

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On March 27, 2013, the Army Contracting Command (ACC) awarded a cost-plus-fixed-fee contract worth \$121,505,386 to Engility Corporation (Engility) to support the Law Enforcement Professionals (LEP) program. The objectives were to advise, assist, mentor, and train U.S. and coalition forces, provide experienced law enforcement personnel, and help the U.S. and coalition forces identify and target the criminal insurgent network. After 28 modifications, the total funding decreased to \$94,301,244, and the period of performance was extended from June 30, 2014, to June 30, 2019.

SIGAR's financial audit, performed by Conrad LLP (Conrad), reviewed ██████████ in costs charged to the contract from January 1, 2016, through June 30, 2018. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in Engility's internal controls related to the contract; (2) identify and report on instances of material noncompliance with the terms of the contract and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether Engility has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of Engility's Special Purpose Financial Statement (SPFS). See Conrad'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 Conrad did not comply, in all material respects, with U.S. generally accepted government auditing standards.

March 2019

Department of the Army's Law Enforcement Professionals Program: Audit of Costs Incurred by Engility Corporation

SIGAR 19-23-FA

WHAT THE AUDIT FOUND

Conrad identified one significant deficiency and one deficiency in Engility's internal controls, and two instances of noncompliance with the terms and conditions of the contract and applicable regulations. For example, Conrad tested records for 25 of 90 employees to determine whether the costs were supported and allowable. Engility could not provide supporting documentation to demonstrate that 16 of the employees had finished required training or that 4 employees had background checks before deployment. Furthermore, the auditors found that seven employees entered or approved time cards before the period ended and one employee approved his time on one of his time cards. Conrad also found that Engility charged ACC twice for one airline ticket.

Because of these internal control deficiencies and instances of noncompliance, Conrad identified \$6,054,235 in total questioned costs, consisting of \$6,034,454 in ineligible costs—costs prohibited by the contract, applicable laws, or regulations—and \$19,781 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Category	Ineligible Costs	Unsupported Costs	Total Questioned Costs
Labor	\$3,921,414	\$13,232	\$3,934,646
Hazard Pay	\$1,837,083	\$5,708	\$1,842,791
Fixed Fees	\$273,335	\$841	\$274,176
Other Direct Costs	\$2,622	\$0	\$2,622
Total Questioned Costs	\$6,034,454	\$19,781	\$6,054,235

Conrad identified a July 2015 SIGAR audit report that was relevant to Engility's contract. The audit had two findings that could have a material effect on the SPFS and other financial data significant to the audit objectives. Conrad conducted follow-up procedures and concluded that Engility had taken adequate corrective action on the findings, which were not repeated in this audit.

Conrad issued a modified opinion on Engility's SPFS because the amount of questioned costs it identified was material.

WHAT SIGAR RECOMMENDS

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

- Determine the allowability of and recover, as appropriate, \$ 6,054,235 in questioned costs identified in the report.**
- Advise Engility to address the report's two internal control findings.**
- Advise Engility to address the report's two noncompliance findings.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

March 8, 2019

The Honorable Patrick M. Shanahan
Acting Secretary of Defense

The Honorable Mark T. Esper
Secretary of the Army

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

We contracted with Conrad LLP (Conrad) to audit the costs incurred by Engility Corporation (Engility) under a U.S. Army Contracting Command (ACC) cost-plus-fixed-fee contract for the Law Enforcement Professionals Program.¹ The purpose of the contract was to advise, assist, mentor, and train U.S. and coalition forces, provide experienced law enforcement personnel, and help U.S. and coalition forces identify and target the criminal insurgent network. Conrad reviewed [REDACTED] in costs charged to the contract from January 1, 2016, through June 30, 2018. Our contract with Conrad 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, \$6,054,235 in questioned costs identified in the report.**
- 2. Advise Engility to address the report's two internal control findings.**
- 3. Advise Engility to address the report's two noncompliance findings.**

The results of Conrad's audit are discussed in detail in the attached report. We reviewed Conrad'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 Engility's Special Purpose Financial Statement. We also express no opinion on the effectiveness of Engility's internal control or compliance with the contract, laws, and regulations. Conrad is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances in which Conrad 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-139)

¹ The contract number is W91CRB-13-C-0021.

ENGILITY CORPORATION

Financial Audit of Costs Incurred Under
Contract No. W91CRB-13-C-0021
Law Enforcement Professionals (“LEP”) Program

For the Period January 1, 2016 through June 30, 2018

ENGILITY CORPORATION

Financial Audit of Costs Incurred Under
Contract No. W91CRB-13-C-0021
Law Enforcement Professionals (“LEP”) Program

For the Period January 1, 2016 – June 30, 2018

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February 7, 2019

Board of Directors
Engility Corporation
Chantilly, Virginia

Special Inspector General for Afghanistan Reconstruction ("SIGAR")
Arlington, VA

Conrad LLP (referred to as "Conrad" or "we") hereby provides to you our draft report, which reflects results from the procedures we completed during our audit of Engility Corporation, Inc.'s ("Engility's") Special Purpose Financial Statement ("SPFS") for costs incurred under the U.S. Army Contracting Command – Aberdeen Proving Ground ("ACC-APG") Contract No. W91CRB-13-C-0021 for the period January 1, 2016 through June 30, 2018 to support the Law Enforcement Professionals ("LEP") Program in Afghanistan.

On November 16, 2018, we provided SIGAR with a draft report reflecting our audit procedures and results. Engility received a copy of the report on December 18, 2018 and provided written responses subsequent thereto. These responses have been considered in the formation of the final report, along with the written and oral feedback provided by SIGAR and Engility. Engility's responses and our corresponding auditor analysis are incorporated into this report following our audit reports.

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

Sincerely,

A handwritten signature in blue ink that reads "S Perera".

Sam Perera, CPA, CFE, CITP, CGMA
Partner

Background

On March 27, 2013, the U.S. Army Contracting Command – Aberdeen Proving Ground (“ACC-APG”) awarded a Cost-Plus Fixed Fee (“CPFF”) Contract No. W91CRB-13-C-0021 (“Contract”) to Engility Corporation (“Engility”) to support the Law Enforcement Professionals (“LEP”) Program in Afghanistan. The program objectives were 1) to advise, assist, mentor and train US and Coalition Forces to better execute their law enforcement related responsibilities, 2) to provide US forces with experienced law enforcement personnel with criminal, investigative, analytical skills and ability to teach basic community policing skills, 3) to assist US and Coalition commanders to understand, identify, target, and suppress criminal-like insurgent network enterprise and special group criminals, and 4) LEP personnel must be partnered and working under the direct oversight of the US military personnel and not conduct autonomous operations of any kind. Under the contract, Engility was required to provide 355 experienced former law enforcement personnel.

