

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 18-44 Financial Audit**

## Department of the Army's Afghan National Army Communications Equipment Training and Sustainment Projects: Audit of Costs Incurred by DRS Global Enterprise Solutions

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



APRIL  
2018

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On September 7, 2012, the Army Contracting Command (ACC) issued \$17,309,800 task order 0005 under contract W15P7T-10-D-D416 to DRS Global Enterprise Solutions (DRS). The purpose of the task order was to advise the Afghan National Army (ANA) on using tactical ground communications systems equipment and accessories provided by the U.S. government. In addition, the task order required DRS to provide training and technical assistance to the ANA's systems repair technicians. The task order was modified 14 times. The seventh modification exercised the option year, which increased the funding to \$35,141,469, and the twelfth modification extended the period of performance from September 7, 2013 to December 31, 2014. In June 2015, SIGAR issued a financial audit examining \$13.7 million incurred costs charged to the task order from June 17, 2012, through September 30, 2013.

SIGAR's financial audit performed by Crowe Horwath LLP (Crowe) reviewed \$15,679,975 in expenditures that DRS charged to the task order from September 30, 2013, through December 31, 2014. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in DRS'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 DRS has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of DRS'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.

April 2018

## Department of the Army's Afghan National Army Communications Equipment Training and Sustainment Projects: Audit of Costs Incurred by DRS Global Enterprise Solutions

SIGAR 18-44-FA

### WHAT THE AUDIT FOUND

Crowe identified one significant deficiency and one material weakness in DRS's internal controls, and two instances of material noncompliance with the terms and conditions of the task order and applicable regulations. Crowe found that DRS did not have receipts for 9 of 25 purchased items and 13 of 25 pieces of U.S. government furnished property. In addition, Crowe determined that DRS's property records were incomplete because the final inventory did not include the purchase price for certain items.

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

Crowe identified one prior finding with potential material effects on the SPFS. The finding was in a SIGAR audit of two prior DRS task orders to provide similar services for the ANA and the Afghan National Police (see SIGAR, *Department of the Army's Afghan National Police and Afghan National Army Communications Equipment Training and Sustainment Projects: Audit of Costs Incurred by DRS Technical Services, Inc.*, SIGAR 15-63-FA, June 17, 2015). Specifically, the auditors found that the DRS project director billed the government in excess of the 72 hours authorized per week without first obtaining approval from the contracting officer. Crowe tested DRS's compliance and noted that this matter was not repeated.

Crowe issued an unmodified opinion on DRS's SPFS, noting that it presents fairly, in all material respects, revenues received, and costs incurred for period indicated.

### WHAT SIGAR RECOMMENDS

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

1. Advise DRS to address the report's two internal control findings.
2. Advise DRS to address the report's two noncompliance findings.



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

April 23, 2018

The Honorable James N. 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 Horwath LLP (Crowe) to audit the costs incurred by DRS Global Enterprise Solutions (DRS) under the Army Contracting Command task order to support Afghan National Army communications equipment training and sustainment projects.<sup>1</sup> Crowe's audit reviewed \$15,679,975 in expenditures that DRS charged to the task order from September 30, 2013, through December 31, 2014. 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. Advise DRS to address the report's two internal control findings.**
- 2. Advise DRS to address the report's two noncompliance findings.**

The results of Crowe's audit are discussed in detail in the attached report. We reviewed Crowe's report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on DRS's Special Purpose Financial Statement. We also express no opinion on the effectiveness of DRS's internal control or compliance with the task order, laws, and regulations. Crowe is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances in which 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-115)

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<sup>1</sup> The Army Contracting Command awarded task order 0005-option year under contract number W15P7T-10-D-D416 to DRS. The task order's purpose was to advise the Afghan National Army on using tactical ground communications systems equipment and accessories provided by the U.S. government.



