

SIGAR

Special Inspector General for
Afghanistan Reconstruction

SIGAR 19-31 Financial Audit

Department of State's Afghan Civilian Advisor Support Program: Audit of Costs Incurred by DynCorp International LLC

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



APRIL
2019

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On December 29, 2014, the Department of State's Bureau of International Narcotics and Law Enforcement Affairs (INL) awarded a cost-plus-fixed-fee contract for \$15,150,364 to DynCorp International LLC (DynCorp) to support the Afghan Civilian Advisor Support program. The purpose of this contract was to increase the Afghan government's abilities to improve public security and support the rule of law. DynCorp was required to provide qualified personnel to support U.S. foreign assistance programs to mentor and train the Afghan National Police and the Afghan Ministry of Interior. After seven modifications, the total funding increased to \$21,246,089, and the period of performance was extended from June 30, 2015, through February 29, 2016.

SIGAR's financial audit, performed by Davis Farr LLP (Davis Farr), reviewed ██████████ in costs charged to the contract from December 29, 2014, through February 29, 2016. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in DynCorp's internal controls related to the contract; (2) identify and report on instances of material noncompliance with the terms of the contract and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether DynCorp has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of DynCorp's Special Purpose Financial Statement (SPFS). See Davis Farr'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 Davis Farr did not comply, in all material respects, with U.S. generally accepted government auditing standards.

April 2019

Department of State's Afghan Civilian Advisor Support Program: Audit of Costs Incurred by DynCorp International LLC

SIGAR 19-31-FA

WHAT THE AUDIT FOUND

Davis Farr did not identify any material weaknesses or significant deficiencies in DynCorp's internal controls, or any instances of noncompliance with the terms and conditions of the contract. Accordingly, Davis Farr did not identify any questioned costs, which would have consisted of ineligible costs—costs prohibited by the contract, applicable laws, or regulations, and unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Davis Farr identified two prior audit reports that were relevant to DynCorp's contract. These audits had seven findings that could have a material effect on the SPFS and other financial data significant to the audit objectives. Davis Farr conducted follow-up procedures and concluded that DynCorp had taken adequate corrective action on the findings.

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

WHAT SIGAR RECOMMENDS

Davis Farr did not report any findings related to the Afghan Civilian Advisor Support Program. Therefore, SIGAR is not making any recommendations.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

April 4, 2019

The Honorable Michael R. Pompeo
Secretary of State

The Honorable Kirsten D. Madison
Assistant Secretary for International Narcotics and
Law Enforcement Affairs

Ambassador John Bass
U.S. Ambassador to Afghanistan

We contracted with Davis Farr LLP (Davis Farr) to audit the costs incurred by DynCorp International LLC (DynCorp) under a cost-plus-fixed-fee contract from the Department of State's Bureau of International Narcotics and Law Enforcement Affairs to support the Afghan Civilian Advisor Support program.¹ The purpose of the contract was to increase the Afghan government's abilities to improve public security and support the rule of law. Davis Farr reviewed [REDACTED] in costs charged to the contract from December 29, 2014, through February 29, 2016. Our contract with Davis Farr required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Davis Farr did not report any findings related to the Afghan Civilian Advisor Support Program. Therefore, SIGAR is not making any recommendations.

The results of Davis Farr's audit are discussed in detail in the attached report. We reviewed Davis Farr'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 DynCorp's Special Purpose Financial Statement. We also express no opinion on the effectiveness of DynCorp's internal control or compliance with the contract, laws, and regulations. Davis Farr is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances in which Davis Farr did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

A handwritten signature in black ink, appearing to read "John F. Sopko".

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-142)

¹ The contract number is SAQMMA15C0019.

DYNCORP INTERNATIONAL, LLC

Contract No. SAQMMA15C0019
Afghan Civilian Advisor Support (ACAS) Bridge Contract

For the Period December 29, 2014 through February 29, 2016

DYNCORP INTERNATIONAL, LLC

Contract No. SAQMMA15C0019
Afghan Civilian Advisor Support (ACAS) Bridge Contract

For the Period December 29, 2014 through February 29, 2016

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March 25, 2019

Enclosed is the final report on the financial audit of costs incurred by DynCorp International, LLC (“DynCorp”) under Contract Number SAQMMA15C0019 for the Bridge Contract to Afghan Civilian Advisor Support Program. The audit covers the period December 29, 2014 through February 29, 2016.