The original contract amount was \$121,505,386 [REDACTED] for the period of April 1, 2013 through June 30, 2014. After 28 modifications to the contract, the funding decreased to \$94,301,244 and the period of performance was extended from June 30, 2014 through June 30, 2019. Our audit procedures reviewed [REDACTED] in expenditures and covered the period of performance from January 1, 2016 through June 30, 2018.

Work Performed

Conrad LLP (“Conrad”) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) to conduct a financial audit of Engility’s Special Purpose Financial Statement (“SPFS”) for costs incurred under ACC-APG Contract No. W91CRB-13-C-0021 for the period January 1, 2016 through June 30, 2018.

Objectives, Scope, and Methodology

Objectives Defined by SIGAR

The objectives of the audit include the following:

- *The Special Purpose Financial Statement (“SPFS”)* – Express an opinion on whether Engility’s SPFS for the contract presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government, and balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.
- *Internal Controls* – Evaluate and obtain a sufficient understanding of Engility’s internal controls related to the contract; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether Engility 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 award and applicable laws and regulations, including potential fraud or abuse that may have occurred.

- *Corrective Action on Prior Findings and Recommendations* – Determine and report on whether Engility 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.

Scope

The scope of this audit included all costs incurred during the period January 1, 2016 through June 30, 2018 under the Contract. Our testing of indirect cost was limited to determining that the indirect cost was calculated using the correct final negotiated indirect cost rates or provisional indirect cost rates, as applicable for the given fiscal year, as approved by the Defense Contract Management Agency (“DCMA”).

Methodology

In order to accomplish the objectives of this audit, we designed our audit procedures to include the following:

Entrance Conference

An entrance conference was held via conference call on August 1, 2018. Participants included representatives of Conrad, Engility, SIGAR, and ACC-APG.

Planning

During our planning phase, we performed the following:

- Obtained an understanding of Engility;
- Reviewed the Contract and all modifications;
- Reviewed regulations specific to ACC-APG that are applicable to the Contract;
- Performed a financial reconciliation; and
- Selected samples based on our sampling techniques. According to the SIGAR’s approved Audit Plan, we used the detailed accounting records that were reconciled to the financial reports, and based upon the risk assessment and materiality included as part of the approved Audit Plan, we performed data mining to assess individual expenditure accounts and transactions that were considered to be high or medium to low risk for inclusion in our test of transactions. None of the populations were homogeneous in nature, which means none of the cost transactions are identical in nature, thus statistical sampling was not used. All samples were selected on a judgmental basis. Our sampling methodology were judgmental, and the sampling methodology was as follows:
 - For accounts that appeared to contain unallowable and restricted items according to the terms of the contract, Federal Acquisition Regulation (“FAR”) Part 31, and any other applicable regulations, we tested 100% of the transactions.
 - For related party transactions, we tested 100% of the transactions.

- For high risk cost categories, we sampled transactions greater than \$97,000 not to exceed 30% of the total amount expended for each cost category
- For medium risk cost categories, we sampled transactions greater than \$194,000 not to exceed 20% of the total amount expended for each cost category.
- For low risk cost categories, we sampled transactions that are greater than \$194,000 not to exceed 10% of the total amount expended for each cost category, and not to exceed 50 transactions in total for all accounts comprising low risk cost categories.

If the results of a judgmental sample indicated a material error rate, our audit team consulted with the Audit Manager and Project Director as to whether the sample size should be expanded. If it appeared that based upon the results of the judgmental sample, an entire account was deemed not allowable, we did not expand our testing, but instead questioned the entire account.

Internal Controls Related to the Contract

We reviewed Engility's internal controls related to the SPFS. This review was accomplished through interviews with management and key personnel, reviewing of policies and procedures, identifying key controls within significant transaction cycles, and testing those key controls.

Compliance with Agreement Requirements and Applicable Laws and Regulations

We performed tests to determine whether Engility complied, in all material respects, with the contract requirements and applicable laws and regulations; and identified and reported on instances of material noncompliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred.

Corrective Action on Prior Findings and Recommendations

We requested from Engility as well as conducted a search online to various governmental websites including SIGAR, Department of Defense (DoD), and other applicable Federal agencies for all reports from previous engagements in order to evaluate the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS. See the Review of Prior Findings and Recommendations subsection of this Summary for this analysis.

Special Purpose Financial Statements

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Contract and general ledger;
- Traced receipt of funds to the accounting records; and
- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the Contract, and reasonable.

Exit Conference

An exit conference was held on November 6, 2018 via conference call. Participants included representatives from Conrad, Engility, SIGAR, and ACC-APG. During the exit conference, we discussed the preliminary results of the audit and reporting process.

Summary of Results

Our audit of the costs incurred by Engility under the Contract with ACC-APG identified the following matters. Findings are classified as either internal control or compliance or a combination of internal control and compliance.

Auditor's Opinion on the SPFS

Conrad issued a modified opinion on the fairness of the Special Purpose Financial Statement due to a material amount of questioned costs having been identified during the audit.

We identified \$6,054,235 in total questioned costs because they were ineligible and unsupported which we considered to be material on the SPFS. Ineligible costs are explicitly questioned because they are unreasonable; prohibited by the audited task order or applicable laws and regulations; or not award related. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

The following summary is intended to present an overview of the audit results and is not intended to be a representation of the audit's results in their entirety.

Summary of Findings and Questioned Costs

Finding Number	Nature of Finding	Matter	Ineligible Costs	Unsupported Costs	Cumulative Questioned Cost
2018-01	Non-compliance	Missing Evidence of Required Trainings and Background Checks	\$6,031,716		\$6,031,716
2018-02	Internal control – significant deficiency Non-compliance	Lack of Adherence to Engility's Timekeeping Policy		\$19,781	\$6,051,497
2018-03	Internal control – deficiency	Duplicate Cost Claimed	\$2,738		\$6,054,235
Total Questioned Costs			\$6,034,454	\$19,781	\$6,054,235

Internal Control Findings

Our audit discovered two internal control findings, consisting of one significant deficiency and one deficiency. See Independent Auditor’s Report on Internal Control on page 14. The complete management responses from Engility to each of the internal control findings can be found in Appendix A to this report.

Compliance Findings

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we performed tests of its compliance with certain provisions of the Contract and other laws and regulations, noncompliance with which could have a direct and material effect on the determination of the SPFS. The results of our tests disclosed two instances of noncompliance related to this audit. See Independent Auditor’s Report on Compliance on page 19. The complete management responses from Engility to each of the compliance findings can be found in Appendix A to this report.

