

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 20-11 Financial Audit

Department of the Army's Non-Standard Rotary
Wing Aircraft Contractor Logistics Sustainment
Afghanistan Project: Audit of Costs Incurred by
Leidos Innovations Corporation

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



DECEMBER
2019

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On September 1, 2014, Army Contracting Command–Redstone (ACC) commenced a 1-year, cost-plus-fixed-fee task order worth \$105,265,035 with Lockheed Martin Integrated Services to implement the Non-Standard Rotary Wing Aircraft Contractor Logistics Sustainment Afghanistan project. The task order’s objective was to increase the readiness and capabilities of the Afghan security forces. ACC modified the task order 40 times, which included executing two option years, increasing the total task order amount to \$584,765,557, and extending the period of performance through September 30, 2018. In August 2016, Lockheed Martin’s Information Systems & Global Solutions merged with a subsidiary of Leidos Holdings Inc. As a result, the task order transferred to Leidos Innovations Corporation (Leidos) on April 3, 2017.

SIGAR’s financial audit, performed by CohnReznick LLP (CohnReznick), reviewed \$277,948,324 in costs charged to the task order from January 1, 2017, through September 30, 2018. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in Leidos’s internal controls related to the task order; (2) identify and report on instances of material noncompliance with the terms of the task order and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether Leidos has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of Leidos’s Special Purpose Financial Statement (SPFS). See CohnReznick’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 CohnReznick did not comply, in all material respects, with U.S. generally accepted government auditing standards.

December 2019

Department of the Army’s Non-Standard Rotary Wing Aircraft Contractor Logistics Sustainment Afghanistan Project: Audit of Costs Incurred by Leidos Innovations Corporation

SIGAR 20-11-FA

WHAT SIGAR FOUND

CohnReznick identified one significant deficiency in Leidos’s internal controls and one instance of noncompliance with the terms of the task order and applicable regulations. Specifically, CohnReznick found that Leidos did not perform required annual random drug tests on 8 of the 49 employees in the auditors’ sample.

As a result of this internal control deficiency and instance of noncompliance, CohnReznick identified \$506,898 in questioned costs, consisting entirely of ineligible costs—costs prohibited by the task order, applicable laws, or regulations. CohnReznick did not identify any unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
Direct Labor	██████	\$0	██████
Indirect Costs	██████	\$0	██████
Total Costs	\$506,898	\$0	\$506,898

CohnReznick identified three prior audit reports with seven findings that could have a material effect on the SPFS. The auditors concluded that Leidos had taken corrective actions to address five of the findings. Although Leidos had not addressed two of the findings—related to noncompetitive procurement and cost reasonableness—CohnReznick noted no similar issues in this audit.

CohnReznick issued an unmodified opinion on Leidos’s SPFS, noting that it presents fairly, in all material respects, revenues received and costs incurred for the period audited.

WHAT SIGAR RECOMMENDS

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

- 1. Determine the allowability of and recover, as appropriate, \$506,898 in questioned costs identified in the report.**
- 2. Advise Leidos to address the report’s internal control finding.**
- 3. Advise Leidos to address the report’s noncompliance finding.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

December 2, 2019

The Honorable Dr. Mark T. Esper
Secretary of Defense

The Honorable Ryan D. McCarthy
Secretary of the Army

General Austin Scott Miller
Commander, U.S. Forces–Afghanistan
Commander, Resolute Support

We contracted with CohnReznick LLP to audit the costs incurred by Leidos Innovations Corporation (Leidos) under a U.S. Army Contracting Command–Redstone (ACC) cost-plus-fixed-fee task order to implement the Non-Standard Rotary Wing Aircraft Contractor Logistics Sustainment Afghanistan project.¹ The task order's objective was to increase the readiness and capabilities of the Afghan security forces. CohnReznick reviewed \$277,948,324 in costs charged to the task order from January 1, 2017, through September 30, 2018. Our contract with CohnReznick 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 the audit, SIGAR recommends that the responsible contracting officer at ACC:

- 1. Determine the allowability of and recover, as appropriate, \$506,898 in questioned costs identified in the report.**
- 2. Advise Leidos to address the report's internal control finding.**
- 3. Advise Leidos to address the report's noncompliance finding.**

The results of CohnReznick's audit are discussed in detail in the attached report. We reviewed CohnReznick'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 the Leidos's Special Purpose Financial Statement. We also express no opinion on the effectiveness of the Leidos's internal control or compliance with the task order, laws, and regulations. CohnReznick is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances in which CohnReznick 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-153)

¹ The task order number is BS01, and it is under contract number FA8530-08-D-0008

**Financial Audit of Costs Incurred by
Leidos Innovations Corporation under the
Non-Standard Rotary Wing Aircraft Contractor
Logistics Sustainment Afghanistan Project
Contract No. FA8530-08-D-0008, Order BS01
For the period from January 1, 2017
through September 30, 2018**

Performed by



Table of Contents

Transmittal Letter	3
Summary	4
Background	4
Work Performed	5
Audit Objectives	5
Audit Scope	6
Methodology	6
Summary of Audit Results	8
Summary of Management Comments	10
Summary of Auditors' Response to Management Comments	10
Independent Auditors' Report on the Special Purpose Financial Statement	11
Leidos Innovations Corporation Special Purpose Financial Statement	13
Notes to the Special Purpose Financial Statement	15
Auditors' Notes to Questioned Costs Presented on the Special Purpose Financial Statement	18
Independent Auditors' Report on Internal Control	19
Independent Auditors' Report on Compliance	21
Schedule of Findings and Questioned Costs	23
Appendix A – Corrective Action on Prior Audit Findings and Recommendations	25
Appendix B – Leidos Innovations Corporation's Management Comments	27
Appendix C – CohnReznick Response to Leidos Innovations Corporation's Management Comments	30

TRANSMITTAL LETTER

October 1, 2019

Board of Directors
Leidos Innovations Corporation
11955 Freedom Drive
Reston, VA, 20190

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

We appreciate the opportunity to provide to you our final report reflecting the procedures that we have completed during the course of our financial audit of the Special Purpose Financial Statement (SPFS) by Leidos Innovations Corporation (Leidos), under the Non-Standard Rotary Wing Aircraft Contractor Logistics Sustainment Afghanistan Project, Contract No. FA8530-08-D-0008, Order BS01, for the period from January 1, 2017 through September 30, 2018.

