

SIGAR

Special Inspector General for
Afghanistan Reconstruction

SIGAR 18-20 Financial Audit

Department of Defense Task Force for
Business and Stability Operations' Effort to
Increase Self-Sufficiency of Special Operation
Forces in Afghanistan: Audit of Costs Incurred
by Alion Science and Technology Corporation

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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 29, 2012, the Department of Defense's (DOD's) Information Analysis Center awarded a 1-year, cost-plus-fixed-fee task order to Alion Science and Technology Corporation (Alion) to increase the self-sufficiency of U.S. Special Operation Forces by enabling them to use local resources and personnel to support mission objectives. The DOD's Task Force for Business and Stability Operations (TFBSO) provided \$2,078,398 towards the task order's estimated ceiling of \$48.3 million. The contract contained four specific tasks, to

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
The work included on-site engineering activities at Bagram Airfield in Afghanistan. After modification, the period of performance was extended from September 28, 2013, to September 28, 2015.

SIGAR's financial audit, performed by Williams, Adley & Company-DC LLP (Williams Adley), reviewed \$1,281,186 charged to the TFBSO-funded portion of the task order for the period of September 29, 2012, through September 28, 2015. The objectives of the audit were to: (1) identify and report on significant deficiencies or material weaknesses in Alion'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 Alion has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of Alion'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 William 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' Effort to Increase Self-Sufficiency of Special Operation Forces in Afghanistan: Audit of Costs Incurred by Alion Science and Technology Corporation

SIGAR 18-20-FA

WHAT THE AUDIT FOUND

Williams Adley found one internal control deficiency and one instance of noncompliance with the terms and conditions of the task order. Specifically, Alion's documentation did not support the allowability of labor costs reimbursed to Alion's subcontractor [REDACTED]. For example, labor categories and hourly rates billed were not consistent with the [REDACTED] subcontract, which Williams Adley identified as a material internal control weakness. In addition, Alion did not keep a complete copy of the subcontract in accordance with federal record retention regulations, which Williams Adley identified as an instance of noncompliance.

As a result of this internal control deficiency and instance of noncompliance, Williams Adley questioned \$606,106 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval. Williams Adley did not identify any ineligible costs—cost prohibited by the task order, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Labor	\$0	\$605,838	\$605,838
Non-Labor	\$0	\$268	\$268
Totals	\$0	\$606,106	\$606,106

Williams Adley reviewed prior audit reports and corrective action recommendations from Alion's financial statement audits, and identified a

[REDACTED]
[REDACTED]
[REDACTED]
Therefore, no relevant prior audit findings were noted.

Williams Adley issued a modified opinion on Alion's Special Purpose Financial Statement. It concluded that, except for the effects of the questioned costs noted, the statement presents fairly, in all material respects, revenue received, costs incurred, and items and technical assistance directly procured.

WHAT SIGAR RECOMMENDS

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

1. Determine the allowability of and recover, as appropriate, \$606,106 in questioned costs identified in the report.
2. Advise Alion to address the report's one internal control finding.
3. Advise Alion to address the report's one noncompliance finding.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

January 5, 2017

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 & Company-DC LLP (Williams Adley) to audit the costs incurred by Alion Science and Technology Corporation under a Department of Defense (DOD) Information Analysis Center cost-plus-fixed-fee task order to increase the self-sufficiency of U.S. Special Operation Forces by enabling them to use local resources and personnel to support mission objectives.¹ Williams Adley's audit covered \$1,281,186 in expenditures charged to the task order from September 29, 2012, through September 28, 2015. Our contract 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 contracting officer at the DOD Information Analysis Center:

- 1. Determine the allowability of and recover, as appropriate, \$606,106 in questioned costs identified in the report.**
- 2. Advise Alion to address the report's one internal control finding.**
- 3. Advise Alion to address the report's one noncompliance finding.**

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 Alion's Special Purpose Financial Statement. We also express no opinion on the effectiveness of Alion's internal control or compliance with grant agreement, laws, and regulations. Williams Adley is responsible for the attached auditor's report and the conclusions expressed in the report. 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.