Included within the final report is a summary of the work performed, our report on the Special Purpose Financial Statement, report on internal control and report on compliance. We do not express an opinion on the summary or any information preceding our reports.

When preparing our report, we considered comments, feedback and interpretations from DynCorp, the Special Inspector General for Afghanistan Reconstruction and the U.S. Department of State, Bureau of International Narcotics and Law Enforcement Affairs. There were no findings or questioned costs identified as a result of our audit.

Sincerely,

DAVIS FARR LLP



Marcus D. Davis, CPA
Partner

DYNCORP INTERNATIONAL, LLC

Contract No. SAQMMA15C0019
Afghan Civilian Advisor Support (ACAS) Bridge Contract

For the Period December 29, 2014 through February 29, 2016

Background

On December 29, 2014, the U.S. Department of State (DOS), Bureau of International Narcotics and Law Enforcement Affairs (INL) awarded Contract Number SAQMMA15C0019 to DynCorp International, LLC (DynCorp) to support the Afghanistan and Pakistan (INL/AP) and the Embassy Kabul International Narcotics and Law Enforcement Section (INL/K) efforts in ongoing foreign assistance programs in Afghanistan. This was a bridge contract to the Afghan Civilian Advisor Support (ACAS) program previously under the Civilian Police (CIVPOL) base contract until the contract could be transitioned to the Criminal Justice Program Support (CJPS) Life and Mission Support (LMS).

The ultimate objective of INL's efforts were to provide the Afghan government with continued support to strengthen and further develop Afghanistan's rule of law. The expected outcomes were to increase the overall government of Afghanistan capabilities to enhance public security and support the rule of law. The scope of this Contract was for DynCorp-provided support services to procure and deploy personnel, equipment and materials, and to provide continued services to implement and support INL's foreign assistance programs under the legacy ACAS contract. As part of the contract, DynCorp was supposed to provide qualified personnel and support services in order to effectively support U.S. foreign assistance programs to mentor and train elements of the Afghan National Police and the Afghan Ministry of Interior. DynCorp was required to provide and coordinate operational support for INL's ACAS, Camp Gibson and Camp Falcon on the INL Strip Mall until such time that the LMS contract had been awarded.

The contract was awarded in the original amount of \$15,150,364 as a cost plus fixed fee term contract. The original awarded amount consisted of \$14,102,804 in cost reimbursement and \$1,047,560 in fixed fee components. The contract was awarded on December 29, 2014 for an original base period of six months from January 1, 2015 through June 30, 2015. After seven modifications to the contract, the period of performance was extended from June 30, 2015 through February 29, 2016 and the total funding increased to \$21,246,089, consisting of \$18,559,013 in cost reimbursement and \$2,687,076 in fixed fee components.

Our audit procedures reviewed [REDACTED] in expenses for the period from December 29, 2014 through February 29, 2016.

According to DynCorp's website, DynCorp supports all branches of the U.S. Armed Forces, Government Agencies, and State and Local Government entities across the world. According to DynCorp's Technical Proposal for the Contract, DynCorp provides defense and technical services and government outsourced solutions primarily to United States government agencies domestically and internationally.

Work Performed

Davis Farr LLP (Davis Farr) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of DynCorp's Special Purpose Financial Statement (SPFS) for the period December 29, 2014 through February 29, 2016. Total costs reported by DynCorp and subject to audit during this period were [REDACTED].