Within the pages that follow, we provide a summary of the work performed. Following the summary, we have incorporated the following reports:

- Independent Auditors Report on the SPFS;
- Independent Auditors Report on Internal Control; and
- Independent Auditors Report on Compliance.

When preparing our report, we considered comments, feedback and interpretations of Leidos, the Office of the Special Inspector General for Afghanistan Reconstruction and the Department of Defense throughout the planning, fieldwork and reporting phases of the audit. Leidos management has prepared responses to the findings identified during the audit and those responses have been included as part of this report. The responses have not been audited and we express no opinion on them.

Thank you for providing us with the opportunity to work with you and to conduct the financial audit of the SPFS by Leidos under the Non-Standard Rotary Wing Aircraft Contractor Logistics Sustainment Afghanistan Project.

Sincerely,



Timothy Bender, CPA, Partner
CohnReznick LLP
Bethesda, Maryland

**Leidos Innovations Corporation
 Financial Audit of the Special Purpose Financial Statement
 For the Period from January 1, 2017 through September 30, 2018**

SUMMARY

Background

On August 27, 2014, the Army Contracting Command at Redstone Arsenal issued a contract to Lockheed Martin Integrated Services (Lockheed Martin), to provide support for and implement the Department of Defense’s Non-Standard Rotary Wing Aircraft Contractor Logistics Sustainment Afghanistan Project. The cost-plus-fixed-fee (CPFF) contract, No. FA8530-08-D-0008 (Contract), Order BS01, had a period of performance from September 1, 2014 through August 31, 2015, and was subsequently modified to extend through September 30, 2018. Lockheed Martin’s Contract incorporated an original ceiling amount of \$105,265,035. The final modified contract price is comprised of one base and three option periods for the following amounts:

- Base Period: [REDACTED];
- Option Year 1: [REDACTED];
- Option Year 2: [REDACTED]; and
- Option Year 2 Extension: [REDACTED].

On August 16, 2016, Lockheed Martin’s Information Systems and Global Solutions division merged with Leidos. As a result of the merger, the initial contract was novated from Lockheed Martin to Leidos on April 3, 2017, through issuance of modification 36 to the contract. The contract has been modified 40 times, which has subsequently increased the total contract value to \$584,765,557. Modifications that resulted in funding changes, adjustments to the period of performance, and/or changes in scope are summarized below:

Modification Number	Effective Date	Significance
7	5/28/2015	Contract price was increased by [REDACTED] to [REDACTED].
11	8/19/2015	Contract price was increased by [REDACTED] to [REDACTED]. Extended period of performance through August 31, 2016.
14	1/29/2016	Contract price was increased by [REDACTED] to [REDACTED].
17	2/24/2016	Contract price was increased by [REDACTED] to [REDACTED].
18	3/1/2016	Contract price was increased by [REDACTED] to [REDACTED].
20	5/6/2016	Contract price was increased by [REDACTED] to [REDACTED].
21	5/16/2016	Contract price was increased by [REDACTED] to [REDACTED].
22	5/27/2017	Contract price was increased by [REDACTED] to [REDACTED].
27	8/25/2016	Contract price was increased by [REDACTED] to [REDACTED].
25	8/31/2016	Contract price was increased by [REDACTED] to [REDACTED] 4. Extended period of performance through February 28, 2017.
28	9/27/2016	Contract price was increased by [REDACTED] to [REDACTED].
33	1/12/2017	Contract price was increased by [REDACTED] to [REDACTED].
34	2/16/2017	Contract price was increased by [REDACTED] to [REDACTED]. Extended the period of performance through August 31, 2017.
35	3/15/2017	Extended the period of performance through 4/30/2018.
36	4/3/2017	Executed the Novation Agreement recognizing Leidos Innovations Corporation as the successor in interest of Lockheed Martin Corporation. As a result, Leidos Innovations Corporation became entitled to all rights and titles of interest of Lockheed Martin Corporation for Task Order BS01 only.
39	9/18/2017	Contract price was decreased by [REDACTED] to [REDACTED].
40	6/29/2018	Contract price was decreased by [REDACTED] to [REDACTED]. Extended the period of performance through 9/30/2018.

Leidos Innovations Corporation
Financial Audit of the Special Purpose Financial Statement
For the Period from January 1, 2017 through September 30, 2018

The primary objective of this contract was to increase readiness and capability of the Afghan forces by providing services, supplies, materials, equipment, and personnel necessary to conduct training and provide Contractor Logistics Sustainment (CLS) for aircraft maintained by the Ministry of Defense, Afghan Air Force (AAF) and the Afghanistan Special Mission Wing (SMW). The contract objectives also included maintenance and sustainment of aircraft simulators, supply chain management, sustainment of Repair of Repairable (ROR) services, spare parts and material procurement, training, and mentorship.

Leidos Innovations Corporation (Leidos) has more than 31,000 employees and is headquartered in Reston, Virginia. The company provides services in the civil, defense, health, and intelligence markets with the mission to make the world safer, healthier, and more efficient through information technology, engineering, and science.

Work Performed

CohnReznick LLP (CohnReznick) was engaged by the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of costs incurred by Leidos under the Department of Defense's (DOD) Non-Standard Rotary Wing Aircraft Contractor Logistics Sustainment Afghanistan Project, under Contract No. FA8530-08-D-0008, Order BS01, for the period from January 1, 2017 through September 30, 2018.

Audit Objectives as Defined by SIGAR

The following audit objectives were defined by SIGAR 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 – SPFS

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

Audit Objective 2 – Internal Control

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

Leidos Innovations Corporation
Financial Audit of the Special Purpose Financial Statement
For the Period from January 1, 2017 through September 30, 2018

Audit Objective 3 – Compliance

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

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations

Determine and report on whether Leidos has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the SPFS or other financial data significant to the audit objectives.

Audit Scope

The scope of the audit covers Leidos' incurred CPFF amounts under Contract No. FA8530-08-D-0008, Order BS01, for the period from January 1, 2017 through September 30, 2018. We examined the SPFS and the underlying financial records to verify that the amounts reported in the SPFS were adequately supported, allowable, and in compliance with contract terms and conditions and applicable laws and regulations. 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:

- Budget Management;
- Cash Management;
- Disbursements (payroll and non-payroll transactions);
- Financial Reporting; and
- Procurement and Inventory Management.