**DRS Global Enterprise Solutions**

**Afghanistan National Army Communications Equipment Service  
Mentoring, Systems Engineering and Technical Assistance and Training and Maintenance Radio  
Sustainment**

**Special Purpose Financial Statement**

**For the Period September 30, 2013, through December 31, 2014**

**(With Independent Auditor's Report Thereon)**

## Table of Contents

<b>TRANSMITTAL LETTER.....</b>	<b>1</b>
<b>SUMMARY.....</b>	<b>2</b>
<b>INDEPENDENT AUDITOR’S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT.....</b>	<b>6</b>
<b>NOTES TO THE QUESTIONED COSTS PRESENTED ON THE SPECIAL PURPOSE FINANCIAL STATEMENT .....</b>	<b>10</b>
<b>INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL.....</b>	<b>11</b>
<b>INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE.....</b>	<b>13</b>
<b>SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....</b>	<b>15</b>
<b>SECTION 2: SUMMARY SCHEDULE OF PRIOR AUDIT, REVIEW, AND ASSESSMENT FINDINGS .....</b>	<b>17</b>
<b>APPENDIX A: VIEWS OF RESPONSIBLE OFFICIALS .....</b>	<b>18</b>



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**Crowe Horwath LLP**

Independent Member Crowe Horwath International

1455 Pennsylvania Avenue, N.W., Suite 700  
Washington, D.C. 20004-1008

Tel +1 202 624 5555

Fax +1 202 624 8858

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

## Transmittal Letter

April 5, 2018

To the General Manager of DRS Global Enterprise Solutions and the Senior Management of  
Leonardo DRS  
12930 Worldgate Drive, Suite 700  
Herndon, Virginia 20170

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 DRS Global Enterprise Solutions' ("DRS") contract delivery order with the United States Department of the Army funding the provision of support to the Afghanistan National Army Communications Equipment Service Mentoring, Systems Engineering and Technical Assistance and Training and Maintenance Radio Sustainment.

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 DRS 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 have been incorporated into this final report as an appendix.

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

Sincerely,

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

Bert Nuehring, CPA, Partner  
Crowe Horwath LLP

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

## Summary

### Background

On September 7, 2012, the United States Army Contracting Command (ACC) issued DRS Global Enterprise Solutions ("DRS") – formerly DRS Technical Services, Inc. – a cost plus fixed fee delivery order under contract W15P7T-10-D-D416. The award was the fifth delivery order issued under the contract. The purpose of the task order was to advise the Afghan National Army ("ANA") on using the U.S. Government furnished Tactical Ground Communications Systems-Electronic equipment and accessories. DRS assisted in providing training, technical assistance and advising the tactical communication system repair technicians at all levels for the ANA. Communication systems supported through the task order included, but were not limited to, the following:

- RT-1077 Mobile Station;
- PRC 1077 – Man Pack;
- KRC 1077 – Encrypted Radio Systems;
- MT 1077 – Audio Amplifier;
- AM 1077 – Power Converter / VHF amplifier;
- ICOM Radios ABB 100 HF Antenna; and
- OE-254 Feed cone for antenna system.

The delivery order's period of performance spanned from September 7, 2012, through September 6, 2013, with an option year of September 7, 2013, to September 6, 2014 and included an initial value of \$17,309,800, inclusive of both the cost and fixed fee amounts. Subsequent to the initial award, the delivery order was modified fourteen times. The seventh modification increased the award's ceiling to \$35,141,469, and the twelfth modification extended the period of performance to December 31, 2014.

The audit's scope includes activity within the period September 30, 2013 to December 31, 2014. Within the period under audit, DRS reported \$15,679,975 in total revenue as having been earned, including [REDACTED] in reimbursable costs incurred and [REDACTED] in fixed fee.

### Work Performed

Crowe Horwath LLP ("Crowe") was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") to conduct a financial audit of DRS's project.

### 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 DRS's Special Purpose Financial Statement for the delivery order 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 delivery order and generally accepted accounting principles or other comprehensive basis of accounting.

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

Evaluate and obtain a sufficient understanding of DRS's internal control related to the delivery order; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.



*Audit Objective 3 – Compliance*

Perform tests to determine whether DRS complied, in all material respects, with the delivery order's requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the delivery order 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 DRS 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 September 30, 2013, through December 31, 2014. The audit was limited to those matters and procedures pertinent to the delivery order 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 DRS. 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 delivery order. Crowe identified – through review and evaluation of the delivery order and the primary contract executed by and between DRS 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 DRS'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 Audit Agency and 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 DRS, 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 aforementioned efforts, we identified one prior report for review and evaluation. The report pertained to work performed under the subject delivery order during the period September 7, 2012, through September 29, 2013.

## 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 task order; and/or (4) questioned costs resulted from identified instances of noncompliance.

Crowe issued an unmodified opinion on the Special Purpose Financial Statement.