DYNCORP INTERNATIONAL, LLC

Contract No. SAQMMA15C0019
Afghan Civilian Advisor Support (ACAS) Bridge Contract

For the Period December 29, 2014 through February 29, 2016

Objectives, Scope, and Methodology

Objectives Defined by SIGAR

The objectives of the audit include the following:

- *Special Purpose Financial Statement (SPFS)* – Express an opinion on whether DynCorp’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 Contract and generally accepted accounting principles or other comprehensive basis of accounting.
- *Internal Controls* – Evaluate and obtain a sufficient understanding of DynCorp’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 DynCorp 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.
- *Corrective Action on Prior Findings and Recommendations* – Determine and report on whether DynCorp has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the SPFS or other financial data significant to the audit objectives.

Scope

The scope of this audit included the actual costs incurred of [REDACTED] under the cost reimbursement component of the Contract, and excluded the fixed fee component of the Contract. This amount is the budgeted ceiling for cost reimbursement, not the actual amount incurred and reimbursed. Our testing of the indirect cost rates was limited to verifying that the rates were calculated using the rates submitted to 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 July 23, 2018. Participants included representatives of Davis Farr, DynCorp, SIGAR and the DOS.

DYNCORP INTERNATIONAL, LLC

Contract No. SAQMMA15C0019
Afghan Civilian Advisor Support (ACAS) Bridge Contract

For the Period December 29, 2014 through February 29, 2016

Planning

During our planning phase, we performed the following:

- Obtained an understanding of DynCorp;
- Reviewed the Contract and all modifications to date;
- Reviewed sections of the Federal Acquisition Regulation (FAR) and the Department of State Acquisition Regulation System (DOSAR) as applicable to the Contract;
- Performed a financial reconciliation; and
- Selected samples based on our approved sampling techniques. According to the 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, medium or low risk for inclusion in our test of transactions. The labor population was homogeneous in nature, so we selected a statistical sample of labor costs using a 95% confidence level with a 5% maximum tolerable error rate. There were a total of 13,610 labor transactions. When the statistical sampling parameters were applied, this resulted in a sample size of 374 transactions. All remaining samples were selected on a judgmental basis. Our sampling methodology for judgmental samples was as follows:
 - For accounts that appear to contain unallowable and restricted items according to the terms of the Contract, FAR, DOSAR and any other applicable regulations, we sampled 100% of the transactions.
 - For high risk cost categories, we sampled transactions greater than \$79,200, and additional transactions below \$79,200 to ensure that at least 50% of the total amount expended for each cost category was sampled.
 - For medium risk categories, we sampled transactions that are greater than \$158,400, and additional transactions below \$158,400 to ensure at least 20% of the total amount expended for each cost category was sampled.
 - Low risk categories consisted solely of indirect costs. No sample was selected as we tested the proper application of the indirect cost rates. This included reviewing provisional rates and ensuring that the rates included on DynCorp's invoices did not exceed these provisional rates.

Internal Control Related to the SPFS

We reviewed DynCorp's internal controls related to the SPFS. The system of internal control is intended to provide reasonable assurance of achieving reliable financial reporting and compliance with applicable

DYNCORP INTERNATIONAL, LLC

Contract No. SAQMMA15C0019
Afghan Civilian Advisor Support (ACAS) Bridge Contract

For the Period December 29, 2014 through February 29, 2016

laws and regulations. We corroborated internal controls identified by DynCorp and conducted testing of select key controls to understand if they were implemented as designed and operating effectively.

Compliance with Agreement Requirements and Applicable Laws and Regulations

We reviewed the Contract and modifications and documented all compliance requirements that could have a direct and material effect on the SPFS. We assessed inherent and control risk as to whether material noncompliance could occur. Based upon our risk assessment, we designed procedures to test a sample of transactions to ensure compliance with the Contract requirements and laws and regulations.

Corrective Action on Prior Findings and Recommendations

We reached out to SIGAR, DynCorp and DOS and requested all reports from previous engagements, as well as searched publicly available information for other reports, 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, modifications 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. If the results of a judgmental sample indicated a material error rate, our audit team consulted with our Audit Manager and Partner 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.

Exit Conference

An exit conference was held on January 24, 2019 via conference call. Participants included representatives from Davis Farr, DynCorp, SIGAR and DOS. During the exit conference, we discussed the preliminary results of the audit and established a timeline for providing any final documentation for consideration and reporting.