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-110)

¹ DOD's Information Analysis Center awarded contract task order number FA4600-06-D-0003-0049 to Alion Science and Technology Corporation. The Task Force for Business and Stability Operations (TFBSO) provided \$2,078,398 towards the task order's estimated ceiling of \$48.3 million. Our audit only covered the costs charged to the TFBSO-funded portion of task order.

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

Financial Audit of Costs Incurred

by

Alion Science and Technology

Under

Contract Number FA4600-06-D-0003-0049

For the Period

September 29, 2012 to September 28, 2015

Submitted by



November 28, 2017

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Transmittal Letter

November 28, 2017

Board of Directors
Alion Science and Technology Corporation (Alion)
McLean, VA

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 the Alion contract task order number FA4600-06-D-0003-0049 with the United States Department of Defense, Task Force for Business and Stability Operations funded reconstruction program in Afghanistan.

On September 1, 2017, we provided SIGAR a draft report reflecting our audit procedures and results. Alion received a copy of the report on October 20, 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 Alion. Alion’s responses and our corresponding auditor analysis are incorporated into this report following our audit reports.

Thank you for providing us the opportunity to work with you and to conduct the audit of this Alion 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 15th 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 DoD contracted Alion Science and Technology Corporation (Alion) for services related to reconstruction activities in Afghanistan. The DoD Information Analysis Center entered into a cost plus fixed fee contract number FA4600-06-D-0003-0049, with Alion. The DoD Washington Headquarters Service (on behalf of the Task Force for Business and Stability Operations [TFBSO])¹ was a co-sponsor of the award, and provided \$2,078,398 of the contract's total estimated cost of \$48.3 million. This contract encompassed four specific tasks, which include: 1) [REDACTED] 2) Transportable Water Reclamation and Purification Systems; 3) Construction Techniques and; 4) [REDACTED]

The purpose of the contract was to support Developing Advanced Processes for Detached Operations (DAPDO), with the goal of increasing the self-sufficiency of deployed assets that are detached from typical logistical support while enabling deployed troops to utilize local resources and personnel to support mission objectives. Included in the work were on-site engineering activities at Bagram Air Field in Afghanistan.

Alion Science and Technology Corporation provides engineering, information technology, naval architecture, and operational solutions for defense, civilian government, foreign governments, and commercial industries worldwide. The company was founded in 2001 and is headquartered in McLean, Virginia.

Table 1: Alion Contract (TFBSO Portion)

Contract Number	Start date	End date	Total Estimated Cost of Contract (TFBSO Portion)	Actual Expenditures
FA4600-06-D-0003-0049	9/29/2012	9/28/2015	2,078,398	1,281,186

¹ TFBSO ceased operations on November 21, 2014

SIGAR contracted Williams, Adley & Company-DC, LLP (Williams Adley) to audit TFBSO funded costs incurred under contract FA4600-06-D-0003-0049 awarded to Alion. The period of performance for the Alion contract for audit purposes was September 29, 2012 through September 28, 2015. The actual expenditures incurred by Alion under this cost plus fixed fee contract were \$1,281,186.

Objectives

The objectives of the audit are to:

1. Special Purpose Financial Statement – Express an opinion on whether Alion’s Special Purpose Financial Statement for the award 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 award and generally accepted accounting principles or other comprehensive basis of accounting.
2. Internal Controls – Evaluate and obtain a sufficient understanding of Alion’s 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 Alion 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 Alion 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 portion of the cost plus fixed fee contract FA4600-06-D-0003-0049 executed for the period between September 29, 2012 and September 28, 2015.

1. We performed a financial audit of incurred costs by Alion under the award listed above that supported the TFBSO effort.
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 29, 2012 to September 28, 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, 2011 revision (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 Alion's 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 Alion, 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, travel, subcontract 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

Williams Adley issued a modified opinion on Alion's Special Purpose Financial Statement. We also reported on Alion's internal control and compliance with contract terms, laws and regulations. We identified material weaknesses or other reportable conditions for Alion's internal control or compliance with contract terms, laws and regulations as required under GAGAS.