In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under *Government Auditing Standards*. Evidence of such items was not identified by our testing.

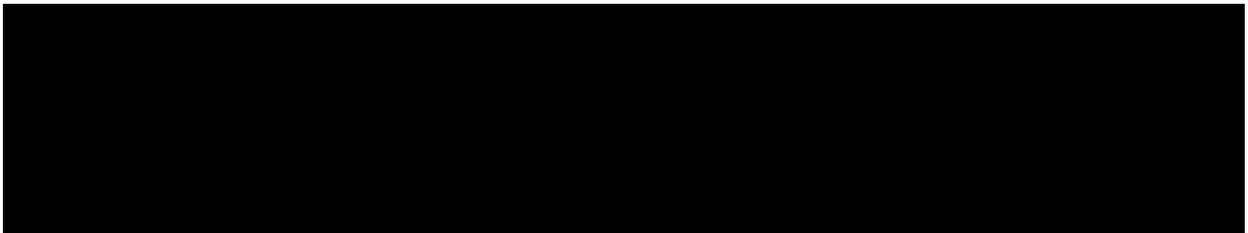
Review of Prior Findings and Recommendations

We requested from Engility, SIGAR and conducted additional research for any prior engagements including audits, reviews, and evaluations pertinent to Engility’s activities under this contract. We had identified one prior audit report conducted by the Special Inspector General for Afghanistan Reconstruction (SIGAR) SIGAR 15-72 FA named “*Department of the Army’s Ministry of Interior Program: Audit of Costs Incurred by L-3 Services, Inc.*” (L-3 was rebranded in 2015 as Engility LLC) for the period of May 10, 2010 through April 30, 2011. Based on our review of this report, we identified two findings that could have a material effect on the SPFS and on other financial data significant to the audit objectives. We conducted follow-up procedures including discussion with management, reviewed evidence of the revised policies and procedures and performed testing of similar areas surrounding these issues during our current audit. Accordingly, we have concluded that Engility had taken adequate corrective action on those findings and we did not notice them during this audit. See Status of Prior Audit Findings on page 19 for a detailed description of the prior findings and recommendations.

Summary of Engility’s Responses to Findings

The following represents a summary of the responses provided by Engility to the findings identified in this report. The complete responses received can be found in Appendix A to this report.

-



[REDACTED]

- [REDACTED]

- [REDACTED]



INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Directors
Engility Corporation
Chantilly, Virginia

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 accompanying Special Purpose Financial Statement of Engility Corporation ("Engility") and the related notes to the Special Purpose Financial Statement, with respect to Contract No. W9CRB-13-C-0021, Law Enforcement Professionals ("LEP") Project, for the period January 1, 2016 through June 30, 2018.

Management's Responsibility for the Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of the Special Purpose Financial Statement in accordance with the requirements provided by the Office of the Special Inspector General of 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 Special Purpose Financial Statement that is free from material misstatement, whether due to fraud or error.

Auditors' 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 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 Special Purpose Financial Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Special Purpose Financial Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Special Purpose Financial Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Engility's preparation and fair presentation of the Special Purpose Financial 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 Engility'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

(Continued)

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accounting estimates made by management, as well as evaluating the overall presentation of the Special Purpose Financial Statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

We identified several transactions totaling \$6,054,235 that were questionable based upon our review of the underlying support for the specified transactions. The total questioned cost amount is considered material to the Special Purpose Financial Statement.

Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received and costs incurred by Engility under the Contract for the period January 1, 2016 through June 30, 2018 in accordance with the basis of accounting described in Note 3.

Basis of Presentation

We draw attention to Note 2 to the Special Purpose Financial Statement, which describes the basis of presentation. The Special Purpose Financial Statement was prepared by Engility in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction and presents those expenditures as permitted under the terms of Contract No. W9CRB-13-C-0021, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the Contract referred to above. Our opinion is not modified with respect to this matter.

Restriction on Use

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 7, 2019 on our consideration of Engility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Engility's internal control over financial reporting and compliance.

Conrad LLP

Lake Forest, California
February 7, 2019

(Continued)

ENGILITY CORPORATION

Financial Audit of Costs Incurred Under
Contract No. W91CRB-13-C-0021
Law Enforcement Professionals ("LEP") Project

Special Purpose Financial Statement

For the Period January 1, 2016 – June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>		<u>Total</u>	<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>		
Revenues:						
W9CRB-13-C-0021	██████████	██████████	\$ _____	\$ _____	\$ _____	
Total revenues	- ██████████	- ██████████	_____ -	_____ -	_____ -	
Costs incurred:						(1)
Direct Labor	██████████	██████████	3,921,414	13,232	3,934,646	(A)
Hazard Pay	██████████	██████████	1,837,083	5,708	1,842,791	(B)
Other Direct Costs /Travel	██████████	██████████	2,622	-	2,622	(C)
DBA Insurance	██████████	██████████	-	-	-	
Fixed Fees	- ██████████	- ██████████	273,335	841	274,176	(D)
Total costs incurred	- ██████████	- ██████████	\$ 6,034,454	\$ 19,781	\$ 6,054,235	
Outstanding fund balance	\$ _____ -	\$ _____ -				

See Notes to the Special Purpose Financial Statement
And Notes to Questioned Costs Presented on the Special Purpose Financial Statement

ENGILITY CORPORATION

Financial Audit of Costs Incurred Under
Contract No. W91CRB-13-C-0021

Notes to the Special Purpose Financial Statement

(1) **Engility Background**

Engility delivers innovative solutions to critical challenges facing the nation and the world. As a premier provider of integrated services for the U.S. government, Engility supports the Department of Defense, intelligence community, space communities, federal civilian agencies, and international customers. Engility is dedicated to making lives better, safer, and more secure. On February 26, 2015, Engility Holdings, Inc. completed its acquisition of TASC, Inc. in an all-stock transaction valued at approximately \$1.3 billion, including the assumption of net debt. For 2017, the Company generated revenue of approximately \$1.9 billion and adjusted earnings before interest, tax, depreciation, and amortization ("EBITDA") of \$171 million with a workforce of more than 9,000 skilled professionals.

(2) **Basis of Presentation**

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Contract Number W91CRB-13-C-0021 for the Law Enforcement Professionals ("LEP") Program for the period January 1, 2016 through June 30, 2018. Because the Statement presents only a selected portion of the operations of Engility Corporation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Engility Corporation. 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 award. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(3) **Basis of Accounting**

Expenditures reported on the Statement are reported on 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.

(4) **Costs Incurred**

The budget categories, represented by Contract Line Item Numbers ("CLINs"), reflect the budget line items presented within the final approved contract budget along with the associated modifications to the contract dated January 1, 2018. CLINs include both direct and indirect costs as there were no separate CLINs designated for indirect costs.