Summary of Results

Our audit of the costs incurred by DynCorp under the Contract with DOS identified the following audit results.

DYNCORP INTERNATIONAL, LLC

Contract No. SAQMMA15C0019
Afghan Civilian Advisor Support (ACAS) Bridge Contract

For the Period December 29, 2014 through February 29, 2016

Auditor's Opinion on SPFS

We issued an unmodified opinion on the fairness of the presentation of the SPFS. There were no findings or questioned costs identified as a result of the audit.

Summary of Findings and Questioned Costs

There were no findings or questioned costs identified as a result of the audit.

Internal Control Findings

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we considered DynCorp's internal control over financial reporting and performed tests of those controls. The results of our tests disclosed no internal control weaknesses required to be reported under *Government Auditing Standards*. See Independent Auditor's Report on Internal Control on page 13.

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 no instances of noncompliance related to this audit. See Independent Auditor's Report on Compliance on page 15.

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 DynCorp, SIGAR and the DOS copies of prior engagements including audits, reviews, attestation engagements and other studies that relate to DynCorp's activities under this contract. We identified two prior audit reports and one unilateral final indirect cost rate determination and a civil action against DynCorp. The two prior audit reports issued by SIGAR titled SIGAR 16-61 FA "U.S. Department of the Army's Support for the Afghan Ministries of Defense and Interior: Audit of Costs Incurred by DynCorp International, LLC" for the period February 12, 2010 through April 29, 2014, and SIGAR 18-62 FA "Department of Defense's Ministerial Development Program for the Afghan Ministry of Defense: Audit of Costs Incurred by DynCorp International LLC" for the period February 12, 2010 through April 29, 2014. Based on our review of these two reports, we identified seven findings that could have a material effect on the SPFS or other financial data significant to the audit objectives.



DYNCORP INTERNATIONAL, LLC

Contract No. SAQMMA15C0019
Afghan Civilian Advisor Support (ACAS) Bridge Contract

For the Period December 29, 2014 through February 29, 2016

[REDACTED]

[REDACTED]

We performed follow-up procedures, tested transactions and reviewed documentation to determine if these issues occurred under our audit. Accordingly, we have concluded that DynCorp had taken adequate corrective action on those findings and these findings were not repeated under this audit. [REDACTED]

[REDACTED]

[REDACTED]. See the Status of Prior Findings on page 17 for a detailed description of the prior findings and recommendations.

Summary of DynCorp's Responses

There were no findings identified as a result of this audit. Therefore, responses from DynCorp were not required.

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

DynCorp International, LLC
13500 Heritage Parkway
Fort Worth, Texas 76177

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

Report on the Special Purpose Financial Statement

We have audited the accompanying Special Purpose Financial Statement of DynCorp International, LLC (DynCorp) under Contract No. SAQMMA15C0019 (Contract) with the United States Department of State (DOS), Bureau of International Narcotics and Law Enforcement Affairs (INL) for the Afghan Civilian Advisor Support (ACAS) Bridge Contract for the period December 29, 2014 through February 29, 2016, and the related notes to the Special Purpose Financial Statement.

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 methods of preparation described in Note 2; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements (including the Special Purpose Financial Statement) that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the 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 the entity's preparation and fair presentation of the Special Purpose Financial Statement in order to design audit procedures that are appropriate

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in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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.

Opinion

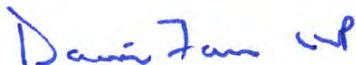
In our opinion, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received and costs incurred by DynCorp under the Contract for the period December 29, 2014 through February 29, 2016 in accordance with the basis of accounting described in Note 2.

Restriction on Use

This report is intended for the information of DynCorp, DOS, and the Special Inspector General for Afghanistan Reconstruction (SIGAR), and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 USC 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 March 25, 2019 on our consideration of DynCorp'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 DynCorp's internal control over financial reporting and compliance.



