

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 18-62 Financial Audit

Department of Defense's Ministerial Development Program for the Afghan Ministry of Defense: Audit of Costs Incurred by DynCorp International LLC

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



SIGAR 18-62-FA/MDP-MOD

JULY
2018

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On February 12, 2010, the Department of the Army awarded a 2-year, \$232.4 million contract to DynCorp International LLC (DynCorp) to fund a ministerial development program for Afghanistan's Ministry of Defense (MOD). The purpose of the program was to provide mentoring, training, subject matter expertise, and programmatic support to assist the MOD in assuming full responsibility for its own security needs. The Army Contracting Command (ACC) administered the contract. It was modified 33 times, increasing the total amount to \$274.7 million and extending the period of performance to September 30, 2015.

SIGAR's financial audit, performed by Crowe LLP (Crowe), reviewed \$33,104,542 in reimbursable costs charged to the contract from April 30, 2014, through September 30, 2015. The objectives of the audit were to (1) identify and report on significant deficiencies and material weaknesses in DynCorp'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 DynCorp has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of DynCorp's Special Purpose Financial Statement (SPFS). See Crowe'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 Crowe did not comply, in all material respects, with U.S. generally accepted government auditing standards.

July 2018

Department of Defense's Ministerial Development Program for the Afghan Ministry of Defense: Audit of Costs Incurred by DynCorp International LLC

SIGAR 18-62-FA

WHAT THE AUDIT FOUND

Crowe identified two deficiencies in DynCorp's internal controls and one instance of noncompliance with the terms and conditions of the contract. Crowe found that DynCorp improperly charged the government \$154 in indirect costs as a result of a misallocated credit. The auditors also found that DynCorp did not use comparable positions when evaluating the reasonableness of salary rates, although Crowe concluded that the rates charged were reasonable.

As a result of these internal control deficiencies and instance of noncompliance, Crowe identified \$154 in total questioned costs, consisting entirely of ineligible costs—costs prohibited by the contract, applicable laws, or regulations. Crowe did not identify any unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
Services	\$154	\$0	\$154
Totals	\$154	\$0	\$154

Crowe identified two prior findings that required corrective action that could have a material effect on the SPFS or other financial information for the contract. The auditors determined that DynCorp had taken adequate corrective action in response to the findings.

Crowe issued an unmodified opinion on DynCorp's SPFS, finding that the statement presents fairly, in all material respects, the revenues earned, costs incurred, and balance for the indicated period under the contract.

WHAT SIGAR RECOMMENDS

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

- 1. Determine the allowability of and recover, as appropriate, \$154 in questioned costs identified in the report.**
- 2. Advise DynCorp to address the report's two internal control findings.**
- 3. Advise DynCorp to address the report's one noncompliance finding.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

July 18, 2018

The Honorable James Mattis
Secretary of Defense

The Honorable Mark T. Esper
Secretary of the Army

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 Crowe LLP (Crowe) to audit the costs incurred by DynCorp International LLC (DynCorp) under a Department of the Army contract to fund a ministerial development program for the Afghan Ministry of Defense.¹ Crowe's audit covered \$33,104,542 in expenditures charged to the contract between April 30, 2014, and September 30, 2015. Our contract with Crowe required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$154 in total questioned costs identified in the report.**
- 2. Advise DynCorp to address the report's two internal control findings.**
- 3. Advise DynCorp to address the report's one noncompliance finding.**

The results of Crowe'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 DynCorp's Special Purpose Financial Statement. We also express no opinion on the effectiveness of DynCorp's internal control or compliance with the contract, laws, and regulations. Crowe is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances where Crowe 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-116)

¹ The Department of the Army awarded contract number W91CRB-10-C-0030 to DynCorp to provide mentoring, training, subject matter expertise, and programmatic support to assist the Ministry of Defense in assuming full responsibility for its own security needs.