Crowe also reported on both DRS's compliance with the applicable laws, rules, regulations, and the terms and conditions of the contract delivery order and the internal controls over compliance and financial reporting. One material weakness and one significant deficiency in internal control and two instances of noncompliance were reported. Where internal control and compliance findings pertained to the same matter, they were consolidated within a single finding.

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to DRS's financial performance under the contract task order. Based on Crowe's communications with DRS 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 15-63 Financial Audit entitled "Department of the Army's Afghan National Police and Afghan National Army Communications Equipment Training and Sustainment Projects: Audit of Costs Incurred by DRS Technical Services, Inc." – was issued by SIGAR. One finding requiring corrective action was identified. **Section 2: Summary Schedule of Prior Audit and Review Findings** provides additional detail regarding the finding. Crowe noted that the finding is not repeated and corrective action taken by management is considered 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.

## Summary of Management Comments

Management agreed with the content of finding 2018-01, but disagreed with the finding's categorization as a material weakness. Regarding finding 2018-02, DRS concurred with the auditor.

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**References to Appendices**

The auditor's reports are supplemented by one appendix, **Appendix A**, which contains management's responses to the audit findings.

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

To the General Manager of DRS Global Enterprise Solutions and the Senior Management of  
Leonardo DRS  
12930 Worldgate Drive, Suite 700  
Herndon, Virginia 20170

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 DRS Global Enterprise Solutions ("DRS"), and related notes to the Statement, for the period September 30, 2013, through December 31, 2014, with respect to contract number W15P7T-10-D-D416, Delivery Order 0005.

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

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

***Auditor's Responsibility***

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

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

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

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(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 DRS 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 W15P7T-10-D-D416, Delivery Order 0005, which is a basis of accounting other than accounting principles generally accepted in the United States of America. DRS'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 DRS Global Enterprise Solutions, 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 April 5, 2018, on our consideration of DRS'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 DRS's internal control over financial reporting and compliance.



Crowe Horwath LLP

April 5, 2018  
Washington, D.C.

**DRS Global Enterprise Solution  
Special Purpose Financial Statement  
W15P7T-10-D-D416 TO 0005  
For the Period September 30, 2013, through December 31, 2014**

					<u>Questioned Costs</u>		
	<u>Budget</u>		<u>Costs Incurred</u>		<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
<b>Revenues</b>							
03005 R23G TO-05 ANA SUPPORT	\$	37,036,399	\$		15,679,975		3
<b>Total Revenue</b>	\$	37,036,399	\$		15,679,975		3
<b>Costs Incurred</b>							
Direct Labor Costs	\$	-	\$				2
Direct Non-Labor Costs		-					
Indirect Costs		-					
<b>Total Costs Incurred</b>		-					
Fixed Fee	\$						
<b>Balance</b>			\$		-		6

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

**DRS Global Enterprise Solutions, Inc.**  
**Notes to the Special Purpose Financial Statement**  
**For the Period September 30, 2013, through December 31, 2014**

**Note 1. Basis of Presentation**

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Contract Number W15P7T-10-D-D416, Delivery Order 0005 for the period 30 September 2013 through 31 December 2014. Because the Statement presents only a selected portion of the operations of the DRS Global Enterprise Solutions, Inc. it is not intended to and does not present the financial position, changes in net assets, or cash flows of DRS Enterprise Solutions, Inc. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal task order. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of the basic financial statements.

**Note 2. Basis of Accounting**

Expenditures reported on the Statement are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 48, Part 31 of the Code of Federal Acquisition Regulations, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Note 3. Revenues**

Revenues on the Statement represent the amount of funds to which DRS Global Enterprise Solutions, Inc. is entitled to receive for allowable, eligible costs incurred under the contract during the period of performance.

**Note 4. Currency**

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

**Note 5. Program Status**

As of December 31, 2014, all project activity had been completed and the project is closed.

**Note 6. Balance**

The Statement includes a balance of \$0.

**Note 7. Budget**

Amounts presented in the Budget column of the Statement reflect the total authorized funding as of Modification 12 dated 05 September 2014.

**Note 8. Subsequent Events**

Management has performed an analysis of the activities and transactions subsequent to the September 30, 2013, through December 31, 2014, period covered by the Statement. Management has performed their analysis through April 5, 2018.

## **Notes to the Questioned Costs Presented on the Special Purpose Financial Statement**

No questioned costs were identified as a result of the auditor's procedures.