(5) **Currency**

For purposes of preparing the Special Purpose Financial Statement, conversions from local currency to United States dollars were not required. All amounts are recorded in U.S. dollars.

¹ The Notes to the Special Purpose Financial Statement are the responsibility of Engility.

(6) Revenues

Revenues on the Special Purpose Financial Statement represent the amount of funds to which Engility Corporation is entitled to receive for allowable, eligible costs incurred under the contract and fixed fees earned during the period of performance.

(7) Revenues Recognition

Cost reimbursable tasks are recognized based on costs incurred plus applicable indirect rates and the proportion of fees associated with the portion of the task completed. Firm Fixed Price tasks are recognized based on the proportion of work completed in comparison to the overall task value. Revenue is calculated using actual indirect rates. These rates are subject to review by the Defense Contract Audit Agency ("DCAA") through Engility's incurred cost submissions. The final outcome of these reviews may result in a rate adjustment which could increase or decrease the revenue recognized in the Special Purpose Financial Statement.

(8) Budget

Amounts presented in the Budget column of the Special Purpose Financial Statement reflect the total authorized funding as of Modification P00024 dated January 1, 2018.

(9) Outstanding Fund Balance

The balance presented on the Statement represents the difference between revenues earned and costs incurred plus fees earned. For the period ending June 30, 2018, the outstanding fund balance amounted to \$0. An amount greater than \$0 would reflect that revenues have been earned that exceed the costs incurred or charged to the contract, and an amount less than \$0 would indicate that costs have been incurred but are pending additional evaluation before final determination. The Special Purpose Financial Statement includes a balance of \$0 as of June 30, 2018.

(10) Program Status

The Law Enforcement Professionals Program is still an ongoing contract. Engility was awarded option year six which began July 1, 2018. The current period of performance end date is December 31, 2019.

(11) Subsequent Events

Engility evaluated subsequent events through February 7, 2019, through which the Special Purpose Financial Statement was available to be issued. Engility concluded that no subsequent events have occurred that would require recognition or disclosure in the Statement.

ENGILITY CORPORATION

Financial Audit of Costs Incurred Under
Contract No. W91CRB-13-C-0021
For the Period January 1, 2016 through June 30, 2018

Notes to Questioned Costs Presented on the Special Purpose Financial Statement²

(A) Direct Labor

Engility reported direct labor on the SPFS in the amount of [REDACTED] for the period January 1, 2016 through June 30, 2018.

During our audit of these costs, we noted Engility was not able to provide evidence that employees had met the pre-deployment requirements which totaled [REDACTED] which resulted in total ineligible costs of \$3,921,414 being charged to this contract during the audited period of performance. See Finding No. **2018-01** in the Schedule of Findings and Questioned Costs section of this report.

In addition, we noted employee's times were entered and/or approved prior to the period end, which totaled [REDACTED] which resulted in total unsupported costs of \$13,232 being charged to this contract during the audited period of performance. See Finding No. **2018-02** in the Schedule of Findings and Questioned Costs section of this report.

(B) Hazard Pay

Engility reported hazard pay in the amount of [REDACTED] for the period January 1, 2016 through June 30, 2018. [REDACTED]. Due to the questioned labor costs identified in **Note A** above for **Finding 2018-01** and **Finding 2018-02**, we further questioned the associated hazard pay related to the employees identified in these two findings which totaled [REDACTED] and associated G&A of [REDACTED] which resulted in total questioned costs of \$1,842,791.

(C) Other Direct Costs/Travel

Engility reported other direct costs/travel in the amount of [REDACTED] for the period January 1, 2016 through June 30, 2018. During our audit of these costs, we noted a duplicate charge was claimed for travel costs which totaled [REDACTED] which resulted in a total ineligible cost of \$2,622. See Finding No. **2018-03** in the Schedule of Findings and Questioned Costs section of this report.

(D) Fixed Fee

Engility reported fixed fees in the amount of [REDACTED] for the period from January 1, 2016 through June 30, 2018. Fees are applied on total incurred costs at [REDACTED] for the period of January 1, 2016 through December 31, 2017 and [REDACTED] for the period of January 1, 2018 through June 30, 2018. The fees associated with the findings identified in **Note A through C** above totaled \$274,176.

² The Notes to Questioned Costs presented on the Special Purpose Financial Statement were prepared by the auditor for informational purposes only and as such are not part of the audited Special Purpose Financial Statement.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Board of Directors
Engility Corporation
Chantilly, Virginia

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 of Engility Corporation, ("Engility") representing revenues received and costs incurred under Contract No. W91CRB-13-C-0021 with the U.S. Army Contracting Command – Aberdeen Proving Ground ("ACC-APG") Law Enforcement Professionals Program for the period January 1, 2016 through June 30, 2018, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated February 7, 2019. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Special Purpose Financial Statement is free from material misstatement.

Internal Control over Financial Reporting

Engility'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 2 to the Statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the special purpose financial statement of Engility for the period January 1, 2016 through June 30, 2018, we obtained an understanding of internal control. With respect to internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the special purpose financial statement and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

(Continued)

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and 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. We identified two findings reported in the accompanying Schedule of Findings and Questioned Costs as Findings 2018-02 and 2018-03 which are considered to be deficiencies.

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify one deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2018-02, that we consider to be a significant deficiency.

Engility's Response to Findings

Engility's response to the findings identified in our audit is included verbatim in Appendix A. Engility's response 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 internal control, and the result of that testing, and not to provide an opinion on the effectiveness of Engility'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 Engility Corporation, the U.S. Army Contracting Command – Aberdeen Proving Ground, and the Special Inspector General for Afghanistan Reconstruction, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

(Continued)

Conrad LLP

Lake Forest, California
February 7, 2019



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Board of Directors
Engility Corporation
Chantilly, Virginia

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 of Engility Corporation ("Engility") representing revenues received and costs incurred under Contract No. W91CRB-13-C-0021 with the U.S. Army Contracting Command – Aberdeen Proving Ground ("ACC-APG") Law Enforcement Professionals Program for the period January 1, 2016 through June 30, 2018, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated February 7, 2019. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Special Purpose Financial Statement is free from material misstatement.

Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the contract corresponding modifications are the responsibility of the management of Engility Corporation.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Engility's Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned Contract, 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. As we performed our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. The results of our tests disclosed two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2018-01 and 2018-02.

(Continued)

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Engility's Response to Findings

Engility's response to the findings identified in our audit is included verbatim in Appendix A. Engility's response 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 internal control. Accordingly, this communication is not suitable for any other purpose.