There are two categories of questioned costs—ineligible and unsupported. Ineligible costs are those costs deemed unallowable in accordance with the terms of the contract and applicable laws and regulations, or are an unnecessary or unreasonable expenditure of funds. Unsupported costs are those costs for which Alion was unable to provide sufficient supporting documentation, including evidence of proper approvals, for Williams Adley to determine the accuracy and allowability of the costs. We identified one finding, which is considered a material weakness in internal control and reportable noncompliance issue, which resulted in questioned unsupported costs in the amount of \$606,106. This finding pertains to costs incurred under Alion's sub-contractor agreement with [REDACTED] as indicated below:

Finding	Description	Ineligible Costs	Unsupported Costs	Total Questioned Cost
2017-01	Sub-Contractor cost and monitoring	\$0	\$606,106	\$606,106
Totals			\$606,106	\$606,106

Status of Prior Audit Findings

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 the most recent two years of Alion's financial statement audits for which they received an unqualified opinion. The notes to these financial statements disclosed a going concern issue in 2013, which was mitigated in the following year's financial statement audit. [REDACTED]

[REDACTED] Therefore, we did not note any prior audit findings, the status of which were required to be reported herein.

Summary of Management Comments on Audit Report

According to management's response to the finding 2017-01, and as fully disclosed in Attachment B of this report, Alion disagreed with the finding on two major points. First, Alion asserts that the difference between the contract rates and the rates billed was \$42,000, and not the \$606,106 identified as questioned costs in the finding. Alion further asserts that even the \$42,000 is an allowable cost because of agreed-upon rate changes. Second, Alion considers the condition surrounding the monitoring of its subcontract with [REDACTED] as an isolated compliance issue and not a material weakness as reported by the auditor. Our response to management 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 Alion's 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
Alion Science and Technology Corporation
1750 Tysons Boulevard
McLean, VA 22102

Report on the Special Purpose Financial Statement

We have audited the special purpose financial statement of Alion Science and Technology Corporation (hereinafter "Alion") under contract number FA4600-06-D-0003-0049 for the period September 29, 2012 through September 28, 2015. The special purpose financial statement ("Statement") is the responsibility of Alion's 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 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.

Basis for Modified Opinion

We noted a material weakness in the monitoring and support for sub-contractor costs charged to the contract, which resulted in \$606,106 in unsupported questioned costs. The total questioned cost amount is considered material to the Statement.

Opinion

In our opinion, except for the effects of the \$606,106 in questioned costs noted in the Basis for Modified Opinion paragraph, the Statement referred to above presents fairly, in all material respects, the respective revenue received, costs incurred, and items and technical assistance directly procured by Alion for the period September 29, 2012 through September 28, 2015 in accordance with the terms of the agreement and in conformity with the basis of accounting described in Note 2.

Other Reporting Required by GAGAS

In accordance with GAGAS, we have also issued our reports dated August 25, 2017, on our consideration of Alion's internal control over financial reporting and on 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 Alion's internal control over financial reporting and compliance.

Restriction on Use

This report is intended for the information of Alion, Department of Defense, 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.
August 25, 2017

Alion Science and Technology Corporation
Special Purpose Financial Statement for Costs Incurred
 Under Task Order Number FA4600-06-D-0003-0049
 For the period of September 29, 2012 through September 28, 2015

	Budget ²	Actual	Ineligible Questioned Cost	Unsupported Questioned Cost	Notes ³
Revenues					
TFBSO - Funded Program	\$2,078,398	\$1,281,184			3
Total Revenue	\$ 2,078,398	\$1,281,184			
Costs Incurred					
Not to Exceed Value	\$2,078,398				2, 4
LABOR					
PREMIUM PAY					
SUBCONTRACTORS				\$606,106	A
DIRECT MATERIALS					
DIRECT / INDIRECT SERVICES					
EXPENSE					
INSURANCE					
TRAVEL					
ACCRUALS - SUBCONTRACTOR					
AND MATERIALS					
ACCRUALS - TRAVEL, ODCS AND					
OTHER					
SERVICE CENTERS					
Total Costs Incurred	\$ 2,078,398	\$1,281,184		\$ 606,106	
Outstanding Balance		\$0			

² The contract did not provide a specific cost breakdown for how the funds should be distributed.