DynCorp International, LLC

**The Combined Security Transition Command – Afghanistan (CSTC-A)
Afghanistan Ministry of Defense Program Support, Islamic Republic of Afghanistan**

Special Purpose Financial Statement

For the Period April 30, 2014 – September 30, 2015

(With Independent Auditor's Report Thereon)

Table of Contents

TRANSMITTAL LETTER.....	1
SUMMARY.....	2
INDEPENDENT AUDITOR’S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT.....	5
SPECIAL PURPOSE FINANCIAL STATEMENT	7
NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT.....	8
NOTES TO THE QUESTIONED COSTS PRESENTED ON THE SPECIAL PURPOSE FINANCIAL STATEMENT	10
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL.....	11
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE.....	13
SECTION 1: SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	15
SECTION 2: SUMMARY SCHEDULE OF PRIOR AUDIT, REVIEW, AND ASSESSMENT FINDINGS	18
APPENDIX A: VIEWS OF RESPONSIBLE OFFICIALS	20
APPENDIX B: AUDITOR’S REBUTTAL.....	21



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TRANSMITTAL LETTER

July 2, 2018

To the Board of Directors and Management of DynCorp International, LLC
13500 Heritage Parkway
Fort Worth, Texas 76177

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

We appreciate the opportunity to provide to you our report regarding the procedures that we have completed during the course of our audit of DynCorp International, LLC's ("DynCorp") contract number W91CRB-10-C-0030 for the period April 30, 2014 through September 30, 2015.

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. We do not express an opinion on the summary or any information preceding our reports.

When preparing our report, we considered comments, feedback, and interpretations of DynCorp and the Office of the Special Inspector General for Afghanistan Reconstruction provided both in writing and orally throughout the audit planning and fieldwork phases. Management's final written responses will be incorporated into the final report.

Thank you for providing us the opportunity to work with you and to conduct the financial audit of DynCorp's contract task order.

Sincerely,

A handwritten signature in black ink that reads "John C. Weber".

John Weber, CPA, Partner
Crowe LLP

www.crowe.com

SUMMARY

Background

On February 12, 2010, the United States Department of the Army issued DynCorp International, LLC (“DynCorp”) a cost plus fixed fee contract, W91CRB-10-C-0030, to provide the Afghanistan Ministry of Defense (MoD) Program Support. The specific purposes of the contract were to provide the MoD with personnel to supply dedicated in-depth mentoring, training, subject matter expertise and programmatic support to CSTC-A staff and the Afghan MoD focused missions, functional areas and tasks listed in the Performance Based Statement of Work (PBSOW). The purpose of the support was to assist the MoD and associated Afghan National Army forces in assuming full responsibility for their own security needs.

The contract’s initial period of performance spanned from May 1, 2010, through April 30, 2012, with an option year of May 1, 2012, to April 30, 2013 and included an initial value of \$232,425,687, inclusive of both the cost and fixed fee amounts. Subsequent to the initial award, the contract was modified thirty-three times. Modification #24 dated October 17, 2013, extended the period of performance through December 31, 2014, and the thirty-second modification specified that the period of performance for certain contract line item numbers was extended through September 30, 2015. The thirty-third modification established the final contract value as \$274,653,493.

The audit’s scope includes activity within the period April 30, 2014 through September 30, 2015. Within the period under audit, DynCorp reported \$33,104,542 in reimbursable costs incurred.

Work Performed

Crowe LLP (“Crowe”) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) to conduct a financial audit of DynCorp’s contract.

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 DynCorp’s Special Purpose Financial Statement for the contract presents fairly, in all material respects, revenues earned, 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 DynCorp’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 DynCorp complied, in all material respects, with the contract’s 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.

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations

Determine and report on whether DynCorp 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

The scope of the audit included the period April 30, 2014, through September 30, 2015. The audit was limited to those matters and procedures pertinent to the contract that have a direct and material effect on the Special Purpose Financial Statement ("SPFS"). The audit also included an evaluation of the presentation, content, and underlying records of the SPFS. Further, 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 Costs;
- Allowable Activities;
- Cash Management;
- Equipment and Property Management; and
- Procurement.

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, assessment, and findings and review comments, as applicable.

For purposes of meeting Audit Objective 1 pertaining to the SPFS, transactions were selected from the financial records underlying the SPFS and were tested to determine if the transactions were recorded in accordance with accounting principles generally accepted in the United States of America; were incurred within the period covered by the SPFS and in alignment with specified cutoff dates; were appropriately allocated to the award if the cost benefited multiple objectives; and were adequately supported.

