labor categories.

**Leidos response:**

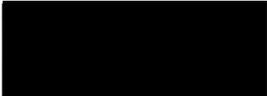


**Recommendation #2:** Provide the Department of Defense with support to justify the labor rates paid to [REDACTED] that exceeded the market survey labor rates; or reimburse the Department of Defense that portion of the questioned cost which was not reimbursed pursuant to Finding 2017-01 or \$187,871 in costs we questioned as unreasonable, whichever is greater.

**Leidos response:** Leidos has provided Williams Adley the sole source justification in support of our use of [REDACTED]. In addition, the previous explanation provided more details on the price analysis.

Ultimately we do not believe Leidos should be obligated to refund any amounts questioned. Should you have any question with regard to this request, please contact the undersigned at [REDACTED] or via phone at [REDACTED].

Respectfully,  
Leidos, Inc.



Sr. Administrator Contracts

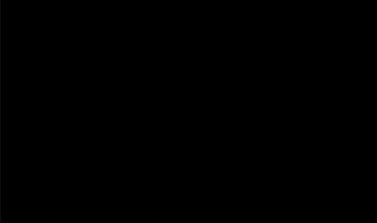
SIGAR – Charles Botwright ([Charles.a.botwright.civ@mail.mil](mailto:Charles.a.botwright.civ@mail.mil))

## Attachment C – Auditor’s Response to Management Comments

In consideration of the views presented by Leidos’s management, we present the following rebuttal or clarification to certain matters. The responses below are intended to clarify factual errors and provide context, where appropriate, to assist the users of this report in their evaluation of the findings and recommendations included herein. In those instances where management’s response did not provide new information or support to modify the facts and circumstances of the findings, and where management agrees with the findings presented, we have not provided a response.

### Finding 2017-01: Noncompetitive Procurement

Leidos management, in its official response to this finding and recommendations, disagrees with the finding and recommendations. Management asserts that Leidos selected “subcontractors on a competitive basis to the maximum practical extent consistent with the objectives and requirements of the contract,” followed all aspects of its internal controls in completing a sole source award to these contractors and has provided sufficient documentation to support the awards. 

 To further support its position, Leidos maintains that the Defense Contract Management Agency (DCMA) performed a review of Leidos’ Government Purchasing manual during an April 2017 Contractor Purchasing Systems Review (CPSR), which included reviews of other noncompetitive orders, and found the Noncompetitive Source Justifications policy to be acceptable in accordance with FAR 52.244-5 with no findings related to competition or documentation of noncompetitive orders.

We reviewed management’s response and determined the response was partially persuasive. Although management made assertions concerning its compliance with competitive requirements under FAR, the assertions are based on management’s judgment that it provided sufficient documentation to support the awards without specifically addressing the deficiencies we reported. For example, management does not address its own finding that neither contractor has specialized or complex facilities or equipment that may be exclusive and vital to the work effort or other capability and/or capacity that makes either vendor the only source that can perform the work for which it was contracted. Further, management appears to rely on a DCMA review of its procurement system instead of directly responding to the circumstances we described that, in our judgment, did not fully support the sole source awards. We also did not find that Leidos followed its policies and procedures to provide adequate “market analysis” that demonstrated there were no acceptable alternative sources. The market analysis Leidos provided us only determined a reasonable hourly labor rate, and even that did not

provide adequate description of how the market analysis was done or the skill sets for which the labor rates were being surveyed.

Management states that even if Leidos agreed that a reimbursement of any amount was required, it would be inequitable for the Government to receive a full refund of all amounts paid. Management concludes that the Government received value for services performed by the subcontractors in question and the auditor's preliminary finding that the entire value of the subcontracts should be disallowed is unreasonable.

We agree the government received services under the questioned subcontract awards. As such, we removed the \$1,186,964 in questioned costs originally included in finding 2017-01, that were based solely on the total value of the sole source procurements. Instead, we modified the finding to focus on the internal control deficiencies in the sole source procurement process we believe should be addressed.

### **Finding 2017-02: Cost Reasonableness Determination**

Leidos did not agree with this finding or recommendations. In management's official response, Leidos maintains that the rationale provided in the price analysis supports a price reasonableness determination in accordance with FAR/DFARS requirements. Management contends it followed its processes as it pertains to price analysis. Specifically, the price analysis for [REDACTED] utilized a FAR-based independent estimate technique using market based salary survey data to justify the reasonableness of the proposed fully burdened labor rates. Management also comments the labor rates that exceeded the high-end of the salary survey were justified because the subcontractor personnel exceeded the typical experience level for this type of work, which justified the higher rates as reasonable. Finally, management asserts that a separate technical evaluation was performed to address the reasonableness and allocability of the proposed labor hours.

Leidos did not present evidence to support management's position that the subcontractor personnel exceeded the typical experience level for the type of work being procured because the skill sets of other vendors' personnel were not provided in the price analysis to make such a comparison. We revised the questioned cost amount to reflect the difference in price paid between the [REDACTED] subcontract and the highest rate in the price analysis, which we believe is the rate Leidos should have used as the not-to-exceed basis for price negotiation.

## 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:

- Web: [www.sigar.mil/fraud](http://www.sigar.mil/fraud)
- 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
- Phone DSN International: 312-664-0378
- U.S. fax: +1-703-601-4065

## Public Affairs

Public Affairs Officer

- Phone: 703-545-5974
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Arlington, VA 22202