³ The Notes to the Special Purpose Financial Statement are an integral part of the Statement

Alion Science and Technology Corporation
Notes to the Special Purpose Financial Statement⁴

NOTE 1 – BACKGROUND

The TFBSO funded program was in support of Developing Advanced Processes for Detached Operations (DAPDO) for the period of September 29, 2012 to September 28, 2015.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Alion accounts for all costs on the accrual basis in accordance with GAAP
- b. All costs are in US dollars

NOTE 3 – REVENUE
**NOTE 4 – COSTS INCURRED**

Categories of costs include direct labor, subcontract costs, travel costs, overhead, material handling and G&A.

NOTE 5 – TFBSO PROGRAM

TFBSO program funding is value that represents the budgeted amount and actual costs represent TFBSO funded costs claimed by Alion.

⁴ The Notes to the Special Purpose Financial Statement are the responsibility of Alion's management.

Notes to the Questioned Costs Presented on the Special Purpose Financial Statement⁵

Note A: Questioned Costs – Subcontractor Costs

Finding 2017-01 questions \$606,106 as Alion was unable to provide adequate support documentation for labor and other direct costs reimbursed to its sub-contractor,



⁵ Alphabetic notes to the questioned costs 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
Alion Science and Technology Corporation
1750 Tysons Boulevard
McLean, VA 22102

We have audited the special purpose financial statement ("Statement") of Alion Science and Technology Corporation (hereinafter "Alion") for the period September 29, 2012 through September 28, 2015, and have issued our report on it, dated August 25, 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 Alion 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.

Purpose of this Report

In planning and performing our audit of Alion's Statement for the period September 29, 2012 through September 28, 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 noted 1 finding on matters involving internal control and its operation that we consider to be a material weakness as defined above, which is described in Finding 2017-01 in the Schedule of Findings and Questioned Costs.

Restriction on Use

This report is intended for the information of Alion, the Department of Defense, 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.
August 25, 2017



Independent Auditor's Report on Compliance

Board of Directors
Alion Science and Technology Corporation
1750 Tysons Boulevard
McLean, VA 22102

We have audited the special purpose financial statement ("Statement") of Alion Science and Technology Corporation (hereinafter "Alion") for the period September 29, 2012 through September 28, 2015, and have issued our report on it dated August 25, 2017.

We conducted our audit 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 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 Alion is the responsibility of Alion's management. As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of Alion's 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. The results of our tests disclosed one instance of noncompliance that is required to be reported under GAGAS, which is presented as Finding 2017-01 in the Schedule of Findings and Questioned Costs.

Restriction on Use

This report is intended for the information of Alion, the Department of Defense, 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.

August 25, 2017

Attachment A – Schedule of Findings and Questioned Costs**Finding 2017-01 – Monitoring Subcontractor Costs****Nature of Finding:** Material Weakness in Internal Control and Noncompliance

Condition: We reviewed 17 out of 19 expenditures made to Alion's subcontractor, [REDACTED] based on a random sample of transactions selected for testing, which were valued at \$636,573. The [REDACTED] invoices consisted of labor, travel and other direct cost (ODC) including \$589,896 for labor, \$32,836 for travel and \$13,841 in ODC. The ODC was for Defense Base Act insurance. We identified the following issues in our review of these transactions:

1. [REDACTED] invoices for the 17 transactions sampled did not include a description of the labor category being billed for each employee. While the subcontract included only labor categories labeled as SOF Liaison and Senior SOF Liaison, the [REDACTED] invoices only included labor categories of CONUS and OCONUS. Therefore, we were unable to determine the hourly rate at which the employee should be billed per the subcontract terms.
2. Hourly rates at which [REDACTED] employees were billed were inconsistent with the two hourly labor rates stated in the subcontract. The subcontract included a SOF Liaison with a hourly rate of \$112.47 and a Senior SOF Liaison with a hourly rate of \$187.50. Our review of [REDACTED] invoices revealed seven labor rates billed to Alion, ranging from \$95.10 per hour to \$220.14 per hour, which were not identified in the subcontract.
3. ODC and travel costs itemized on the [REDACTED] invoices were not accompanied by supporting documentation that validated the costs incurred and billed. For one sample, Alion did not provide travel and ODC supporting documentation totaling \$261 for the billed costs when requested to do so.
4. Alion was able to provide documentation supporting the qualifications of the employees billed by [REDACTED], however, the relationship between the employees' qualifications and the position requirements were not provided.
5. [REDACTED] invoices were not certified with the required language attesting to the accuracy of the data contained within the invoice as required under the terms of the contract.
6. Alion did not retain the complete subcontract with [REDACTED] specifically Attachment I, which described the available labor categories under the subcontract.