Testing of indirect costs was limited to determining whether, for the vouchers submitted for reimbursement to the Government, the correct rates were used and applied against the correct base for the amounts calculated in accordance with approved indirect cost rates.

The audit scope includes our consideration of Leidos' internal control over financial reporting and compliance with certain provisions of laws and regulations, contracts, and other matters as they relate to the SPFS.

We performed a review of Leidos' corrective action on prior audit findings and recommendations. The results of these evaluations were incorporated into our risk assessment procedures and were considered when determining the nature, extent, and timing of audit procedures.

Methodology

To meet the audit objectives, CohnReznick completed a series of risk assessments, walkthroughs, analytics, and substantive test procedures to audit the SPFS and test internal control and compliance with applicable laws and regulations.

Leidos Innovations Corporation
Financial Audit of the Special Purpose Financial Statement
For the Period from January 1, 2017 through September 30, 2018

Audit Objective 1 – SPFS:

Transactions were selected from the financial records underlying the SPFS and tested to determine if the transactions were recorded properly in accordance with the terms of the contract and applicable parts of the Federal Acquisition Regulation (FAR) and Defense Federal Acquisition Regulation Supplement (DFARS). Costs were sampled in accordance with *Government Auditing Standards* (GAS) issued by the Comptroller General of the United States, using a combination of monetary unit and judgmental sampling approaches based on the outcome of risk assessments conducted during the planning phase of the audit.

Audit Objective 2 – Internal Control:

CohnReznick requested copies of Leidos' relevant policies and procedures and reviewed those to gain an understanding of the internal control environment as designed. CohnReznick also made inquiries of Leidos management and conducted interviews with various finance and accounting personnel at Leidos to gain additional information about the design and operation of internal control over financial reporting. CohnReznick performed tests of controls on a sample basis to determine whether controls were operating as designed.

Audit Objective 3 – Compliance:

CohnReznick obtained a copy of Leidos' contract (FA8530-08-D-0008, Order BS01) and all modifications thereto, which was novated from Lockheed Martin in 2017. We reviewed those contract documents to gain an understanding of the compliance requirements. CohnReznick also evaluated the requirements of FAR and DFARS, the criteria against which the SPFS was tested for compliance requirements. CohnReznick performed tests of compliance in conjunction with our substantive and control tests described in Audit Objectives 1 and 2 above, to determine whether significant compliance requirements of the contract, laws, and regulations were being met.

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations:

CohnReznick inquired of Leidos management regarding all audits, reviews or other examinations, whether internal or external, that related directly to the project or were relevant to policies, procedures, and/or systems used by the project. CohnReznick considered the completeness of the list of reports provided by Leidos management based on industry expertise and experience with similar contractors. We also inquired of SIGAR as to whether there were any prior audits of Leidos. As a result of these procedures, three reports were identified, of which the status of corrective action is detailed in the Summary of Audit Results section below.

Leidos Innovations Corporation
Financial Audit of the Special Purpose Financial Statement
For the Period from January 1, 2017 through September 30, 2018

Summary of Audit Results

Upon completion of the audit procedures, CohnReznick identified one finding with questioned costs totaling \$506,898 presented in Table 1 below, because it met one or more of the following criteria: (1) deficiencies in internal control; (2) noncompliance with rules, laws, regulations, or the terms and conditions of the contract; and/or (3) questioned costs resulting from identified instances of noncompliance.

Table 1 – Summary of Findings and Questioned Costs

Finding Number	Cost Category	Matter	Unsupported Cost	Ineligible Costs	Questioned Costs
2019-01	Labor	Annual Random Drug Testing Not Performed on All Employees	\$ -	\$ [REDACTED]	\$ [REDACTED]
	Indirect costs		-		
Total			\$ -	\$ 506,898	\$ 506,898

Audit Objective 1 – SPFS:

CohnReznick issued an unmodified opinion on the SPFS. As discussed in the sections that follow, we identified one significant deficiency in internal control over compliance, discussed in the Summary of Findings and Questioned Costs. We questioned \$506,898 of direct labor costs, comprised of [REDACTED] in ineligible costs and [REDACTED] related to Fringe and G&A charged on ineligible costs as a result of audit procedures performed. We believe we have obtained sufficient and appropriate evidence to support our opinion on the SPFS.

Audit Objective 2 – Internal Control:

CohnReznick evaluated Leidos’ internal control over financial reporting and identified one finding. That finding (Finding 2019-01) is considered a significant deficiency, and relates to a failure to perform annual drug testing.

Audit Objective 3 – Compliance:

CohnReznick evaluated Leidos’ compliance with applicable contractual obligations, laws and regulations and identified one instance of noncompliance. The instance of noncompliance relates to the internal control finding described in Audit Objective 2 – Internal Control above.

Leidos Innovations Corporation
Financial Audit of the Special Purpose Financial Statement
For the Period from January 1, 2017 through September 30, 2018

Audit Objective 4 – Corrective Action on Prior Audit Findings and Recommendations:

As a result of audit procedures performed, three prior audit reports were identified. Those three reports and the status of corrective actions thereon are detailed in Appendix A to the report. Leidos has taken adequate corrective action to address findings and recommendations from two of three previous engagements identified that could have a material effect on the SPFS or other financial data significant to the audit objectives. Leidos has not taken adequate corrective actions on one of the three identified previous engagements. Although corrective actions have not been taken and negotiations surrounding questioned costs have not been concluded, we did not note similar issues related to noncompetitive procurement or cost reasonableness in this audit.

**Leidos Innovations Corporation
Financial Audit of the Special Purpose Financial Statement
For the Period from January 1, 2017 through September 30, 2018**

Summary of Management Comments

Leidos disagreed with Finding 2019-01. The primary claims made by Leidos in an effort to clear Finding 2019-01 are that:

1. The phrase “all contractor and subcontractor employees” only includes OCONUS personnel who would be in contact with aircraft;
2. The section of the PWS cited as criteria for the finding is only relevant to employees hired after contract award;
3. That compliance with FAR 52.223-6 Drug-Free Workplace and DFARS 252.223-7004 Drug-Free Work Force was all that was required under the contract (PWS Section 7.1.2) for the employees in question; and
4. Spot-checks performed by the COR evidence that the contracting agency was aware of and agreed with the exclusion of “functional CONUS employees” from annual drug testing requirements.