Irvine, California
March 25, 2019

DYNCORP INTERNATIONAL, LLC
 Contract No. SAQMMA15C0019
 Bridge Contract to Afghan Civilian Advisor Support (ACAS) Program

Special Purpose Financial Statement

For the Period December 29, 2014 through February 29, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>			<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	
Revenues:						
SAQMMA15C0019	\$ 18,559,013	\$ ██████████	\$ -	\$ -	\$ -	(3)
Total revenues	<u>18,559,013</u>	<u>██████████</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						
Non-personal services	18,547,138	██████████	-	-	-	(4)
Generator training	<u>11,875</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	(4)
Total costs incurred	<u>18,559,013</u>	<u>██████████</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	(5)

See Notes to Special Purpose Financial Statement

DYNCORP INTERNATIONAL, LLC

Contract No. SAQMMA15C0019
Afghan Civilian Advisor Support (ACAS) Bridge Contract

Notes to Special Purpose Financial Statement¹

For the Period December 29, 2014 through February 29, 2016

(1) **Background**

On December 29, 2014, the U.S. Department of State (DOS) awarded Contract Number SAQMMA15C0019 (Contract) to DynCorp International, LLC (DynCorp) for the purpose of providing the Bureau of International Narcotics and Law Enforcement, Afghanistan and Pakistan (INL/AP) and Embassy Kabul International Narcotics and Law Enforcement Section (INL/K) with continued support to their ongoing foreign assistance programs in Afghanistan through a bridge contract to the Afghan Civilian Advisor Support (ACAS) program previously under the Civilian Police (CIVPOL) base contract until the contract could be transitioned to the Criminal Justice Program Support (CJPS) Life and Mission Support (LMS).

The scope of this Contract was for DynCorp-provided support services to procure and deploy personnel, equipment and materials, and to provide continued services to implement and support INL's foreign assistance programs under the legacy ACAS contract. DynCorp was to continue to provide and coordinate operational support for INL's ACAS, Camp Gibson and Camp Falcon on the INL Strip Mall until such time that the LMS contract had been awarded. DynCorp's support was to take the form of providing qualified personnel and support services in order to effectively support U.S. foreign assistance programs to mentor and train elements of the Afghan National Police and the Afghan Ministry of Interior.

The Contract was awarded in the original amount of \$15,150,364 as a cost plus fixed fee term contract. The original awarded amount consisted of \$14,102,804 in cost reimbursement and \$1,047,560 in fixed fee components. The Contract was for an original base period of six months from January 1, 2015 through June 30, 2015. The Contract was modified seven times to exercise option periods, modify Contract clauses and increase the total amount of the Contract to \$21,246,089, consisting of \$18,559,013 in cost reimbursement and \$2,687,076 in fixed fee components. The period of performance was extended to February 29, 2016.

(2) **Summary of Significant Accounting Policies**

Basis of Presentation

The accompanying Special Purpose Financial Statement (SPFS) includes costs incurred for the Bridge Contract to the ACAS Program for the period December 29, 2014 through February 29, 2016. Because the SPFS presents only a selected portion of the operations of DynCorp, it is not intended to and does not present the financial position, changes in financial position, or cash flows of DynCorp. The information in the SPFS is presented in accordance with the requirements specified by the Special Inspector General for Afghanistan Reconstruction (SIGAR), accounting principles generally accepted in the United States of America, and is specific to the aforementioned Contract.

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

DYNCORP INTERNATIONAL, LLC

Contract No. SAQMMA15C0019
Afghan Civilian Advisor Support (ACAS) Bridge Contract

Notes to Special Purpose Financial Statement

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Basis of Accounting

Expenditures reported on the SPFS are required to be presented in accordance with accounting principles generally accepted in the United States of America and, therefore, are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Federal Acquisition Regulation (“FAR”) Part 31 – *Contracts with Commercial Organizations*

Currency

All amounts presented are shown in U.S. dollars, the reporting currency of DynCorp. DynCorp converts any expenses that were paid in Afghanis (local currency) into U.S. dollars (reporting currency) by using the current exchange rate obtained from the local Afghan bank.

(3) Revenue

As of February 29, 2016, DynCorp has reported [REDACTED] in revenue, excluding the fixed fee. This revenue equals the expenditures invoiced to DOS for the cost reimbursement portion of the Contract for the period December 29, 2014 through February 29, 2016.