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



Lake Forest, California
February 7, 2019

ENGILITY CORPORATION

Financial Audit of Costs Incurred Under
Contract No. W91CRB-13-C-0021

For the Period January 1, 2016 through June 30, 2018

Status of Prior Audit Findings

We requested from Engility, SIGAR and conducted additional research for any prior engagements including audits, reviews, and evaluations pertinent to Engility's activities under this contract. We had identified one prior audit report conducted by the Special Inspector General for Afghanistan Reconstruction (SIGAR) SIGAR 15-72 FA named "*Department of the Army's Ministry of Interior Program: Audit of Costs Incurred by L-3 Services, Inc.*" (L-3 was rebranded in 2015 as Engility LLC) for the period of May 10, 2010 through April 30, 2011 which was conducted by Crowe Horwath LLP on behalf of SIGAR and was issued by SIGAR in July 2015.

The report had two findings that could have material effect on the SPFS and other financial data significant to the audit objectives. These findings are summarized below:

Report: SIGAR 15-72 FA "*Department of the Army's Ministry of Interior Program: Audit of Costs Incurred by L-3 Services, Inc.*" (L-3 was rebranded in 2015 as Engility LLC) for the period of May 10, 2010 through April 30, 2011, which was conducted by Crowe Horwath LLP on behalf of SIGAR and was issued by SIGAR on July 2015.

Finding 2015-01 (Removed during Final Report): SIGAR identified [REDACTED]
[REDACTED]

Status: In our follow up of this matter, it was determined that Engility [REDACTED]
[REDACTED] to the audit, Engility was able to locate the original invoice, and the support documents were provided to the auditors on May 5, 2015 via email. In addition, during our testing of travel costs, we did not identify any deficiencies related to lack of supporting documentation on this contract. Accordingly, this finding was closed and not repeated under this audit.

Finding 2015-02 (Revised to Finding 2015-01 during Final Report due to removing the original Finding 2015-01 referenced above): During the testing of cash management activity, it was noted that Engility was unable to provide supporting documentation demonstrating that a management review and approval of invoices took place for the invoices submitted to government.

Status: During our follow up of this matter, it was determined that Engility has normalized its policies and procedures as a result of its acquisition of TASC, Inc. Management has amended the procedures to incorporate the step of documenting the invoice review and approval process. In addition, during our testing of Direct Labor, Hazard Pay, DBA Insurance, Travel, and Other Direct Costs, we did not identify any deficiencies related to management approval of invoices on this contract. Accordingly, this finding was closed and not repeated under this audit.

(Continued)

ENGILITY CORPORATION

Financial Audit of Costs Incurred Under
Contract No. W91CRB-13-C-0021
For the Period January 1, 2016 through June 30, 2018

Schedule of Findings and Questioned Costs

Finding 2018-01: Missing Evidence of Required Trainings and Background Checks

Nature of Finding: Non-compliance

Condition: Conrad judgmentally selected 25 out of 90 Engility employees that were charged to this project to determine if the costs incurred were adequately supported and allowable. During the testing, Engility was unable to provide supporting documentation or evidence whether the required training(s) conducted for 16 employees were completed. In addition, Engility could not provide any supporting documentation and evidence whether the background checks completed for four employees prior to deployment. Three out of the four employees without background checks also did not complete the required trainings. The completion of training (s) and the background checks were required under the contract for this project.

Criteria: Contract No. W91CRB-13-C-0021, section **C.6 Training**, states, in part:

“The following represent the minimum training requirements for contractor personnel working under this PWS. Contractor will retain records of all individual training.

C.6.a. Orientation Training (prior to deployment unless otherwise specified).

C.6.a.(1) The contractor will provide initial recruitment and orientation training. The agreed duration is eight (8) days plus one (1) day of travel on each end of the training iteration. This period may only be extended with COR/KO approval. The contractor is permitted to conduct courses as required. The courses will include, but are not limited to the following:

C.6.a.(2) US Army and Marine Corps introduction...

...C.6.a.(6) Contractual responsibilities and restrictions – Contractor will provide training to all LEP personnel to familiarize them with their responsibilities and limitations under this contract, US and international law, and DoD/service regulation. All training will be maintained in the LEP’s individual training file that will be made available to the USG for inspection at any time to ensure compliance and quality assurance...

...C.6.a.(12) Annual Antiterrorism Level I Awareness Training –Per AR 525-13, all contractor employees, to include subcontractor employees, requiring access Army installations, facilities and controlled access areas shall complete AT Level I awareness training. This training shall be completed within ninety (90) calendar days of contract award and within ninety (90) calendar days of new employees commencing performance with the results reported to the COR NLT ten (10) calendar days after completion. AT level I awareness training is available at the following website: <https://atlevel1.dtic.mil/at>. The contractor employee will provide a copy of the training certificate to the contractor to

(Continued)

ENGLITY CORPORATION

Financial Audit of Costs Incurred Under
Contract No. W91CRB-13-C-0021

Schedule of Findings and Questioned Costs

(Continued)

maintain in their training files to make available for government inspection to ensure compliance.

C.6.a.(13) Annual Information Assurance (IA)/Information Technology (IT) Training – Reference DoD 8570-01@ (<http://www.dtic.mil/whs/directives/corres/pdf/857001p.pdf>) and AR 25-1 and AR 25- 2. All contractor employees with access to a government info system must be registered in the ATCTS (Army Training Certification Tracking System) at commencement of services, and must successfully complete the DOD Information Assurance Awareness prior to access to the IS and then annually thereafter. The training is online at: <https://ia.signal.army.mil/DoDIAA/default.asp>. The contractor employee will provide a copy of the training certificate to the contractor to maintain in their training files to make available for government inspection to ensure compliance.

C.6.a.(14) Annual Operational Security (OPSEC) Training - Per AR 530-1, Operations Security, new contractor employees must complete Level I OPSEC training within thirty (30) calendar days of their reporting for duty. All contractor employees must complete annual OPSEC awareness training using the USG provided OPSEC training disk. The contractor employee will provide a copy of the training certificate to the contractor to maintain in their training files to make available for government inspection to ensure compliance. New contractor employees will coordinate with the Installation, facility or activity OPSEC Officer or Security Manager to obtain access to, read and understand their OPSEC Plan /SOP. The employee will have the OPSEC Officer/Security Manager provide an email to the contractor verifying the employee specifically (by name) read the OPSEC Plan/SOP. The email will be maintained in the individual's training file and accessible for inspection.