With regard to Audit Objective 2 regarding internal control, Crowe requested, and the auditee provided, copies of policies and procedures to provide Crowe with an understanding of the system of internal control established by DynCorp. The system of internal control is intended to provide reasonable assurance of achieving reliable financial 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 DynCorp and the United States Department of the Army, the Federal Acquisition Regulation ("FAR"), and the Defense Federal Acquisition Regulation Supplement, and the Army Federal Acquisition Regulation Supplement – the criteria against which to test the SPFS and supporting financial records and documentation. Using various sampling techniques, including, but limited to, audit sampling guidance for compliance audits provided by the American Institute of Certified Public Accountants, Crowe selected expenditures, invoices submitted to the Government for payment, procurements, property and equipment dispositions, and subcontracts issued under the contract and corresponding costs incurred. Supporting documentation was provided by the auditee and subsequently evaluated to assess DynCorp's compliance. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in accordance with the indirect cost rate memoranda issued by the Defense Contract Management Agency. We also performed procedures to determine if adjustments to billings that were based on preliminary or provisional rates were made, as required and applicable.

Regarding Audit Objective 4, Crowe inquired of DynCorp, the United States Department of the Army staff participating in the audit entrance conference, and SIGAR to understand whether or not there were prior audits, reviews, or assessments that were pertinent to the audit scope. Crowe also conducted an independent search of publicly available information to identify audit and review reports. As a result of the

forementioned efforts, we identified one prior report for review and evaluation. The report pertained to work performed under the subject contract during the period February 12, 2010 through April 29, 2014.

Summary of Results

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

Crowe issued an unmodified opinion on the SPFS.

Crowe also reported on both DynCorp's compliance with the applicable laws, rules, regulations, and the terms and conditions of the contract and the internal controls over compliance and financial reporting. Crowe reported two audit findings. The first finding is classified as a deficiency in internal control and instance of noncompliance, and the second finding is identified as a significant deficiency in internal control.

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to DynCorp's financial performance under the contract task order. Based on Crowe's communications with DynCorp and the U.S. Army staff members participating in the audit entrance conference, there was one such prior audit or assessment report. The report – SIGAR 15-61 Financial Audit entitled "Combined Security Transition Command-Afghanistan, Afghanistan Ministry of Defense and Afghan National Army Program Support and NATO Training Mission – Afghanistan / Combined Security Transition Command – Afghanistan, Afghanistan Ministry of Interior and Afghan National Police Mentoring/Training & Logistics Support Requirement." – was issued by SIGAR. Five findings were identified. Of the five findings, two required corrective action. **Section 2: Summary Schedule of Prior Audit and Review Findings** provides additional detail regarding the findings. Crowe noted that the findings were not repeated and considers the corrective action taken by management to be adequate.

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.

Finding No.	Finding Name	Questioned Costs
2018-01	Overbilling of Indirect Costs	\$154
2018-02	Use of Incomparable Entities and Positions for Procurement Rate Reasonableness	\$0
Total Questioned Costs		\$154

Summary of Management Comments

Management concurred with finding 2018-01, but did not concur with finding 2018-02 as management considered the procedures taken by its procurement personnel to be adequate.

References to Appendices

The auditor's reports are supplemented by two appendices: **Appendix A**, which contains management's responses to the audit findings, and **Appendix B**, which contains the auditor's rebuttal to management's comments.



INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

To the Board of Directors and Management of DynCorp International, LLC
13500 Heritage Parkway
Fort Worth, Texas 76177

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

Report on the Special Purpose Financial Statement

We have audited the Special Purpose Financial Statement ("the Statement") of DynCorp International, LLC ("DynCorp"), and related notes to the Statement, for the period April 30, 2014, through September 30, 2015, with respect to contract number W91CRB-10-C-0030.

Management's Responsibility for the 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"). 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 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.

(Continued)

Opinion

In our opinion, the Statement referred to above presents fairly, in all material respects, the revenues earned, 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 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 DynCorp in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction. The Statement presents those expenditures as permitted under the terms of contract number W91CRB-10-C-0030, which is a basis of accounting other than accounting principles generally accepted in the United States of America. DynCorp's inclusion of permitted expenditures is for the purpose of complying with the financial reporting provisions of the contract task order referred to above. Our opinion is not modified with respect to this matter.

Restriction on Use

This report is intended for the information of DynCorp, the United States Army, 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 July 2, 2018, on our consideration of DynCorp'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 DynCorp's internal control over financial reporting and compliance.


Crowe LLP

July 2, 2018
Washington, D.C.