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the General Manager of DRS Global Enterprise Solutions and the Senior Management of  
Leonardo DRS  
12930 Worldgate Drive, Suite 700  
Herndon, Virginia 20170

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 DRS Global Enterprise Solutions ("DRS"), and related notes to the Statement, for the period September 30, 2013, through December 31, 2014, with respect to contract number W15P7T-10-D-D416, Delivery Order 0005. We have issued our report thereon dated April 5, 2018.

### Internal Control over Financial Reporting

DRS'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 September 30, 2013, through December 31, 2014, we considered DRS'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 DRS's internal control. Accordingly, we do not express an opinion on the effectiveness of DRS's internal control.

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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.



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 Statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as Finding 2018-01 to be a material weakness.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as Finding 2018-02 to be a significant deficiency.

We noted certain matters that we reported to DRS's management in a separate letter dated April 5, 2018.

### **DRS Global Enterprise Solutions' Response to the Findings**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

### **Restriction on Use**

This report is intended for the information of DRS Global Enterprise Solutions, 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 Horwath LLP*

Crowe Horwath LLP

April 5, 2018  
Washington, D.C.

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the General Manager of DRS Global Enterprise Solutions and the Senior Management of  
Leonardo DRS  
12930 Worldgate Drive, Suite 700  
Herndon, Virginia 20170

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 DRS Global Enterprise Solutions ("DRS"), and related notes to the Statement, for the period September 30, 2013, through December 31, 2014, with respect to contract number W15P7T-10-D-D416, Delivery Order 0005. We have issued our report thereon dated April 5, 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 DRS Global Enterprise Solutions.

### 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 two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Findings 2018-01 and 2018-02 in the accompanying Schedule of Findings and Questioned Costs.

### DRS Global Enterprise Solutions' Response to the Findings

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

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

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(Continued)

**Restriction on Use**

This report is intended for the information of DRS Global Enterprise Solutions, 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.

A handwritten signature in dark ink that reads "Crowe Horwath LLP". The signature is written in a cursive, flowing style.

Crowe Horwath LLP

April 5, 2018  
Washington, D.C.

## SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### **Finding 2018-01: Missing Evidence of Receipt**

Material Weakness and Noncompliance

**Criteria:** Pursuant to FAR 52.245-1(f)(1)(ii), *Receipt of Government Property*, DRS is required to receive Government property and document the receipt.

Section 6.1 of DRS's Government Property Policy (PN-4095), states, [REDACTED]

**Condition:** During our testing of 50 government property items, we noted that DRS did not retain evidence of receipt for nine of 25 contractor-acquired property (CAP) items and 13 of 25 government-furnished property items. DRS was able to produce disposition support for each item included in our sample such that no costs are in question.

**Questioned costs:** None.

**Effect:** The risk of items being improperly recorded or allocated to the contract is increased.

**Cause:** DRS did not have an express requirement in its written procedures requiring that evidence of receipt be maintained. In addition, management did not execute adequate monitoring procedures to detect and correct instances of missing receiving documentation.

**Recommendation:** We recommend that DRS provide training to its personnel regarding the need for receiving support to be included in the government property records and also revise the existing government property policy to include an express requirement that receiving support be obtained and stored at the time an item is initially received.

## **Finding 2018-02: Incomplete Property Records**

### Significant Deficiency and Noncompliance

**Criteria:** Pursuant to FAR 52.245-1(f)(1)(iii), *Records of Government Property*, "The Contractor shall create and maintain records of all Government property accountable to the contract, including Government-furnished and Contractor-acquired property.

(A) Property records shall enable a complete, current, auditable record of all transactions and shall, unless otherwise approved by the Property Administrator, contain the following:

- (1) The name, part number and description, National Stock Number (if needed for additional item identification tracking and/or disposition), and other data elements as necessary and required in accordance with the terms and conditions of the contract.
- (2) Quantity received (or fabricated), issued, and balance-on-hand.
- (3) Unit acquisition cost.
- (4) Unique-item identifier or equivalent (if available and necessary for individual item tracking).
- (5) Unit of measure.
- (6) Accountable contract number or equivalent code designation.
- (7) Location.
- (8) Disposition.
- (9) Posting reference and date of transaction.
- (10) Date placed in service (if required in accordance with the terms and conditions of the contract)."