C.6.a.(15) iWATCH Training – Per AR 525-13,the contractor and all associated subcontractors shall ensure that all contractor employees contact their installation, facility, area or activity ATO to receive iWatch training and to understand who they will report types of behavior or suspicious activity to. This training shall be completed within ninety (90) calendar days of contract award and within ninety (90) calendar days of new employees commencing performance with the results reported to the COR NLT ten (10) calendar days after completion...

...C.6.a.(17) The contractor and all associated subcontractors shall ensure that contractor employees will at all times comply with access and general protection/security policies and procedures while entering, exiting or on a government installation, facility or area. Contractor employees will comply with all personal identity verification requirements as directed by DoD, HQDA, HQUSMC and/ or local policy or theater policy. Contractor employees will at all times understand and comply with all installation, facility or area Force Protection Conditions (FPCONs). Installation, facility or area Force Protection/Antiterrorism Officers can provide this information. Contractor non-compliance

(Continued)

ENGILITY CORPORATION

Financial Audit of Costs Incurred Under
Contract No. W91CRB-13-C-0021

Schedule of Findings and Questioned Costs

(Continued)

will result in a bar or ban from the installation, facility or area and non-compliance by employees will be addressed by the COR to the contractor regarding non-compliance with the PWS...

...C.6.a.(20) The contractor will ensure contractor employees authorized to accompany the force comply with all USG and theater requirements, comply with all laws and regulations, pre-deployment requirements, required training (per combatant command guidance), and personnel data required. The contractor will ensure the contracted employee complies with all SOFA requirements. The contractor will ensure all contractor employees comply with all annual training requirements listed while in theater.

C.6.a.(21) The contractor will ensure all contractor employees comply with theater clearance requirements and ensure contractor employees understand that they are under the combatant commander oversight in theater and contractor employees and the contractor will ensure compliance with combatant commander and subordinate task force commander policies and directives.”

Contract No. W91CRB-13-C-0021, section no. **252.225-7040 CONTRACTOR PERSONNEL AUTHORIZED TO ACCOMPANY U.S. ARMED FORCES DEPLOYED OUTSIDE THE UNITED STATES (JUN 2011)**, states, in part:

“...(e) Pre-deployment requirements.

(1) The Contractor shall ensure that the following requirements are met prior to deploying personnel authorized to accompany U.S. Armed Forces. Specific requirements for each category may be specified in the statement of work or elsewhere in the contract.

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

Engility’s Record Retention Policy number FN-PY20, section no. **6.0 Procedures**, states, in part:

“**6.0.1** Engility Personnel are to be familiar with the FAR Subpart 4.7 requirements, and other FAR clauses that are relevant to records retention compliance. These clauses include Audit and Records – Sealed Bidding (FAR 52.214.26) and Audit and Records – Negotiation (FAR 52.215-2). The clauses describe contractor maintenance of records and the Government’s right to access records documenting contract cost, performance, and other supporting records for cost, funding or performance reports...”

...**6.1** Retention Periods for Government Contract-Related Records.

The FAR requires a contractor to make Records available - at its office and at all reasonable times - for examination, audit, or reproduction until 3 years after final payment under the contract, for

(Continued)

ENGILITY CORPORATION

Financial Audit of Costs Incurred Under
Contract No. W91CRB-13-C-0021

Schedule of Findings and Questioned Costs

(Continued)

any shorter period specified in Subpart 4.7 entitled "Contractor Records Retention," or for any longer period required by statute or by other clauses of [the] contract."

In the event that a longer retention period is specified by contract, the FAR, or any applicable law, regulation or agency guideline, ENGILITY Personnel are required to observe the longer retention period..."

FAR 31.201-2(d), **Determining allowability**, states:

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

...(4) Terms of the contract...

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

Cause: Engility did not properly enforce its retention policy and require its employees and management to maintain the documentation that is stated in its retention policy. In addition, Engility went through a merger acquisition during 2015 and many of the records including evidence of training(s) and background checks were misplaced and could not be located during the audit. Finally, management did not always ensure that the iWATCH training was provided to every employee.

Effect: Engility's inability to provide the evidence of the employees' required trainings and background checks resulted in Engility being unable to prove that the employees were cleared of the pre-deployment requirements prior to working on this project which resulted in ineligible costs claimed.

Questioned Costs: Total questioned, ineligible personnel costs associated with 16 employees who missing evidence of training(s) and four employees who missing background check were [REDACTED]

[REDACTED] This resulted in \$6,031,716 in total ineligible costs.

Recommendation:

(Continued)

ENGILITY CORPORATION

Financial Audit of Costs Incurred Under
Contract No. W91CRB-13-C-0021

Schedule of Findings and Questioned Costs

(Continued)

- (1) We recommend that Engility either provide evidence to ACC-APG that these employees met the pre-deployment requirements or return \$6,031,716 in total ineligible costs.
- (2) We recommend Engility develop trainings for its staff to ensure they strictly adhere to the Company's record retention policy and the requirements of the contract.

(Continued)

ENGILITY CORPORATION

Financial Audit of Costs Incurred Under
Contract No. W91CRB-13-C-0021

Schedule of Findings and Questioned Costs

(Continued)

Finding 2018-02: Lack of Adherence to Engility's Timekeeping Policy

Nature of Finding: Internal Control – Significant Deficiency and Non-compliance

Condition: Conrad judgmentally selected 25 out of 90 employees' timecards to determine whether the payroll costs were adequately supported and allowable. Then, we judgmentally selected three months period for these 25 employees which a total of 113 timecards was tested. Of 113 timecards, we noted the following:

- Seven employees had entered and/or approved times on seven timecards prior to the period end.
- One employee had approved his own time on one timecard rather than approved by the employee's supervisor.

In addition, we determined that for the above eight employees who did not adhere to Engility's timekeeping policy, five of the employees did not also complete the required trainings.

Criteria: The Engility Employee Time Reporting and Approval Policy (No. FN-M2), section 3.0, **Responsibilities**, states, in part:

“...3.1 Timekeeping and Bi-weekly Paychecks

3.1.1 Engility pays employees on a bi-weekly basis (every two weeks). Within a typical pay period, it is required that full-time exempt employees would record at least 80 hours of productive work, or a mix of work and an appropriate leave category, during the two week pay period. The “standard” pay period may vary within Engility, particularly for OCONUS employees where, due to the nature of the work, the “standard” work week may be a 6 or 7-day workweek with contractual requirements to work 10 or 12 hours per day...

...3.2 Timecard Submittal

3.2.1 Employees are required to complete and electronically sign their timesheet at the end of the bi-weekly time period. The signed and approved timesheet is to be submitted by Friday 07:00 pm Eastern US time...

...3.4 Management

Supervisors / Managers are responsible for the following:

3.4.1 Supervisors are to provide the appropriate project / charge numbers to employees for labor charging. Charge numbers should be provided to the employees in writing, along with a brief description of the nature of the work efforts.