See *Appendix B – Leidos Innovations Corporation’s Management Response* for the full management response.

Summary of the Auditors’ Response to Management Comments

CohnReznick does not agree with the claims made by Leidos. Without any additional support or explanation provided, the finding has been maintained in its original form.

See *Appendix C – CohnReznick’s Response to Leidos Innovations Corporation’s Management Response* for detailed rebuttal to each of Leidos’ claims related to Finding 2019-01.

INDEPENDENT AUDITORS' REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Directors
Leidos Innovations Corporation
11955 Freedom Drive
Reston, VA, 20190

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

Report on the Special Purpose Financial Statement

We have audited the Special Purpose Financial Statement (“SPFS”) of Leidos Innovations Corporation (Leidos) and the related notes to the SPFS, with respect to the Department of Defense’s (DOD) Non-Standard Rotary Wing Aircraft Contractor Logistics Sustainment Afghanistan Project, Contract No. FA8530-08-D-0008, Order BS01, for the period January 1, 2017 through September 30, 2018.

Management’s Responsibility for the SPFS

Management is responsible for the preparation and fair presentation of the SPFS 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 the SPFS that is free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on this SPFS based on our audit. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the SPFS is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the SPFS. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the SPFS, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to Leidos’ preparation and fair presentation of the SPFS 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 Leidos’

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 SPFS.

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

Opinion

In our opinion, the SPFS referred to above presents fairly, in all material respects, the revenues received, costs incurred, items directly procured by the U.S. Government and balances for the indicated period in accordance with the terms of the agreements and in conformity with the basis of presentation described below.

Basis of Presentation

We draw attention to Note 2 to the SPFS, which describes the basis of presentation. As described in Note 2 to the SPFS, the SPFS is prepared by Leidos on the basis of the requirements provided by SIGAR, which is a basis of presentation other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 1, 2019, on our consideration of Leidos' internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations, contracts, and other matters as it relates to the SPFS. 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 or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Leidos' internal control over financial reporting and compliance.

Restriction on Use

This report is intended solely for the information and use of Leidos, DOD, and 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.



CohnReznick LLP
Bethesda, Maryland
October 1, 2019

**Leidos Innovations Corporation
Special Purpose Financial Statement
FA8530-08-D-0008, Order BS01
January 1, 2017 through September 30, 2018**

Leidos Innovations Corporation
Special Purpose Financial Statement
January 1, 2017 through September 30, 2018

	<u>Questioned Costs</u>				
	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
<i>Revenues</i>					
FA8530-08-D-0008	\$584,765,557	\$277,948,324	\$ -	\$ -	5
Total Revenue	\$584,765,557	\$277,948,324			
<i>Costs Incurred</i>					
Direct Labor	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ -	A
Direct Materials	[REDACTED]	[REDACTED]	-	-	-
Direct ODCs	[REDACTED]	[REDACTED]	-	-	-
Direct Subcontractors	[REDACTED]	[REDACTED]	-	-	-
Lockheed Martin Integrated					
Systems Subcontractors	[REDACTED]	[REDACTED]	-	-	-
Indirect Costs	[REDACTED]	[REDACTED]	[REDACTED]	-	A
Total Costs Incurred	[REDACTED]	[REDACTED]	\$ 506,898	\$ -	6
Fixed Fee	[REDACTED]	[REDACTED]	-	-	-
Total Costs Incurred and Fixed Fee	\$ 584,765,557	\$ 277,948,324	\$ 506,898	\$ -	-
<i>Outstanding Balance</i>	\$ -	\$ -			7

The accompanying Notes to the SPFS are an integral part of the SPFS.

Leidos Innovations Corporation
Notes to the Special Purpose Financial Statement
January 1, 2017 through September 30, 2018

1. Background

Leidos is a Fortune 500® information technology, engineering, and science solutions and services leader working to solve the world's toughest challenges in the defense, intelligence, homeland security, civil, and health markets. The company's 32,000 employees support vital missions for government and commercial customers. Headquartered in Reston, Virginia, Leidos reported annual revenues of approximately \$10.19 billion for the fiscal year ended December 28, 2018. For more information, visit www.Leidos.com [leidos.com].

Initially, Lockheed Martin Integrated Services (Lockheed Martin) was contracted to provide support for and to implement the Non-Standard Rotary Wing Aircraft Contractor Logistics Sustainment Afghanistan Project, under Contract No. FA8530-08-D-0008, Order BS01, for the period from September 1, 2014 through September 30, 2018. Lockheed Martin's contract incorporated a ceiling price of \$584,765,557, which was comprised of one base and four option periods for the following amounts:

- Base Period: [REDACTED];
- Option Year 1: [REDACTED];
- Option Year 2: [REDACTED] and
- Option Year 2 Extension: [REDACTED].

The initial contract was novated from Lockheed Martin to Leidos on March 28, 2017, through issuance of modification 36 to the contract.

This contract is for services, supplies, materials, equipment, and personnel necessary to provide Contractor Logistics Sustainment (CLS) for aircraft maintained by the Ministry of Defense, Afghan Air Force (AAF) and the Afghanistan Special Mission Wing (SMW). This includes maintenance and sustainment of Repairs of Repairable (ROR) services, spare parts and material procurement, training, and mentorship. The contract also requires Leidos to provide flight training and aerial transportation in support of counter-narcotics (CN) teams in Afghanistan.

2. Basis of Presentation

The accompanying Special Purpose Financial Statement ("SPFS") includes costs incurred under the Non-Standard Rotary Wing Aircraft Contractor Logistics Sustainment Afghanistan Project, Contract No. FA8530-08-D-0008, Order BS01, for the period January 1, 2017, through September 30, 2018. Because the SPFS presents only a selected portion of the operations of Leidos, it is not intended to and does not present the financial position, changes in financial position, or cash flows of Leidos. The information in this SPFS 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 project.

These Notes to the SPFS are an integral part of the SPFS.

Leidos Innovations Corporation
Notes to the Special Purpose Financial Statement
January 1, 2017 through September 30, 2018

3. Basis of Accounting

The SPFS has been prepared in accordance with accounting principles generally accepted in the United States of America and, therefore, is reported on the accrual basis of accounting. Revenues and expenditures are recognized following the cost principles contained in Federal Acquisition Regulation (“FAR”) Part 31 – Contracts with Commercial Organizations.