DRS's Government Property policy (PN-4095), Section 8.0, states [REDACTED]

**Condition:** During our testing of government property, we noted that DRS's property records were incomplete and had the following errors and/or omissions:

- Of 482 contractor acquired property items in the final inventory, 44 did not have acquisition costs listed, none had transaction dates reported, and 284 were missing posting references; and
- 105 of the total 524 items did not have disposition information populated.

**Questioned costs:** None

**Effect:** The likelihood that property will be lost, stolen, damaged, or destroyed without being detected in a timely manner through inventories or reconciliations is increased.

**Cause:** DRS managed property in a decentralized manner during the period covered by this audit such that incomplete or inaccurate records were not detected and corrected in a timely manner and a reconciliation was not performed to identify the errors in the property records.

**Recommendation:** We recommend that DRS complete a full reconciliation of government property to the contract financial records to ensure that no items were lost, stolen, damaged, or destroyed and not reported as such to the Government. We further recommend that DRS provide training to current government property personnel regarding the issues noted for the contract under audit and re-iterate controls that are currently in place to prevent the matters from being repeated.

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

Crowe reviewed one prior audit report that is applicable to the Afghanistan National Army Communications Equipment Service Mentoring, Systems Engineering and Technical Assistance and Training and Maintenance Radio Sustainment project and that is pertinent to the audit objectives prescribed by SIGAR. The report contained one audit finding that 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 Special Purpose Financial Statement or other financial information significant to the audit objectives. The matter is summarized below.

### **Finding No. 2015-01: Personnel Costs In Excess of Approved Workweeks**

**Report:** *SIGAR 15-63 Financial Audit, "Department of the Army's Afghan National Police and Afghan National Army Communications Equipment Training and Sustainment Projects: Audit of Costs Incurred by DRS Technical Services, Inc.,"* issued by the Office of the Special Inspector General for Afghanistan Reconstruction.

**Issue:** DRS's project director worked greater than the 72 hours per week maximum without documented evidence of the Government's approval. A \$1,408 overcharge resulted from the identified instance of noncompliance.

**Status:** We obtained documentation from DRS indicating that the \$1,408 overcharge was reimbursed to the Government in May 2015. In addition, we tested DRS's compliance with labor-related requirements as part of our audit. No exceptions were noted during our testing. This matter is not repeated.

## APPENDIX A: VIEWS OF RESPONSIBLE OFFICIALS



5 April 2018

Crowe Horwath LLP  
1455 Pennsylvania Avenue N.W., Suite 700  
Washington, DC 20005

Subject: DRS Global Enterprise Solutions, Inc.'s Management Response to "F115- DRS Financial Audit Report- Draft"

Reference: Financial Audit of Contract/Order No. W15P7T-10-D-D416/0005

The purpose of this letter is to provide DRS Global Enterprise Services, Inc. (DRS) management's response to the findings in the draft Financial Audit Report on Task Order 0005, hereinafter referred to as "ANA task order") under contract number W15P7T-10-D-D416 issued by Crowe Horwath LLP ("Crowe") on behalf of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") for the audit period September 30, 2013 through December 31, 2014.

**Finding 2018-01: Missing Evidence of Receipt**

DRS agrees the auditor made a valid observation. DRS disagrees with the assessment of a material weakness, but agrees with the recommendation of the auditors.

Notwithstanding the findings presented, it is noted that the results of this audit have no financial impact on the DRS' financial statements or Incurred Cost Proposals and the Special Purpose Financial Statement. The findings relate only to potential weaknesses in internal control.

DRS was able to provide evidence that it was in possession of the property in question via evidence of disposition of all items. The auditor agrees with the Company's contention in that there were no questioned costs relating to this property. As there were no questioned costs and evidence of the disposition of all property, DRS feels it has supported its position that there is no material weakness.

DRS agrees with the recommendation as it has, in fact, already instituted major upgrades in its methodology and record keeping for property. DRS is using several highly regarded



and recognized property management tools including a dedicated asset management system [REDACTED] contract management system [REDACTED] and integrated accounting system (Costpoint v.7), as an integrated management/accounting system. This system has been audited by DCMA and found acceptable as recently as August 2016. See the attached DCMA report (Attachment 1). This methodology and system was instituted in 2015. Additionally, [REDACTED]

In consideration of the above, DRS requests that the material weakness finding be changed to significant deficiency and also be noted Implemented.