SPECIAL PURPOSE FINANCIAL STATEMENT

**DynCorp International LLC
Contract No. W91CRB-10-C-0030
For the Period April 30, 2014, through September 30, 2015**

	<u>Questioned Costs</u>				
	<u>Funding</u> ¹	<u>Actuals</u> ²	<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
Revenue		\$ 29,575,423 ³			4
Costs					
CLIN 0001/0101, Services	\$ 189,272,633	\$ [REDACTED]			
CLIN 0002/0102, Travel & ODCs	22,907,604	[REDACTED]			
CLIN 0201, Services	47,788,962	[REDACTED]	\$ 154		A
CLIN 0202, Travel & ODCs	8,220,020	[REDACTED]			
CLIN 0301, Services	1,600,343	[REDACTED]			
CLIN 0302, Travel & ODCs	353,490	[REDACTED]			
Total	<u>\$ 270,143,052</u>	<u>\$ 33,104,542</u>			
Balance / Operating Income (Loss)		<u>\$ [REDACTED]</u>			6

1. The Funding amount is for the entire contract through contract modification 33 for the CLINs listed.
2. Represents actual revenue recognized and actual costs incurred and/or billed for the audit period of April 30, 2014 through September 30, 2015.
3. The Revenue amount is reflective of the audit period, which does not align with DI's calendar year reporting cycle.

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

DynCorp International
NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT
For the Period April 30, 2014 – September 30, 2015

Note 1. Basis of Presentation

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Contract Number W91CRB-10-C-0030 for the period April 30, 2014 – September 30, 2015. Because the Statement presents only a selected portion of the operations, it is not intended to and does not present the financial position, changes in net assets, or cash flows of DynCorp International. The information in this Statement is specific to the aforementioned Federal W91CRB-10-C-0030. 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 referenced in the clauses of the aforementioned contract, 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 amounts able to be recognized and to which DynCorp International is entitled to receive from the U.S. Army for allowable, eligible costs incurred under the contract and [REDACTED] of fees earned during the period of performance. This fee is included in the total revenue amount of \$29,575,422.93.

Note 5. Currency

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

Note 6. Balance

The balance presented on the Special Purpose Financial Statement in the amount of [REDACTED] represents the difference between revenues recognized and costs incurred and/or billed during the audit period. The loss experienced for this specific reporting timeframe is primarily due to 3 reasons. First, as requested, the costs exclude accrual reversals and other credits and adjustments that were associated to transactions outside of the audit timeframe. Second, as requested, the costs include the indirect costs billed during this timeframe as opposed to the costs incurred, which resulted in showing higher costs. Third, the revenues represent the amounts able to be recognized in accordance with generally accepted accounting principles for this timeframe. The specific period reporting requirements of the SPFS do not align with DI's typical financial reporting schedule.

Note 7. Program Status

The Combined Security Transition Command – Afghanistan contract is complete. The period of performance for the contract concluded on December 31, 2014.

Note 8. Funding Amount

The funding amount shown on the Statement represents the funded amount of these CLINs from inception through contract modification 33 effective September 20, 2017.

Note 9. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the April 30, 2014, through September 30, 2015, period covered by the Statement. Management has performed their analysis through July 2, 2018.

NOTES TO THE QUESTIONED COSTS PRESENTED ON THE SPECIAL PURPOSE FINANCIAL STATEMENT¹

Note A. Improper Indirect Cost Allocation

Finding 2018-01 identified \$154 in ineligible indirect costs billed that resulted from DynCorp improperly excluding a credit from the indirect cost base. Due to the base of application having been overstated, the amount of indirect costs invoiced exceeded those that should have been charged to the Government.

¹ Notes to the Questioned Costs Presented on the Special Purpose Financial Statement were prepared by the auditor for informational purposes only and as such are not part of the audited Statement.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Board of Directors and Management of DynCorp International, LLC
13500 Heritage Parkway
Fort Worth, Texas 76177

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 DynCorp International, LLC ("DynCorp"), and related notes to the Statement, for the period April 30, 2014, through September 30, 2015, with respect to contract number W91CRB-10-C-0030. We have issued our report thereon dated July 2, 2018.

Internal Control over Financial Reporting

DynCorp's 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 Statement in conformity with the basis of presentation described in Note 1 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 the Statement for the period April 30, 2014, through September 30, 2015, we considered DynCorp's internal controls to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of DynCorp's internal control. Accordingly, we do not express an opinion on the effectiveness of DynCorp's internal control.

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

Our consideration of internal control was for the limited purpose described in the second paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that 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. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs, as item 2018-02 that we consider to be a significant deficiency.