4. Foreign Currency Conversion Method

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

5. Revenues

Revenues on the SPFS represent the amount of funds to which Leidos is entitled to receive from the United States Department of Defense for allowable and eligible costs incurred during the period of performance and the related fixed fees.

6. Costs Incurred by Category

The categories presented, and associated amounts reflect the actual costs incurred during the audited period of January 1, 2017, through September 30, 2018. Leidos was not funded by cost element, but rather by CLIN. The budget shown in the SPFS is the budget created internally to track expenditures. The budget shown is for the entire contract period of performance and the delta between costs incurred and budget is due to the timing of the period under audit.

7. Outstanding Fund Balance

The Outstanding Fund Balance presented on the SPFS represents the difference between revenues received and the costs incurred plus fixed fee. As of September 30, 2018, there was no outstanding fund balance under the contract.

8. Currency

All amounts presented are shown in United States dollars.

9. Project Status

The period of performance was productively complete as of August 31, 2017. Leidos received an extension for material deliveries only through September 30, 2018.

These Notes to the SPFS are an integral part of the SPFS.

Leidos Innovations Corporation
Notes to the Special Purpose Financial Statement
January 1, 2017 through September 30, 2018

10. Subsequent Events

Leidos has evaluated subsequent events through October 1, 2019. There were no subsequent events identified that would impact the SPFS as of this date.

These Notes to the SPFS are an integral part of the SPFS.

Leidos Innovations Corporation
Financial Audit of the Special Purpose Financial Statement
For the Period from January 1, 2017 through September 30, 2018

Auditors' Notes to Questioned Costs Presented on the Special Purpose Financial Statement

SIGAR requires that questioned costs be classified as either "ineligible" or "unsupported." SIGAR defines unsupported costs as those that "are not supported with adequate documentation or did not have required prior approvals or authorizations." Ineligible costs are those "that are explicitly questioned because they are unreasonable; prohibited by the audited contract or applicable laws and regulations; or are not award related."

The following note was prepared by CohnReznick for informational purposes only and, as such, is not a part of the audited SPFS above. Management takes no responsibility for the Auditors' Notes to Questioned Costs Presented on the SPFS.

A. Questioned Costs

CohnReznick questioned \$506,898 [REDACTED] of labor costs and [REDACTED] of indirect fringe and G&A burden) of ineligible labor costs due to employment drug testing not performed in accordance with the terms and conditions of the contract. See finding 2019-01 on the Schedule of Findings and Questioned Costs for further discussion.

These Auditors' Notes to the SPFS are an integral part of the SPFS.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL

Board of Directors
Leidos Innovations Corporation
11955 Freedom Drive
Reston, VA, 20190

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

We have audited, the Special Purpose Financial Statement (“SPFS”) and related notes to the SPFS, 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, by Leidos Innovations Corporation (“Leidos”), under the Department of Defense’s (DOD) Non-Standard Rotary Wing Aircraft Contractor Logistics Sustainment Afghanistan Project, Contract No. FA8530-08-D-0008, Order BS01, for the period January 1, 2017 through September 30, 2018. We have issued our report thereon dated October 1, 2019 with an unmodified opinion.

Internal Control over Financial Reporting

In planning and performing our audit of the SPFS, we considered Leidos’ internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the SPFS, but not for the purpose of expressing an opinion on the effectiveness of Leidos’ internal control. Accordingly, we do not express an opinion on the effectiveness of Leidos’ internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, material weaknesses may exist that have not been identified. We identified one deficiency in internal control that we consider to be a significant deficiency (Finding 2019-01).

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 Leidos' internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Leidos' internal control. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

This report is intended for the information of Leidos, DOD, 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.

CohnReznick LLP

CohnReznick LLP
Bethesda, Maryland
October 1, 2019

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

Board of Directors
Leidos Innovations Corporation
11955 Freedom Drive
Reston, VA, 20190

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

We have audited, the Special Purpose Financial Statement (“SPFS”) and related notes to the SPFS, 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, by Leidos Innovations Corporation (“Leidos”), under the Department of Defense’s (DOD) Non-Standard Rotary Wing Aircraft Contractor Logistics Sustainment Afghanistan Project, Contract No. FA8530-08-D-0008, Order BS01, for the period January 1, 2017, through September 30, 2018. We have issued our report thereon dated October 1, 2019 with an unmodified opinion.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Leidos’ SPFS is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, including potential fraud or abuse that may have occurred. However, providing an opinion on compliance with those provisions, including potential fraud or abuse that may have occurred, was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be under *Government Auditing Standards*. Nevertheless, consistent with our contract with the Office of the Special Inspector General for Afghanistan Reconstruction, we have reported one instance of noncompliance, which we do not deem material to the SPFS (Finding 2019-01).

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 Leidos’ compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Leidos’ compliance. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

This report is intended for the information of Leidos, DOD, 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.

CohnReznick LLP

CohnReznick LLP
Bethesda, Maryland
October 1, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2019-01 - Annual Random Drug Testing Not Performed on All Employees
 Significant deficiency and noncompliance.

Condition:

Leidos did not comply with contractual terms requiring annual random drug tests for all employees. Our audit of Leidos drug-testing documentation covered 49 of [REDACTED] employees and found they did not test 8 employees. Leidos administered annual drug tests exclusively to employees deployed outside the continental United States and who were hired for the performance of the contract’s Statement of Work. Consequently, we are questioning \$506,898 ([REDACTED] of Direct Labor, and [REDACTED] of related Indirect Costs - fringe and general and administrative costs), charged to the contract for services rendered by the 8 employees (see Questioned Cost Exhibit).

Questioned Cost Exhibit					
Employee #	Position	Annual Drug Test Not Administered	Ineligible Labor	Related Fringe and G&A	Total Questioned Costs
1	[REDACTED]	X	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
2	[REDACTED]	X	[REDACTED]	[REDACTED]	[REDACTED]
3	[REDACTED]	X	[REDACTED]	[REDACTED]	[REDACTED]
4	[REDACTED]	X	[REDACTED]	[REDACTED]	[REDACTED]
5	[REDACTED]	X	[REDACTED]	[REDACTED]	[REDACTED]
6	[REDACTED]	X	[REDACTED]	[REDACTED]	[REDACTED]
7	[REDACTED]	X	[REDACTED]	[REDACTED]	[REDACTED]
8	[REDACTED]	X	[REDACTED]	[REDACTED]	[REDACTED]
Total		8	\$ [REDACTED]	\$ [REDACTED]	\$ 506,898

Criteria:

FAR 31.201-2(a), Determining allowability, states:

“A cost is allowable only when the cost complies with all of the following requirements:
 ... (4) Terms of the contract.”