For these reasons, we concluded Alion was unable to support the allowability of labor costs reimbursed to their subcontractor, [REDACTED] which totaled \$589,896 in labor costs and \$261 in non-labor costs; and which also impacted Alion's [REDACTED]

Criteria: Pursuant 48 CFR, subsection 31.201-2(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 that is inadequately supported.

Per the terms of the contract between Alion and [REDACTED]

1. "Subcontractor shall furnish personnel that meet the qualifications of the labor categories described in ATTACHMENT I or any Order where labor category qualifications are provided. Subcontractor shall submit to Alion sufficient information on each person assigned to Time-and-Materials or Labor-Hour Orders and certify each person meets the qualifications of the labor category. Alion will not reimburse Subcontractor for any person who does not meet the qualifications of the labor category invoiced."
2. Invoices shall contain the following information:
 - a. Agreement Number and Purchase Order Number;
 - b. Description of Work performed including that of any lower-tier subcontractor(s) whose costs are included in the Subcontractor's invoice;
 - c. Labor categories, hours billed and rates in accordance with those set forth in this Agreement, including required supporting documentation such as timesheets;
 - d. ODCs incurred and appropriate burdens if allowable, including appropriate supporting documentation such as receipts for all costs;
 - e. The following certification: "I HEREBY CERTIFY, TO THE BEST OF MY KNOWLEDGE AND BELIEF, THAT THE COSTS PRESENTED HEREIN ARE CURRENT, ACCURATE AND COMPLETE AS OF THIS DATE."

Cause: Alion explained that in 2013 it faced significant objections from subcontractors concerning its requirement to include supporting source documents with their invoices. Consequently, Alion determined that this requirement was excessive and overly burdensome, and therefore, changed its policy to no longer require subcontractors to submit copies of timesheets or source documents to support travel and ODC costs itemized on [REDACTED] invoices. We determined that Alion did not enforce all the terms and conditions of its subcontract and did not properly consider its federally mandated responsibility to fully support all costs incurred on its Federal contract when it made its decision to not require source documents with subcontractor submitted invoices, which inhibited Alion's ability to adequately monitor and validate subcontractor billing statements. Alion also did not develop alternative procedures, such as subcontractor preservation and submittal of source documents to Alion upon demand, to ensure

accountability of costs incurred and compliance with requirements to maintain such records.

Further, because management did not maintain proper control over its contracting files, Alion was unable to properly monitor the subcontract or provide "Attachment I" to the subcontract, which describes the Statement of Work and the required employee qualifications to perform the work. The failure to retain a key component of the subcontract with [REDACTED] contributed to our inability to obtain additional evidence that may have explained the difference between labor categories contained in the body of the subcontract and the labor categories billed by [REDACTED]

Effect: The absence of sufficient, adequate contract source documentation to support subcontract invoice payments resulted in labor and non-labor unsupported questioned costs. Because contract labor rates differed from those on [REDACTED] invoices to the extent that the allowability of costs incurred for the subcontractor could not be determined, \$605,838 in labor costs [REDACTED] billed to Alion were questioned as unsupported cost. Further, because Alion could not provide documentation to support one non-labor transaction we tested, \$268 in subcontractor travel and ODC were questioned. The total questioned cost was calculated as follows:

Cost Category	Direct Cost	M&H	G&A	Total
Labor	[REDACTED]	[REDACTED]	[REDACTED]	\$605,838
Non-Labor	[REDACTED]	[REDACTED]	[REDACTED]	\$268
Total				\$606,106

By not properly monitoring subcontractor costs and enforcing subcontract terms, a material internal control weakness existed under the audited Alion contract that increases the risk of waste, fraud and abuse of Federal funds. Further, Alion was not in compliance with federally mandated record retention requirements, and the Federal Government may have overpaid for services supporting Afghan reconstruction activities.