DynCorp's Response to the Findings

DynCorp's response to the findings was not subject to the auditing procedures applied in the audit of the 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 DynCorp, the United States Army, 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 LLP

July 2, 2018
Washington, D.C.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the Board of Directors and Management of DynCorp International, LLC
13500 Heritage Parkway
Fort Worth, Texas 76177

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 DynCorp International, LLC ("DynCorp"), and related notes to the Statement, for the period April 30, 2014, through September 30, 2015, with respect to contract number W91CRB-10-C-0030. We have issued our report thereon dated July 2, 2018.

Management's Responsibility for Compliance

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

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 one instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described as Finding 2018-01 in the accompanying Schedule of Findings and Questioned Costs.

DynCorp's Response to the Finding

DynCorp's response to the finding was not subjected to the auditing procedures applied in the audit of the 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.

(Continued)

Restriction on Use

This report is intended for the information of DynCorp, the United States Army, 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 LLP
Crowe LLP

July 2, 2018
Washington, D.C.

SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2018-01: Overbilling of Indirect Costs

Deficiency and Noncompliance

Condition: Crowe selected 8 of 80 reimbursement requests submitted to the Government for testing as part of its cash management procedures. During our testing of invoice CSTCS_01_0094, we noted that a credit in the amount of \$7,535 for subcontractor labor material handling was inappropriately excluded from DynCorp's material handling cost calculation. This exclusion resulted in an overcharge of \$154.

Criteria: Pursuant to FAR 31.201-5, *Credits*, "The applicable portion of any income, rebate, allowance, or other credit relating to any allowable cost and received by or accruing to the contractor shall be credited to the Government either as a cost reduction or by cash refund."

Questioned (Ineligible) Costs: \$154

Effect: The Government was improperly charged \$154.

Cause: The credit was inadvertently charged to a subcontractor labor account that does not receive a general and administrative cost allocation.

Recommendation: We recommend that DynCorp reimburse the Government \$154.

Finding 2018-02: Use of Incomparable Positions for Procurement Rate Reasonableness

Significant Deficiency

Condition: We selected 17 of DynCorp’s 85 procurements for internal control and compliance testing. During our procedures, we reviewed the reasonableness of labor rates used by two subcontractors (Arma Global and New Century). To determine the reasonableness of three labor categories billed by the subcontractors (Subject Matter Expert, Mentor, and Senior Mentor), DynCorp compared the billing rates to a Deloitte & Touche (“Deloitte”) Senior Manager III and a Booz Allen Hamilton (“BAH”) Senior Program Director. Review of documentation provided by DynCorp indicated that DynCorp considered the Deloitte and BAH positions to be appropriate based on years of experience and education requirements.

However, the documentation provided did not specify whether the nature of the services provided and required specific skillsets were comparable to those of the positions used for pricing comparisons. Based on the documentation provided, it could not be determined if the costs were reasonable.

To further assess reasonableness, we compared the rates referenced in the procurement support for both Arma Global and New Century to rates for two of DynCorp’s competitors (Titan Corporation and Triple Canopy). We concluded that the rates were reasonable such that we have not questioned any costs with respect to this matter.

Criteria: FAR 31.201-3, *Determining reasonableness*, states:

- (a) A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business. Reasonableness of specific costs must be examined with particular care in connection with firms or their separate divisions that may not be subject to effective competitive restraints. No presumption of reasonableness shall be attached to the incurrence of costs by a contractor. If an initial review of the facts results in a challenge of a specific cost by the contracting officer or the contracting officer’s representative, the burden of proof shall be upon the contractor to establish that such cost is reasonable.
- (b) What is reasonable depends upon a variety of considerations and circumstances, including—
 - (1) Whether it is the type of cost generally recognized as ordinary and necessary for the conduct of the contractor’s business or the contract performance;
 - (2) Generally accepted sound business practices, arm’s length bargaining, and Federal and State laws and regulations;
 - (3) The contractor’s responsibilities to the Government, other customers, the owners of the business, employees, and the public at large; and
 - (4) Any significant deviations from the contractor’s established practices.

DynCorp International Procurement Policy:

[REDACTED]

[REDACTED]



Questioned Costs: None

Effect: The risk that the USG will pay more for services than necessary or required.

Cause: DynCorp did not adequately document its explanation for its methodology used to perform the analysis, as outlined in their procurement policies.