Leidos’ contract, no. FA8530-08-D-0008, Order BS01, Attachment 1 PWS states:

7.1.2 “Contractor shall conduct random drug testing for all employees, . . . , resulting in 100 percent annual testing of all contractor and subcontractor employees.”

Questioned Costs:

Total questioned costs of \$506,898, comprised of [REDACTED] in Direct Labor and [REDACTED] in Indirect Costs, are ineligible.

Cause:

Leidos management assumed that contractual requirements did not apply to all employees, including those employed prior to the start of the contract, and those in support and administrative positions within the continental United States.

Effect:

The Army Contract Command (ACC) paid for ineligible costs. Lack of compliant periodic drug testing procedures increased risk of contract noncompliance. Additionally, the ability of employees to perform their duties may have been impaired if they were under the influence of drugs while working on the contract. Finally, the lack of random testing mitigated the contract provision's potential as a drug-use deterrent.

Recommendations:

1. Leidos should reimburse the ACC \$506,898 or provide documentation showing the eight employees were tested.

APPENDIX A: CORRECTIVE ACTION ON PRIOR AUDIT FINDINGS AND
RECOMMENDATIONS

Prior Audit Report 1



Prior Audit Report 2

The SIGAR Financial Audit Report No. 18-24 *Department of Defense Task Force for Business and Stability Operations' Business Improvement Support: Audit of Costs Incurred by Leidos*, issued January 11, 2018. This audit reviewed costs under a task order, which had the objective of providing direct business improvement support to various lines of operations to include vendor and user training, program management, data analysis, and communications support services in the United States and Afghanistan. This report resulted in two findings:

1. Noncompetitive Procurement; and
2. Cost Reasonableness Determination.

The first finding in this report included recommendations for increased documentation and controls over sole source justifications and competitive procurements. This finding carried no questioned costs.

The second finding in this report included recommendations for Leidos to review and update policies and procedures surrounding cost reasonableness determinations. In addition, the finding recommended the refund of approximately \$19,000 in questioned costs, which resulted from the use of rates that were deemed unreasonable by the auditor.

We made inquiries and requests of Leidos management to determine the nature and extent of corrective action that has been taken as a result of these findings. Per our discussions with the Leidos Lead Administrator for this audit, we determined that as of the date of our report, corrective actions had not been taken and negotiations surrounding questioned costs had not concluded. Both findings and the respective recommendations remain open as of the date of our report.

We took the open status of these findings into consideration in determining the nature, extent, and timing of our audit procedures. Procedures were designed and performed with the objective of gaining reasonable assurance that costs were incurred in accordance with the terms of the contract, FAR, DFARS, and other relevant laws and regulations, including whether procurements were properly competed and that costs were reasonable. Our audit procedures included:

- Review of a sample of sole source procurements under this contract to determine whether the vendor was the only available source for the goods or services being procured and that those goods or services were necessary to complete the scope of work of the contract; and
- Review of a sample of procurements under this contract to determine whether costs in nature and amount did not exceed those which would be incurred by a prudent person in the conduct of competitive business.

As a result of those procedures performed, there were no exceptions noted; no issues related to noncompetitive procurement or cost reasonableness were noted during this audit.

Prior Audit Report 3

The SIGAR Financial Audit Report No. 18-27 *Department of Army's Spare Parts Procurement and Repair Contract: Audit of Costs Incurred by Lockheed Martin Integrated Systems*, issued January 4, 2018. This audit reviewed costs under a contract initially awarded to Lockheed Martin, which was subsequently assumed by Leidos following its merger with Lockheed Martin in 2017. The objective of this contract was to procure and make repairs to spare parts for the Afghan Ministry of Defense's and Ministry of Interior's aircraft. This report resulted in two findings:

1. Excess Fixed Fee; and
2. Missing Background Checks for Employees.

The first finding was resolved through clarification and confirmation of the contract type by the Department of the Army, which is the funding agency. FAR Part 16.306 defines two forms of cost-plus-fixed-fee contracts (Completion Form and Term Form). The fixed fee amounts billed were appropriate for the Completion Form contract types.

The second finding was resolved before final issuance of the report, as noted in the auditors' response to the management response to the findings.

Both findings in this report were resolved prior to final issuance of the report, as documented by the management comments and auditor responses to those comments that are a part of the report. All findings and recommendations in this report have been closed.

**Leidos Innovations Corporation
Financial Audit of the Special Purpose Financial Statement
For the Period from January 1, 2017 through September 30, 2018**

Appendix B - Leidos Innovations Corporation's Management Response

Leidos Proprietary

Leidos Response to Finding 2019-01

Leidos has reviewed the Audit Finding 2019-01 as well as all referenced contract documents and disagrees with the Audit Finding and recommendations.

PWS Paragraph 7.1.2 which requires "random drug testing for all employees, with 8 to 10 percent of employees tested on a monthly basis, resulting in 100 percent annual testing of all contractor and subcontractor employees" falls under Paragraph 7.1 Potential Hires. This paragraph requires the contractor to "conduct pre-employment and periodic screening for potential hires. We (Leidos, formerly LM) understood this to be a requirement for new hires only and not applicable to existing/functional employees that were not hired specifically for the contract and do not work solely on this contract. The 8 employees cited in the audit finding were hired in accordance with the Corporate processes and procedures at the time of hire, prior to the Task Order PWS requirement. Leidos interpreted "Potential Hires" under the contract PWS requirement to be program specific personnel working full time as direct charges to the program. Further, we understood the PWS drug screening requirements to be a CENTCOM requirement and only applicable to employees deploying in country through CRC for two reasons:

First the requirement for this level of drug testing is typically found in all FAA contracts as a result of 14 CFR part 120 (Drug and Alcohol Testing Program). This testing program is required for anyone performing work on aircraft/coming into contact with the aircraft, such as is the case for the OCONUS personnel working on the contract. This testing program requires the mandatory random testing that is substantially similar to that imposed by Section 7.1.2

Second this level of drug testing can be required if the Government imposes DFARS 252.223-7004 (Drug Free Work Force). This DFARS clause also has the requirement for mandatory random testing just like Section 7.1.2. It is typically applied only where the work involves contact with aircraft.