#### **Finding 2018-02: Incomplete Property Records**

DRS agrees with the finding of a significant deficiency and noncompliance, however, DRS requests that the audit report reflect that disposition evidence was presented for all items noted in the "Condition" detail as there were no costs in question.

DRS agrees with the recommendation as it has, in fact, already instituted major upgrades in its methodology and record keeping for property. DRS is using several highly regarded and recognized property management tools including a dedicated asset management system [REDACTED] contract management system [REDACTED] and integrated accounting system [REDACTED], as an integrated management/accounting system. This system has been audited by DCMA and found acceptable as recently as August 2016. See the attached DCMA report (Attachment 1). This methodology and system was instituted in 2015. Additionally, [REDACTED]

In consideration of the above, DRS requests that the above be noted as Implemented.



Please contact the undersigned at (703) 896-7148 or email address [jonathan.mcgeehan@drs.com](mailto:jonathan.mcgeehan@drs.com) should you have any questions.

Sincerely,

DRS Global Enterprise Solutions, Inc.

A handwritten signature in blue ink, appearing to read "Jonathan McGeehan", with a stylized flourish at the end.

Jonathan McGeehan  
Sr Director, Contracts & Compliance



Attachment 1: DRS DCMA Property Management System Approval



**DEFENSE CONTRACT MANAGEMENT AGENCY**  
DCMA HAMPTON  
2000 ENTERPRISE PARKWAY, SUITE 200  
HAMPTON, VIRGINIA 23666

August 29, 2016

Mr. Jonathan McGeehan  
DRS Technical Services, Inc.  
12930 Worldgate Drive, Suite 700  
Herndon, VA 20170

Dear Mr. McGeehan:

The purpose of this determination is to inform you that your property management system is acceptable in accordance with the terms and conditions of DFARS 252.245-7003 and approved. This approval is made pursuant to the Defense Federal Acquisition Regulation Supplement (DFARS) 245.105(b), "Contractor's Property Management System Compliances", and based on the system criteria provided at FAR 52.245-1(f), as reference in DFARS 252.245-7003(c).

The approved system is applicable to DRS Technical Services, Inc. CAGE Code 1KU75.

My determination is based on an evaluation of your system which was recently conducted by DCMA. Should you have any questions concerning this determination, please contact me at [Juanita.Clarke@dcma.mil](mailto:Juanita.Clarke@dcma.mil) or (757) 315-4322.

Sincerely,



CLARKE.JUANITA.1228742780

Digitally signed by CLARKE.JUANITA.1228742780  
DN: c=US, o=U.S. Government, ou=DoD, ou=FKI, ou=DCMA,  
cn=CLARKE.JUANITA.1228742780  
Date: 2016.08.29 13:03:46 -0400

Juanita Clarke  
Administrative Contracting Officer

cc:  
DCMA-AQBYE, Andrea Proctor  
DCMA Hampton, Rodney D. Parker  
DCMA Hampton, Matthew B. Mullins

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## SIGAR's Mission

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

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

## Obtaining Copies of SIGAR Reports and Testimonies

To obtain copies of SIGAR documents at no cost, go to SIGAR's Web site ([www.sigar.mil](http://www.sigar.mil)). SIGAR posts all publicly released reports, testimonies, and correspondence on its Web site.

## To Report Fraud, Waste, and Abuse in Afghanistan Reconstruction Programs

To help prevent fraud, waste, and abuse by reporting allegations of fraud, waste, abuse, mismanagement, and reprisal, contact SIGAR's hotline:

- Web: [www.sigar.mil/fraud](http://www.sigar.mil/fraud)
- Email: [sigar.pentagon.inv.mbx.hotline@mail.mil](mailto:sigar.pentagon.inv.mbx.hotline@mail.mil)
- Phone Afghanistan: +93 (0) 700-10-7300
- Phone DSN Afghanistan: 318-237-3912 ext. 7303
- Phone International: +1-866-329-8893
- Phone DSN International: 312-664-0378
- U.S. fax: +1-703-601-4065

## Public Affairs

Public Affairs Officer

- Phone: 703-545-5974
- Email: [sigar.pentagon.ccr.mbx.public-affairs@mail.mil](mailto:sigar.pentagon.ccr.mbx.public-affairs@mail.mil)
- Mail: SIGAR Public Affairs  
2530 Crystal Drive  
Arlington, VA 22202