Recommendation: We recommend that DynCorp follow its procurement policy regarding the explanation used to perform the analysis, and document the explanation appropriately.

SECTION 2: SUMMARY SCHEDULE OF PRIOR AUDIT, REVIEW, AND ASSESSMENT FINDINGS

Crowe reviewed one prior audit report that is applicable to The Combined Security Transition Command – Afghanistan, Afghanistan Ministry of Defense Program Support, Islamic Republic of Afghanistan project and that is pertinent to the audit objectives prescribed by SIGAR. The report contained five audit findings, two of which required corrective action. Following completion of our review, we conducted follow-up procedures on the matter as it could have a direct and material effect on the Statement or other financial information significant to the audit objectives. The matter is summarized below.

Finding No. 2015-01: Competitive Procurement and Reasonableness of Costs

Report: *SIGAR 15-61 Financial Audit, Combined Security Transition Command-Afghanistan, Afghanistan Ministry of Defense and Afghan National Army Program Support,*” issued by the Office of the Special Inspector General for Afghanistan Reconstruction.

Issue: DynCorp issued a subcontract to Alpha Omega Services, which it stated was competitively awarded. Supporting documentation in the procurement file was insufficient to support that the subcontract was competitively awarded. Therefore, the costs incurred under the subcontract were not considered to be reasonable based on the presence of adequate competition.

Status: During our testing of procurement, we did not identify any instances in which documentation supporting execution of competitive procedures was unavailable. In addition, no instances of unreasonable costs were identified. This matter is not repeated.

Finding No. 2015-02: Missing Items due to Lost Property Containers

Report: *SIGAR 15-61 Financial Audit, Combined Security Transition Command-Afghanistan, Afghanistan Ministry of Defense and Afghan National Army Program Support,*” issued by the Office of the Special Inspector General for Afghanistan Reconstruction.

Issue: Government property items selected for inspection were not able to be located. The total acquisition cost for the seven items was \$2,382. DynCorp was relieved of responsibility for the items subsequent to the audit period.

Status: No exceptions were noted with respect to equipment and property testing. The U. S. Government (“USG”) did not require additional corrective action with respect to the previously reported matter. This matter is not repeated.

Finding No. 2015-03: Certified Cost and Pricing Data

Report: *SIGAR 15-61 Financial Audit, Combined Security Transition Command-Afghanistan, Afghanistan Ministry of Defense and Afghan National Army Program Support,*” issued by the Office of the Special Inspector General for Afghanistan Reconstruction.

Issue: DynCorp did not obtain certified cost or pricing data to support the subcontract awarded to Alpha Omega Services and two modifications to the subcontract that exceeded \$700,000. The auditor's review of the procurement file did not indicate that any exceptions to the requirement to produce certified cost and pricing data were adequately supported.

Status: The USG did not require any corrective action to be taken with respect to the finding. No procurements were identified during the current audit that required certified cost or pricing data.

Finding No. 2015-04: Inadequately Supported Purchases of Consumables

Report: *SIGAR 15-61 Financial Audit, Combined Security Transition Command-Afghanistan, Afghanistan Ministry of Defense and Afghan National Army Program Support,* issued by the Office of the Special Inspector General for Afghanistan Reconstruction.

Issue: Documentation provided by DynCorp for six Alpha Omega Services invoices was insufficient to 1) determine the nature and volume of items classified as "consumables; and 2) verify that the consumables were received and utilized for project (contract) purposes.

Status: The USG did not require any corrective action to be taken with respect to the finding. We did not identify any instances in which DynCorp was unable to demonstrate that goods or services were received.

Finding No. 2015-05: Accuracy of Information DynCorp Provided for the Consent to Subcontract

Report: *SIGAR 15-61 Financial Audit, Combined Security Transition Command-Afghanistan, Afghanistan Ministry of Defense and Afghan National Army Program Support,* issued by the Office of the Special Inspector General for Afghanistan Reconstruction.

Issue: During review of the requests for consent to subcontract that DynCorp submitted to the Contracting Officer, the auditor noted that certain representations were inadequately supported, including representations that the services provided by Alpha Omega were commercial and that Alpha Omega was selected through adequate price competition.

Status: The USG did not require any corrective action to be taken with respect to the finding. Similar issues were not identified during the course of Crowe's procedures.