In contrast the only drug testing obligation that is routinely imposed by the Government on contractors generally is that under FAR 52.223-6 (Drug Free Workplace). This FAR clause does not impose random drug testing since the intent is to just ensure drug free facilities and not workers in contrast to the other two clauses that are intended to create drug free workers.

Furthermore, the following information illustrates it was clearly the intent that the requirement for Section 7.1.2 be applied to just the OCONUS personnel since it was expected that all such OCONUS personnel would be coming into contact with the aircraft in some manner.

1. Section 7.0 is entitled "Contractor Personnel Screening". However, the definition of "Contractor Personnel" is provided in Sections 4.0 entitled OCONUS Operations and 6.0 entitled Personnel. In Section 6.0 the term "all Contractor Personnel" or very similar words is repeatedly used but it is only in reference to OCONUS personnel.
 - a. 6.2.1: Contractor personnel shall possess required security clearances prior to arrival in Afghanistan.
 - b. 6.2.1: All personnel in key positions shall have the ability to read, write and speak English

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**Leidos Innovations Corporation
Financial Audit of the Special Purpose Financial Statement
For the Period from January 1, 2017 through September 30, 2018**

Appendix B - Leidos Innovations Corporation's Management Response

Leidos Proprietary

- c. 6.2.5: The Contractor shall ensure that personnel and subcontractor(s) are certified to perform relevant work by the EASA, JAA, FAA etc
 - d. 6.2.8: all Contractor personnel have relevant certifications on assigned aircraft or systems prior to arrival in theater
 - e. 6.2.13: Contractor personnel shall be trained and certified on MHE
2. This portion of the PWS is related to the Scope and Section 4.0 is only about OCONUS Operations. However in 4.4.4 the same term is used: 'All Contractor personnel' who are required to access, view, possess, process, use classified information and information systems shall be identified. So the term "all contractor personnel" is first used in the section 4.0 on OCONUS Operations.

There is actually no instance where these requirements in Section 7.1.2 are applied to CONUS personnel. The only means by which the SIGAR Auditor makes this conclusion is by assuming that the term 'all contractor personnel' as used in section 7.1.2 must mean everyone both CONUS and OCONUS. This conclusion is not based on anything contained in either the PWS or in any communications from the Contracting Officer. It is instead based on the SIGAR auditor making an assumption. In addition it makes little sense to impose these requirement in Section 7.1.2 on CONUS personnel since such personnel will not have any contact with the aircraft, and it is that contact with the aircraft that is the basis for drug free workforce requirements under federal regulations.

The 8 employees cited in the audit report were hired in compliance with Corporate processes and procedures. The Corporate processes and procedures are in compliance with FAR 52.223-6 Drug-Free Workplace and DFAR 252.223-7004 Drug-Free Work Force. Both clauses are included in the F2AST IDIQ contract and therefore applicable to this Order. Furthermore, FAR clause 52.215-8 Order of Precedence is included in the F2AST IDIQ contract. The Order of Precedence clause states the following:

Any inconsistency in this solicitation or contract shall be resolved by giving precedence in the following order:

- (a) The Schedule (excluding the specifications).*
- (b) Representations and other instructions.*
- (c) Contract clauses.*
- (d) Other documents, exhibits, and attachments.*
- (e) The specifications*

Based on the Order of Precedence clause, compliance with the Drug Free Workplace and Workforce clauses override the drug screening requirements found in the Order PWS.

The questioned cost included in Audit Finding 2019-01 is applicable to functional staff of the PMO that are CONUS. Our CONUS employees are largely functional employees not solely working on this contract. All of the functional employees included in the finding were hired prior to the award of FA8530-08-D-0008, Order BS01 and therefore followed the DFARS compliant hiring policies that were in place at the time of hire.

**Leidos Innovations Corporation
Financial Audit of the Special Purpose Financial Statement
For the Period from January 1, 2017 through September 30, 2018**

Appendix B - Leidos Innovations Corporation's Management Response

Leidos Proprietary

[REDACTED] nor is it a FAR or DFARS requirement. The requirement for a 10 panel drug test and random drug testing is driven by FAA and CENTCOM requirements for OCONUS and deploying employees. CONUS personnel do not fall under the FAA or CENTCOM requirements. Further, these employees were Leidos/LM employees prior to working this contract [REDACTED]

All of the OCONUS employees followed USG requirements IAW Contract Clause DFAR 252.225-7995, Contractor Personnel Performing in the US CENTCOM AOR, excerpt below. Leidos has record of CRC approval and LOAs for all OCONUS employees.

(e) Preliminary personnel requirements.

(1) The Contractor shall ensure that the following requirements are met prior to deploying CAAF (specific requirements for each category will be specified in the statement of work or elsewhere in the contract):

(i) All required security and background checks are complete and acceptable.

(ii) All CAAF deploying in support of an applicable operation

(A) Are medically, dentally, and psychologically fit for deployment and performance of their contracted duties;

(B) Meet the minimum medical screening requirements, including theater-specific medical qualifications as established by the geographic Combatant Commander (as posted to the Geographic Combatant Commanders website or other venue); and

(C) Have received all required immunizations as specified in the contract.

(1) During predeployment processing, the Government will provide, at no cost to the Contractor, any military-specific immunizations and/or medications not available to the general public.

(2) All other immunizations shall be obtained prior to arrival at the deployment center.

(3) All CAAF and selected non-CAAF, as specified in the statement of work, shall bring to the USCENTCOM AOR a copy of the Public Health Service Form 791, "International Certificate of Vaccination" that shows vaccinations are current.

(iii) Deploying personnel have all necessary passports, visas, and other documents required to enter and exit the USCENTCOM AOR and have a Geneva Conventions identification card, or other appropriate DoD identity credential, from the deployment center.

(iv) Special area, country, and theater clearance is obtained for all personnel deploying. Clearance requirements are in DoD Directive 4500.54E, DoD Foreign Clearance Program. For this purpose, CAAF are considered non-DoD contractor personnel traveling under DoD sponsorship.

Finally, the Contracting Officer's Representative (COR) was involved in the process of spot checking all of the PWS Pre-Screening and Drug Testing populations. The functional CONUS employees were never included in these checks so it was understood we were complying with the contract and PWS requirements and MASPO/ACC was in concurrence.