(4) Cost Categories

The cost categories included in the SPFS are those as identified in the Contract and modifications. DynCorp further details its costs incurred into other cost categories to more align with its accounting records. Below are the actual costs incurred by DynCorp using its internal cost categories, excluding the fixed fee:

<u>Cost Category</u>	<u>Amount</u>
Labor	\$ [REDACTED]
Materials	[REDACTED]
Travel	[REDACTED]
Other direct costs	[REDACTED]
Indirect costs	[REDACTED]
Total costs	[REDACTED]

DYNCORP INTERNATIONAL, LLC

Contract No. SAQMMA15C0019
Afghan Civilian Advisor Support (ACAS) Bridge Contract

Notes to Special Purpose Financial Statement

(Continued)

(5) Outstanding Fund Balance

As of February 29, 2016, there was no outstanding fund balance under the Contract as the SPFS is prepared under the accrual basis of accounting described in Note 2.

(6) Subsequent Events

DynCorp has evaluated subsequent events through March 25, 2019, which is the date the SPFS was available to be issued. [REDACTED]

[REDACTED]

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF THE SPECIAL PURPOSE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

INDEPENDENT AUDITOR'S REPORT

DynCorp International, LLC
13500 Heritage Parkway
Fort Worth, Texas 76177

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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 DynCorp International, LLC (DynCorp) representing revenues received and costs incurred under Contract No. SAQMMA15C0019 (Contract) with the United States Department of State (DOS), Bureau of International Narcotics and Law Enforcement Affairs (INL) for the Afghan Civilian Advisor Support (ACAS) Bridge Contract for the period December 29, 2014 through February 29, 2016, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated March 25, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement, we considered DynCorp's internal control over financial reporting (internal control) to determine the audit procedures that were appropriate in the circumstances for the purpose of expressing our opinion on the Special Purpose Financial Statement, but not for the purpose of expressing an opinion on the effectiveness of DynCorp's internal control. Accordingly, we do not express an opinion on the effectiveness of DynCorp's internal control.

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

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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 material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 DynCorp'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.

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



Irvine, California
March 25, 2019

**REPORT ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF THE SPECIAL PURPOSE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

INDEPENDENT AUDITOR'S REPORT

DynCorp International, LLC
13500 Heritage Parkway
Fort Worth, Texas 76177

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

We 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 DynCorp International, LLC (DynCorp) representing revenues received and costs incurred under Contract No. SAQMMA15C0019 (Contract) with the United States Department of State (DOS), Bureau of International Narcotics and Law Enforcement Affairs (INL) for the Afghan Civilian Advisor Support (ACAS) Bridge Contract for the period December 29, 2014 through February 29, 2016, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated March 25, 2019.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DynCorp's Special Purpose Financial Statement is free from material misstatement, we performed tests of 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 Special Purpose Financial Statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

DynCorp International, LLC
13500 Heritage Parkway
Fort Worth, Texas 76177

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

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

A handwritten signature in blue ink, appearing to read "David J. ...".

Irvine, California
March 25, 2019

DYNCORP INTERNATIONAL, LLC

Contract No. SAQMMA15C0019
Bridge Contract to Afghan Civilian Advisor Support (ACAS) Program

Status of Prior Findings

For the Period December 29, 2014 through February 29, 2016

We requested from DynCorp, SIGAR and the DOS copies of any prior engagements including audits, reviews, attestation engagements and other studies that relate to DynCorp's activities under this contract. We identified two audit reports, one unilateral rate determination and a civil action against DynCorp. The two prior audit reports issued by SIGAR contained seven findings that could have a potential material effect on the SPFS or other financial data significant to the audit objectives. We have performed follow up procedures including discussion with management, reviewed the revised policies and procedures and conducted testing of similar areas surrounding these issues during our current audit. Accordingly, we have concluded that DynCorp had taken adequate corrective actions on all findings and these findings were not repeated under this contract. [REDACTED]

[REDACTED] The summary of prior audit findings are listed below:

Audit Report: SIGAR 16-61-FA "Department of the Army's Support for the Afghan Ministries of Defense and Interior: Audit of Costs Incurred by DynCorp International, LLC" for the period February 12, 2010 through April 29, 2014, which was conducted by Crowe Horwath LLP on behalf of SIGAR and was issued by SIGAR on September 30, 2016

- **Finding 2015-01 (Competitive Procurement and Reasonableness of Costs)**: That audit firm noted that DynCorp issued a subcontract that was not competitively bid. DynCorp claimed sole source justification but did not afford all bidding companies with the same information, leading to one bid being unfairly rejected.