Recommendation: We recommend that Alion:

1. Improve internal controls related to subcontractor billing and payments by developing and implementing procedures to require validation of billed labor rates with those agreed to in the subcontract and ensuring that source documents are retained as required by federal regulation to support subcontractor labor, ODC and travel costs for audit purposes; one aspect of which would be the retention of key subcontract provisions that assist in defining labor categories and requirements.
2. Provide DoD with adequate supporting documents or reimburse DoD for that portion of the \$606,106 in costs incurred under the [REDACTED] subcontract that we questioned, and which DoD determines is unallowable.

Attachment B – Management’s Response to Audit Findings

On August 21, 2017, Alion’s management provided its position on the finding and recommendations in the following response:

Alion has reviewed the Notice of Findings and Recommendation (NFR) received from Williams Adley (WA) regarding Subcontractor Cost and Monitoring. We disagree with these findings:

- The recommendation to disallow \$606,106, and
- That the conditions cited surrounding the monitoring of the [REDACTED] subcontract represent a material weakness.

The basis for our disagreements are as follows:

Williams Adley determined that the subcontractor, [REDACTED] billed T&M rates to Alion that were different from the rates specified in the T&M subcontract between Alion and [REDACTED]. Since the auditor could not determine the labor category for the billed hours, Williams Adley disallowed the entire amount billed rather than the difference between the contract rates and the rates billed.

Alion determined that the difference between the contract rates and the rates billed was \$42,000. To determine this amount, Alion consulted with the subcontractor and with the Alion program manager on the prime contract to match each employee against the applicable labor category that was invoiced to Alion. We then calculated the cost that should have been billed under the T&M contract terms, and determined the amount to be \$42,000. Since the government received value for the work performed by [REDACTED] Alion believes that the maximum audit disallowance should be limited to only the difference between the contract rates and the billed rates.

Alion also determined that the reason [REDACTED] billed different rates than the T&M contract rates was that Alion and [REDACTED] had entered into an agreement to modify the T&M contract to include different rates and additional labor categories. Alion has written correspondence regarding this agreement to include a total of seven (7) labor categories, as ultimately invoiced by [REDACTED]. Therefore, Alion submits that the \$42,000 difference between the contract rates and the billed rates further represents valid costs under the prime contract, because both parties intended to modify the subcontract agreement in accordance with the mutual understanding of the parties.

Alion disagrees that the cited conditions represent a material weakness. Instead, we believe that the condition is better classified as an isolated compliance issue. The subcontract template utilized for the [REDACTED] agreement was an old template in which subcontractor invoices were to provide copies of timesheets or copies of invoices. However, during FY 13, due to significant objections from numerous subcontractors, particularly small businesses, we determined that this requirement was excessive and

overly burdensome. Therefore, Alion changed its policies, and currently Alion eliminated the requirement in FY13 and no longer requires subcontractors to submit copies of timesheets or invoices with their bills.

Since Alion has changed its practices, and since [REDACTED] failure to include source documents with the invoice had no impact on the allowability of the cost incurred or billed, we believe that the control failure did not place unreasonable risk on the government. During this audit period, [REDACTED] provided the timesheets and invoices for the requested samples, and [REDACTED] certified its billings on this subcontract for the entire duration of the subcontract during this audit. In addition, during the time of the subcontract performance, Alion regularly observed workplace activities and provided advance travel authorizations which facilitated our ability to approve invoices from [REDACTED] as valid costs. Because of all of these factors, we believe the condition is an isolated compliance issue rather than a material weakness.

Subsequent to the issuance of the draft audit report, Alion's management issued the following response on October 24, 2017:

Alion's initial response to Williams Adley (WA) was provided on August 21, 2017 in response to the Notice of Findings and Recommendation regarding subcontractor cost and monitoring. Since that time, Alion has provided additional documentation that further supports the T&M labor categories and rates that [REDACTED] billed to Alion in support of the TFBSO funded program under audit. The following documentation has been provided, since the date of the exit conference on August 25, 2017:

- Quarterly status reports that cover TFBSO activities
- Certified [REDACTED] timesheets to support all labor hours billed to Alion
- Subcontract TO modification to reflect updated T&M rates
- [REDACTED] unsanitized pricing file that further supports the build-up of the rates billed.