APPENDIX A: VIEWS OF RESPONSIBLE OFFICIALS



GFC 18 026

July 2, 2018

Mr. John Weber
Partner
Crowe LLP
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Washington, D.C. 20004-1008

Sub: DI Response to the Combined Security Transition Command – Afghanistan (CSTC-A) Special Purpose Financial Statement for the period April 30, 2014 – September 30, 2015 Draft Audit Report

Ref: A) Crowe LLP Draft Audit Report for the CSTC-A contract for the period April 30, 2014 – September 30, 2015, Subject: DynCorp Report and Rep Letter - Management Responses, Email Dated: June 22, 2018

Mr. Weber,

DynCorp International LLC (DI) is in receipt of Crowe LLP's (Crowe) draft audit report (Reference A), received June 22, 2018, concerning costs incurred under W91CRB-10-C-0030 (CSTC-A). DI appreciates the opportunity to provide this response and concurs in part with the draft audit report findings.

Finding 2018-01: Overbilling of Indirect Costs

Crowe found a credit amount that had been properly credited to the contract. However, the credit had been inadvertently excluded from the indirect rate base, which resulted in the contract not receiving the associated \$154 reduction in indirect costs. DI concurs with this position, but would like to correct Crowe's statement in the report. Crowe states that the credit was "excluded from DynCorp's general and administrative indirect cost calculation." The credit was actually excluded from DI's material handling rate calculation, not DI's general and administrative rate calculation. Notwithstanding, DI requests consideration of this, given the de minimis amount and the cost for each party to process the refund, and asks that this finding be closed with no further action.

Finding 2018-02: Use of Incomparable Positions for Procurement Rate Reasonableness

Crowe had \$0 questioned costs related to this finding, but considered this to be an internal control deficiency. Crowe opines:

However, the documentation provided did not specify whether the nature of the services provided and required specific skillsets were comparable to those of the positions used for pricing comparisons. Based on the documentation provided, it could not be determined if the costs were reasonable.

To further assess reasonableness, we compared the rates referenced in the procurement support for both [Subcontractors] to rates for two of DynCorp's competitors (Titan Corporation and Triple Canopy). We concluded that the rates were reasonable such that we have not questioned any costs with respect to this matter.

Crowe further states:

Cause: DynCorp did not adequately document its explanation for its methodology used to perform the analysis, as outlined in their procurement policies.

Recommendation: We recommend that DynCorp follow its procurement policy regarding the explanation used to perform the analysis, and document the explanation appropriately.

DI concurs that there should be \$0 questioned costs. But DI does not concur that this should be considered an internal control deficiency. DI believes that the procurement procedures within our approved Purchasing System were properly followed, which resulted in the U.S. Government receiving these services at the best price on the CSTC-A program, as explained below.

Both DI Subcontractors identified by Crowe were selected at the inception of the contract to provide mentoring and training support in fulfillment of contract requirements. The original award for each company was done on a competitive basis and both companies had been providing these services on the CSTC-A contract for many years. The actions under the respective purchase orders selected in the audit were Single-Sourced actions for the continuation of excellent services performed under the CSTC-A contract. Both companies proposed a slight decrease to their current daily rates. And in order to re-validate the reasonableness of the new daily rates, DI compared the various labor category rates to comparable positions at Booz Allen Hamilton (BAH) and Deloitte & Touche (D&T) from their respective GSA schedules. The positions at D&T were utilized as D&T has a significant presence in defense contracting. As stated in D&T's "Firm Overview" page in the procurement file, it states:

Deloitte & Touche LLP is one of the nation's largest and most respected professional services firms providing a business mindset combined with deep technical knowledge and extensive industry experience to creatively address business issues across the full spectrum of accounting, financial instrument valuation, **security and privacy**, governance, process improvement, data analytics, risk advisory disciplines and other management consulting services. Our clients number in the tens of thousands and range from Fortune 500 multinationals, to high-tech start-ups, to **federal, state, and local government agencies**, to not-for-profit charities and associations. (emphasis added)

As described in D&T's specific labor categories, these categories can cover all of the various lines of business in which D&T participates. For example, under Senior Staff – Sr. Consultant III (compared to an SME) it states:

Depending on the lines of business, Sr. Consultants may be CPAs, licensed in appropriate jurisdictions, or may hold advanced degrees, or **have previous work experience, or enhanced training or certifications in a specialized area of expertise.** (emphasis added)

And one of D&Ts lines of business is providing consulting and advisory services to the defense sector, making this a directly applicable comparison to either DI Subcontractor (Deloitte Defense & National Security).