Status: The only subcontractors used in the performance of work under the contract were those included in the proposal, which was approved by DOS. No other contracts for subcontractors were awarded during the audit period. As such, the corrective action has been adequately implemented.

- **Finding 2015-02 (Missing Items due to Lost Property Containers)**: The audit firm noted that DynCorp was unable to locate certain equipment and property items that were selected by the auditors for physical inspection.

Status: The contract under audit had no equipment costs included. However, based upon our discussions with DynCorp personnel, equipment is tracked by location and the equipment that could not be located in the prior audit represented an isolated instance as no other audits had identified such an issue. As such, the corrective action has been adequately implemented.

- **Finding 2015-03 (Certified Cost and Pricing Data)**: That audit firm noted that DynCorp could not provide evidence that an award to a subcontractor was competitively bid. Additionally, since no evidence of a competitive award existed in the procurement file, and modifications greater than \$700,000 were made to the subcontract, a certified cost and price analysis should have been performed.

DYNCORP INTERNATIONAL, LLC

Contract No. SAQMMA15C0019
Afghan Civilian Advisor Support (ACAS) Bridge Contract

Status of Prior Audit Findings

(Continued)

Status: The only subcontractors used in the performance of work under the contract were those included in the proposal, which was approved by DOS. No other contracts for subcontractors were awarded during the audit period. As such, the corrective action has been adequately implemented.

- **Finding 2015-04 (Inadequately Supported Purchases of Consumables):** The audit firm noted that DynCorp could not provide proper evidence that certain goods and services reported as consumables were received and utilized for contract purposes.

Status: We tested 35 transactions reported as materials, and 121 transactions reported as other direct costs as part of our audit. All of these transactions tested were properly supported and related to the contract without exception. As such, the corrective action has been adequately implemented.

- **Finding 2015-05 (Accuracy of Information DynCorp Provided for the Consent to Subcontract):** The audit firm noted that DynCorp did not receive consent to subcontract from the U.S. Government with the subcontractor noted in the findings above.

Status: The only subcontractors used in the performance of work under the contract were those included in the proposal, which was approved by DOS. No other contracts for subcontractors were awarded during the audit period. As such, the corrective action has been adequately implemented.

Audit Report: SIGAR 18-62-FA “Department of Defense’s Ministerial Development Program for the Afghan Ministry of Defense: Audit of Costs Incurred by DynCorp International, LLC” for the period April 30, 2014 through September 30, 2015, which was conducted by Crowe LLP on behalf of SIGAR and was issued by SIGAR on July 18, 2018

- **Finding 2018-01 (Overbilling of Indirect Costs):** The audit firm noted that DynCorp did not remove indirect costs associated with a credit on subcontract labor.

Status: During our testing of the application of indirect costs, all indirect cost rates were correctly applied to the costs incurred, including credits, without exception. As such, the corrective action has been adequately implemented.

- **Finding 2018-02 (Use of Incomparable Positions for Procurement Rate Reasonableness):** The audit firm noted that DynCorp compared incomparable positions in order to determine reasonableness of labor rates in one of its procurements.

Status: During our testing of labor costs, all labor rates paid were adequately supporting by authorized rates or pay. As such, the corrective action has been adequately implemented.

DYNCORP INTERNATIONAL, LLC

Contract No. SAQMMA15C0019
Afghan Civilian Advisor Support (ACAS) Bridge Contract

Status of Prior Audit Findings

(Continued)

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

SIGAR's Mission

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

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

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

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