Appendix C - CohnReznick Response to Leidos Innovations Corporation's Management Response

In the opening paragraphs of the management response, Leidos disagrees with Finding 2019-01 and explains that its understanding of the cited contract requirement was that drug testing only applied to employees hired after the task order award. Leidos states that it understood the cited drug testing requirement to be a United States Central Command (CENTCOM) requirement which would only be applicable to employees deploying OCONUS. To support its rationale, Leidos has presented two situations in its response for which it has historically had to carry out random annual drug testing, equivalent to the type of drug testing being questioned by Finding 2019-01. In both examples presented, Leidos states that only those individuals that come into contact with aircraft would be subject to the annual drug testing requirements. CohnReznick does not accept this rationale, as those examples are not regulation and should not be applied outside of their specific context. We noted no language in the Leidos contract requirements that limited the scope of personnel to those working on the aircraft.

The first section of Leidos' response also points out that the annual drug testing requirement falls under Section 7.1 of the PWS which is titled *POTENTIAL HIRES*. Leidos states that the employees in question were not potential hires at the time of the contract award and therefore would not be subject to the requirements of Section 7.1 of the PWS. We disagree. Section 7.1 of the PWS, prior to going into the related subsections, reads,

*“The Contractor shall conduct pre-employment and periodic screening for potential hires and shall monitor employees (including subcontractors). Pre-employment (and periodic) screening requirements will differ, based on whether the contractor employee is a US Citizen, **Third Country National (TCN)**, or **Local National (LN)** – Citizen of Afghanistan.”*

CohnReznick feels that this language clearly identifies that there are pre-employment and periodic screening requirements listed within this section and its subsections, despite the header only mentioning “*POTENTIAL HIRES*”.

Leidos continues its response with the claim that certain language in the PWS (the cited criteria), clearly shows that the intent of the requirement was for the drug testing to apply only to OCONUS personnel, as all of those individuals would come into contact with aircraft. Leidos claims that the term Contractor Personnel is defined by Sections 4.0 and 6.0 of the PWS, *OCONUS OPERATIONS* and *PERSONNEL*, respectively. We disagree with this claim. While “contractor personnel” is a term used throughout those sections, it is not defined in those sections of the PWS in any way that limits the definition/usage to mean OCONUS personnel or personnel coming in to contact with the aircrafts. We maintain that contractor personnel is not meant to be a specifically defined term within the PWS, as it is not bolded, such as the terms Third Country National and Local National, which are defined terms and are bolded in the PWS. In many instances, sections 4.0 and 6.0 of the PWS are more specific and use language such as “in support of the flight operations” and “on-site” to limit other requirements to those personnel coming in contact with the aircraft or that would be OCONUS (on-site). We also note that Section 8.0 of the PWS is titled *OCONUS PERSONNEL*, which would suggest the requirements of Section 6.0 *PERSONNEL* are not restricted to OCONUS personnel as Leidos is claiming. The criteria for Finding 2019-01 comes from Section 7.0

Appendix C - CohnReznick Response to Leidos Innovations Corporation's Management Response

CONTRACTOR PERSONNEL SCREENING, which is not a subsection of section 4.0, 6.0, or 8.0: We maintain that the criteria cited from the PWS applies to “all contractor and subcontractor employees” without any such limitations of that definition as those claimed by Leidos.

Leidos states that CohnReznick made the assumption that “all contractor personnel” as used in section 7.1.2 of the PWS means both CONUS and OCONUS personnel and that this assumption would be inappropriate. Without clear definition of the term by the PWS to the contrary, we maintain that the common usage definition of “all contractor personnel” in fact does include all personnel, both CONUS and OCONUS. The onus falls to Leidos to prove that that term has in fact been defined and limited to only include OCONUS personnel coming in contact with the aircraft. Any limitation of who is included would not meet the definition of “all.” Leidos has not provided any such evidence and, therefore, we have not removed the finding.

Leidos provides information that the eight personnel in question were subject to the standard hiring processes of Leidos and that those procedures comply with FAR 52.223-6 Drug-Free Workplace and DFARS 252.223-7004 Drug-Free Work Force. Leidos continues this part of its response by providing the Order of Precedence and stating that the IDIQ contract would take precedence over the Task Order PWS. While we agree that this would be the order of precedence, we disagree that this applies to Finding 2019-01. The PWS requirement is not in conflict with the requirements of FAR 52.223-6 Drug-Free Workplace and DFARS 252.223-7004 Drug-Free Work Force. Rather, the PWS provides additional and more stringent requirements that are directly related to this Task Order.

We have no evidence that contradicts Leidos' claims that the eight individuals in question “are largely functional employees not solely working on this contract” and that “All of the functional employees included in the finding were hired prior to the award of FA8530-08-D-0008, Order BS01”. However, these claims do not make those individuals compliant with the required annual drug testing requirements of PWS Section 7.1.2, which requires “100 percent annual testing of all contractor and subcontractor employees.” Functional employees are employees and fall under the scope of “all contractor and subcontractor employees.”

Leidos makes several claims as to what drives the FAA and CENTCOM drug testing requirements. We do not accept those claims, as Leidos is not, and cannot speak directly for, the FAA or CENTCOM. Further, FAA and CENTCOM are not the awarding agency of this contract/task order. Thus, FAA and CENTCOM interpretations would not be applicable to this contract unless specifically stated as such by the contract. We did not note any such declarations within Leidos' contract.

Leidos closes its response by stating that the COR was involved in the process of spot checking all of the PWS Pre-Screening and Drug Testing populations. CohnReznick has no evidence to confirm or deny the COR's involvement. However, the inherent nature of a “spot-check” is that it is not complete. Thus, regardless of who performed said check, there should not have been reliance on that spot check to prove completeness of the population. Further, the contract dictates Leidos'

Appendix C - CohnReznick Response to Leidos Innovations Corporation's Management Response

requirements under performance of this contract. Regardless of COR involvement, Leidos is ultimately responsible for full compliance with the contract terms.

No additional support was provided with Leidos' management response. We did not find any part of Leidos' management response definitive and compelling enough to show that Finding 2019-01 is inaccurate. We have maintained the finding as it was originally produced.

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;
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- prevent fraud, waste, and abuse; and
- advance U.S. interests in reconstructing Afghanistan.

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