BAH has an entire segment of its business dedicated to supporting defense and intelligence initiatives. Please reference the following link: BAH Defense & Intelligence. BAH's defense and intelligence clients include all four branches of the U.S. military, the Office of the Secretary of Defense, the Joint Staff, and others.

As described in BAH's labor categories, these categories can cover one or more designated functional and/or domain areas in which BAH participates. For example, under Functional / Subject Matter Expert (compared to an SME) it states:

Provides insight and advice concerning strategic direction and applicability of up to date, industry standard solutions. Is responsible for providing high level vision to program/project manager or senior client leadership to influence objectives of complex efforts. **The Functional/Subject Matter Expert is primarily utilized on projects for their specific expertise**, not in a managerial capacity, in support of the creation of comprehensive methods for describing current and/or future structure and behavior of an organization's processes, systems, personnel and organizational sub-units, so that they align with the organization's core goals and strategic direction. The **Functional/Subject Matter Expert is typically a former high ranking military or civilian official and recognized by industry as an expert in their specific field.** (Emphasis added)

One recent example to help illustrate this is BAH being awarded a contract from the U.S. Navy to maintain readiness and incorporate warfighting capabilities (BAH Navy Contract). BAH will provide technical, analytical and managerial support to ensure warfighting requirements are maintained, addressing maintenance, manpower, and training issues affecting readiness. It is this type of consulting and advisory services to the defense sector that makes this a directly applicable comparison to either DI Subcontractor.

Thus, the job category comparison was based on similar functions, education levels, and work experience. Also taken into consideration was military experience, a Secret Security Clearance, and physical fitness. The Procurement Analyst concluded that the proposed rates from the DI Subcontractors were favorable to those of other comparable positions. Thus, there was no need to risk any operational disruption by selecting another subcontractor to provide these services.

DI also received ACO consent on these specific purchase order actions. As stated in the consent:

8. Has the contractor (DI) performed adequate cost or price analysis or price comparisons and obtained accurate, complete, and current cost or pricing data, including required certifications?

Answer: Yes, please refer to the Justification of Award

Both ACO consents were provided prior to the issuance of the purchase orders.

Lastly and in response to Crowe's reference to Triple Canopy, DI was able to locate Triple Canopy's 2014 GSA schedule for OCONUS – High Threat Labor Rates. These rates were similar to those of Deloitte's GSA schedule, which further confirmed the integrity of the analysis done on DI's Subcontractors.

Both procurements followed the appropriate process and controls in accordance with DI's approved Purchasing System. And the procurements were properly analyzed and documented both internally and externally.

Section 2: Prior Audit Findings

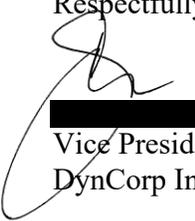
Crowe cites findings from the "SIGAR 15-61 Financial Audit" and concludes that none of these issues were found under the current assignment. DI concurs, but would also like to point out that, although the CSTC-A contract was one of two contracts reviewed under the aforementioned assignment number, none of the findings are attributable to the CSTC-A contract.

Final Comments

DI does concur with \$154 of questioned costs. But DI requests consideration of the costs for each party to process the refund and asks that this finding be closed with no further action. DI does not concur with the internal control finding as both procurements followed the appropriate process and controls in accordance with DI's approved Purchasing System. Furthermore, DI requests that this letter in its entirety be included in any report, finding, or memorandum issued as a result of this assignment.

Should you have any questions, please contact the undersigned at [REDACTED] or via email at [REDACTED]

Respectfully,



[REDACTED]
Vice President, Government Finance & Compliance
DynCorp International LLC

APPENDIX B: AUDITOR'S REBUTTAL

Crowe LLP ("Crowe" or "we" or "us") has reviewed the letter dated July 2, 2018, containing DynCorp International's ("DynCorp") responses to the draft audit report. In consideration of those views, Crowe has modified finding 2018-01 to clarify the applicable indirect cost calculation that was referenced. Regarding finding 2018-02, we did not identify any new information that changes the facts previously communicated to us and no new documentation was provided to demonstrate that the procurement file provided for audit adequately documented the comparable nature of the specific positions in question. Finding 2018-02 remains unchanged.

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- improve management and accountability over funds administered by U.S. and Afghan agencies and their contractors;
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