(Continued)

ENGILITY CORPORATION

Financial Audit of Costs Incurred Under
Contract No. W91CRB-13-C-0021

Schedule of Findings and Questioned Costs

(Continued)

3.4.2 Each supervisor is to review the employee's bi-weekly timesheet for accuracy and completeness prior to approving the timesheet at the end of the time reporting period. By his/her signature, the supervisor certifies that the employee's time is accurate."

FAR 31.205-6(a), **Compensation for personal services**, states, in part:

"...(3) The compensation must be based upon and conform to the terms and conditions of the contractor's established compensation plan or practice..."

Cause: Engility did not adhere to its timekeeping policy and FAR. Engility had implemented a new timekeeping system during January 2016 and allowed employees to enter and approve time prior to period end in order to get familiar with the new timekeeping system. In addition, during to the new timekeeping system integration, the system constraint feature which prevents an employee from approving his/her own timesheet was turned off which allowed the employee to approve the timesheet himself/herself.

Effect: Entering time and approvals prior to the period end, as well as an employee approving his/her own timesheet, questions the validity of the hours certified on the timesheets being actual and accurate.

Questioned Costs: Total questioned, unsupported labor costs associated with the seven timesheets entered and/or approved prior to period end and one timesheet approved by the employee himself were

This resulted in \$19,781 in total unsupported costs.

Recommendation:

- (1) We recommend that Engility provide the evidence to ACC-APG to prove that the employees actually worked the hours that were entered and/or approved prior to the period end or return \$19,781 in unsupported costs.
- (2) We recommend that Engility provide training to all employees and supervisors emphasizing the need to adhere to established timekeeping policies and perform adequate supervisory oversight to ensure employees cannot approve their timesheets.

(Continued)

ENGILITY CORPORATION

Financial Audit of Costs Incurred Under
Contract No. W91CRB-13-C-0021

Schedule of Findings and Questioned Costs

(Continued)

Finding 2018-03: Duplicate Cost Claimed

Nature of Finding: Internal Control - Deficiency

Condition: Conrad judgmentally selected 46 out of 1,145 travel transactions to determine if the costs incurred were adequately supported and allowable. Of the 46 travel transactions tested, we determined that Engility claimed an airfare travel cost for an employee twice.

Criteria: FAR 31.201-2(d), **Determining allowability**, states:

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

Cause: Engility utilizes a travel agency to assist in booking travel for its employees. The travel agency booked the airfare twice on a different date by mistake, and due to weak internal controls and oversight, management did not detect this error.

Effect: The duplicate travel charge resulted in ineligible costs claimed to the contract.

Questioned Costs: [REDACTED]

[REDACTED]. This resulted in \$2,738 in total ineligible costs.

Recommendation:

- (1) We recommend that Engility follow up with ACC-APG to return the \$2,738 in ineligible cost.
- (2) We recommend that Engility perform additional training with its Account Payable department to ensure duplicate charges will not be processed and sufficient internal controls are in place, such as supervisory review of travel claims.

(Continued)

ENGILITY CORPORATION

Financial Audit of Costs Incurred Under
Contract No. W91CRB-13-C-0021
For the Period January 1, 2016 through June 30, 2018

Engility's Responses to Findings

Included on the following pages is Engility's response received to the findings identified in this report.



January 28, 2019

Mr. Joe Chen
Manager
Conrad LLP
23161 Lake Center Drive
Suite 200
Lake Forest, CA 92630

Subject: Special Inspector General for Afghanistan Reconstruction (“SIGAR”) Audit – Draft Findings pertaining to the Law Enforcement Professional (LEP) Program Contract Number W91CRB-13-C-0021 for the period January 1, 2016 through June 30, 2018

Dear Mr. Chen:

Enclosed is Engility’s management response as requested by Conrad LLP, on the draft report for Law Enforcement Professional (LEP) Program Contract Number W91CRB-13-C-0021 for the period January 1, 2016 through June 30, 2018. Please note that on January 14, 2019, Scientific Applications International Corporate (SAIC), successfully completed its acquisition of Engility Holdings, Inc. Under the terms of the acquisition agreement, Engility became a wholly-owned subsidiary of SAIC. Engility would like to thank Conrad LLP for leading this engagement and providing the company an opportunity to respond to the audit findings and recommendations.

Engility provided various information and support that we believe is sufficient in several areas where costs are being questioned. Please find below Engility’s response to each audit finding.

Summary of Findings

Conrad Finding:

Audit Finding 2018-01: Non-compliance due to missing evidence of required trainings and background checks.

Conrad Recommendation:

- a) We recommend that Engility either provide evidence to ACC-APG that these employees met the pre-deployment requirements or return \$6,031,716 of ineligible costs.
- b) We recommend Engility develop trainings for its staff to ensure they strictly adhere to the Company’s record retention policy and the requirements of the contract.

Engility Response:

Engility does not concur with the audit findings of non-compliance due to missing evidence of required trainings and background. Engility provided evidence to show that the employees traveled to orientation, which is where training occurred. This is evidence that the training

occurred. In addition, before the US Government authorizes employees to travel to Afghanistan to support a contract, the US Government verifies compliance with training requirements, otherwise the employee is not allowed into Afghanistan. Although this evidence is in the hands of the Government, it further supports the completion of the required training activity.

With the exception of iWatch Training, the annual training certifications were completed on either the Army's Knowledge Online or Joint Knowledge Online training architecture. As these training systems are owned by the US Government, all records are available from the Government, not Engility. With respect to iWatch training, that training is provided by the Army personnel at the Army Forward Operating Bases ("FOB") in country. Thus the records are also in the hands of the Government.

Nonetheless, Engility is in the process of developing an automated management information system to independently ensure the training documentation and proof of orientation will be maintained going forward.

With regard to background checks, employee's background checks are performed as part of the hiring process. The systems associated with the hiring process automatically reached out to the background investigation vendor. The vendor provided Engility's systems with either a positive or negative report. The underlying investigation details were NOT provided by the vendor for privacy concerns. The positive or negative results (pass /fail) were returned to Engility via an entry in Engility's recruiting database. In July 2013, as part of Engility's spin from L-3, Engility stood up its own vendor for recruiting software, and associated databases. Prior to July 2013, Engility was still using L-3's vendor for this process. Although the records from the L-3 system exist, Engility does not have access to the records of the background investigations for employees hired prior to July 2013 as this software database is owned and maintained by L-3. However, all these employees have active security clearances, which also requires a background investigation. The clearance eliminates any risk related to an Engility background check.