The aforementioned documentation fully supports all rates and hours that [REDACTED] billed to Alion. Further, Alion was able to determine that [REDACTED] recorded and certified the labor hours prior to billing Alion.

Alion and [REDACTED] modified the TFBSO subcontract task order to represent all T&M contract rates that were previously agreed upon, during contract performance, via email and phone conversations. There is no variance between the billed rates and the contract T&M rates in the modified TO. Additionally, Alion was able to ascertain that [REDACTED] discounted their T&M rates. This discount was passed on to Alion, and Alion passed on the discount to the government, which added additional value and cost savings to the government.

Attachment C – Auditor’s Response to Management Comments

In consideration of the views presented by Alion’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: Monitoring Subcontractor Costs

Alion believes that the maximum audit disallowance should be limited to only the difference between the contract rates and the billed rates. Alion stated that it had entered into an agreement with [REDACTED] to modify the T&M contract to include different rates and additional labor categories. Alion determined that the difference between the contract rates and the rates billed was \$42,002 using the original contract as the basis for its calculations. Alion asserts that even the \$42,002 should be an allowable cost when considering the modified rates agreed to between Alion and [REDACTED]

We could not independently validate Alion’s computations without sufficient evidence that the labor category each person was billed under was correct and each person met the minimum requirements for the position being billed. Although [REDACTED] provided, in response to the audit finding, copies of timesheets and resumés and a global certification that its billings were correct and accurate, the [REDACTED] invoices were not in compliance with the contract, which required listing the labor categories for which the persons were being billed. Further, without Attachment I to the contract, which we requested but did not receive, and which described the labor category qualifications, the resumés provided by [REDACTED] were not useful. In terms of the modified labor rates, Alion presented emails as evidence of a mutual agreement between the parties for revisions to labor categories and labor rates, but could not produce a written and signed contract modification addressing this issue, as requested. Further, Alion’s calculations do not consider [REDACTED] [REDACTED] for which the government was overcharged.

Alion disagrees that the cited conditions represent a material weakness. Alion changed its policies, and according to Alion’s response, it eliminated the requirement in FY13 and no longer requires subcontractors to submit copies of timesheets or invoices with their bills. According to Alion, since it has changed its practices, and since [REDACTED] failure to include source documents with the invoice had no impact on the allowability of the cost incurred or billed, Alion believes the control failure did not place unreasonable risk on the government. During this audit period, Alion states that [REDACTED] provided the timesheets and invoices for the requested samples, and [REDACTED] certified its billings.

Further, Alion believes that the quarterly status reports that cover TFBSO activities, certified [REDACTED] timesheets to support all labor hours billed to Alion, the subcontract modification reflecting updated T&M rates, and [REDACTED] unsanitized pricing file that further supports the build-up of the rates billed, fully supports all rates and hours that [REDACTED] billed to Alion. In addition, during the time of the subcontract performance, Alion commented that it regularly observed workplace activities and provided advance travel authorizations, which facilitated its ability to approve invoices from [REDACTED] as valid costs, and that it was able to determine [REDACTED] recorded and certified the labor hours prior to billing Alion. Therefore, Alion believes the condition the auditor observed is better classified as an isolated compliance issue.

We determined the requirement for subcontractors to provide supporting documents for the costs incurred was changed in 2016. [REDACTED] should have provided all support for the invoices prior to 2016 (and subsequent thereto based on Federal regulations), included the correct labor category for every employee billed on the invoice per the terms of the contract, and certified the invoices as being a true reflection of the costs incurred by using language stipulated in the contract. The certification referenced by Alion in its response is an after the fact certification and is not reflected on the invoices [REDACTED] submitted as required by the terms of the agreement between Alion and [REDACTED]. We determined that Alion did not conduct any audits of its sub-contractor, [REDACTED] itself has not received an independent audit, and Alion did not require [REDACTED] to provide support, even on a test basis, for the amounts billed to Alion. Alion's statement that providing advance travel authorizations facilitated its ability to validate [REDACTED] costs only represented a small fraction of the total amount billed and paid. Our conclusion that these circumstances represented a material weakness in internal control and not an isolated incident remains unchanged.

For the reasons presented above, we determined the finding and recommendations should remain as stated.

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