Conrad Finding:

Audit Finding 2018-02: Non-compliance and internal control significant deficiency pertaining lack of adherence to Engility's timekeeping policy.

Conrad Recommendation:

- a) We recommend that Engility provide other evidence to ACC-APG to prove that the employees actually worked the hours that were entered and/or approved prior to the period end or return \$19,781 of unsupported costs to ACC-APG.
- b) We recommend that Engility provide training to all employees and supervisors emphasizing the need to adhere to established timekeeping policies and perform adequate supervisory oversight to ensure employees cannot approve their timesheets

Engility Response:

Engility does not concur with Finding 2018-2. Engility has adequate systems and processes in place to enforce its timekeeping policies. There are however, extremely limited circumstances where a small number of control functions in Engility's time and expense system are lifted for short periods of time to address unique circumstances, such as system upgrades. As explained below, the auditors reviewed and noted concerns that occurred during the periods associated with unique circumstances.

One instance where this occurred was in January of 2016. At that time, Engility migrated Engility employees onto the TASC ERP and time and expense system. This was cost reduction effort based on Engility's acquisition of TASC in February 2015. The migration required approximately 9,000 employees to acclimate to a unified system and unified policies. The restrictions on advance approvals and signatures were removed for a very limited time during the migration period. No impact on the accuracy of time keeping records was identified.

However, it was noted during this period that an employee, who was assigned as the backup approver for timesheets by his supervisor was able to sign and approve his own timecard. This is NOT a feature that the system allows during normal operation. Because certain system constraints were removed during this month, in this unique circumstance, an employee was able to sign and approve his own timecard. Again, during normal operation the system does not allow this practice. There are no factual basis to assert that the employee mischarged the Government.

Also in January 2017, certain controls in the time and expense system were lifted corresponding to the yearend activities surrounding system generated labor accrual and manual reversal. Because the controls were not turned back on immediately, during the first full pay period of January, timesheets could be submitted and approved in advance. This is not a common practice of the company and not normally permitted by the system.

There are unique circumstances, where as part of normal operations, Engility does lift some of its controls. However, the auditor did not find that these circumstances resulted in any mischarging, which would merit the auditor's recommendation.

Conrad Finding:

Audit Findings 2018-03: Internal Control Deficiency due to a duplicate expense claimed.

Conrad Recommendation:

- a) We recommend that Engility follow up with ACC-APG to return the \$2,738 of ineligible cost.
- b) We recommend that Engility perform additional training with its Account Payable department to ensure duplicate charges will not be processed and sufficient internal controls are in place, such as supervisory review of travel claims.



Engility Response:

Engility acknowledges this was a duplicate expense. However, this was more of a timing issue where the company was in process to apply the credit received from the airline to the project. The credit posted to the project on December 3, 2018.

Engility believes the responses provided properly address the audit findings and recommendations identified on the draft audit report.

Please do not hesitate to contact Engility if any further questions or additional information may be needed in response to this management letter.

Sincerely,

A handwritten signature in black ink that reads "Allyson Ring".

Allyson Ring

Sr. Manager, Government Compliance

Allyson.P.Ring@saic.com

ENGILITY CORPORATION

Financial Audit of Costs Incurred Under
Contract No. W91CRB-13-C-0021
For the Period January 1, 2016 through June 30, 2018

Auditor's Rebuttal to Engility's Responses to the Audit Report

Engility disagreed or partially disagreed with all findings and recommendations. We have reviewed management's responses and provided the following rebuttals to the findings Engility disagreed with.

- 2018-01: Engility disagrees with the findings and recommendations.

Engility's Response: In regard to missing evidence of employees' trainings, there is evidence of traveling to the training orientation site for these employees, where training occurred. Engility also states that the U.S. Government verified compliance with all these training requirements. Evidence of training certifications are in the hands of the U.S. Government since trainings were conducted at a Government owned system.

Auditor's Rebuttal: As stated in the Criteria section of finding 2018-01, "Contractor will retain records of all individual training". Since Engility did not maintain and did not provide any new evidence or supporting documentation to demonstrate that those employees received the required training(s). Therefore, our findings, identified questioned costs, and recommendations remain unchanged.

Engility's Response: In regard to missing evidence of employees' background check, Engility states that as part of the hiring process, employee's background checks are conducted automatically by their background investigator vendor and a positive or negative result were returned to Engility recruiting database. In July 2013, Engility spin off from L-3 and had its own vendor system for background check. However, Engility could not access any data from L-3 vendor system prior to July 2013.

Auditor's Rebuttal: Although Engility was spin off from L-3 in July 2013, under the contract and FAR requirements, Engility is responsible to maintain all records under the contract. In addition, Engility should have conducted a system migration prior to the spin-off so that all the records under this contract are properly maintained. Engility stated that a positive or negative report was received from the vendor but was unable to provide such report during and after our audit fieldwork. In addition, Engility did not provide any new evidence to demonstrate the employees had met the background check requirement in their management response. Since Engility cannot provide any evidence of background check prior to deployment and working on this project, our findings, identified questioned costs, and recommendations remain unchanged.

- 2018-02: Engility disagrees with the findings and recommendations.

ENGILITY CORPORATION

Financial Audit of Costs Incurred Under
Contract No. W91CRB-13-C-0021
For the Period January 1, 2016 through June 30, 2018

Auditor's Rebuttal to Engility's Responses to the Audit Report

Engility's Response: Engility states that the employees entered and approved time prior to period end due to unique circumstances during system migrations and/or updates. Engility further explains that during these system migrations and/or updates, the restriction to allow employees to enter and approve time prior to the period end was lifted.

Auditor's Rebuttal: Engility stated the condition was due to the unique circumstances such as system restrictions were lifted during system migrations/upgrades. However, this explanation does not justify that why employees were entering and approving time prior to the period end. Furthermore, lifting the system's restrictions should not allow or give freedom for employees to enter and approve time prior to the period end. Engility's employees are clearly in violation of its timekeeping policy and had entered and approved time prior to period end. In one case in particular, an employee was approving his own time. Based on Engility's response, it sounds like the system restriction is the only control that would prevent employees from entering and approving time prior to period end. Other controls such as employee's training to strictly adhere to timekeeping policy and adequate management oversight was not effective. As such, our findings, identified questioned costs, and recommendations remain unchanged.

- 2018-03: Engility partially disagrees with the findings and recommendations.

Engility's Response: Engility agrees that a duplicate cost was charged to the project. However, this was due to a timing issue as a credit was applied and posted to the project on December 3, 2018.

Auditor Rebuttal: The duplicate expense was not identified until the Auditor brought it to Engility's attention during audit fieldwork. As such, our findings, identified questioned costs, and recommendations remain unchanged.

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