SIGAR

Special Inspector General for Afghanistan Reconstruction

SIGAR 15-63 Financial Audit

Department of the Army's Afghan National Police and Afghan National Army Communications Equipment Training and Sustainment Projects: Audit of Costs Incurred by DRS Technical Services, Inc.

JUNE

2015

SIGAR

Special Inspector General for Afghanistan Reconstruction

June 2015

Department of the Army's Afghan National Police and Afghan National Army Communications Equipment Training and Sustainment Projects: Audit of Costs Incurred by DRS Technical Services, Inc.

SIGAR 15-63-FA

WHAT THE AUDIT REVIEWED

The Army Contracting Command (ACC) awarded two task orders under contract number W15P7T-10-D-D416 to DRS Technical Services, Inc. (DRS). On June 17, 2012, ACC issued task order 0004, with an initial amount of $25 million, to provide communication devices and training support for the Afghan National Police. On September 7, 2012, ACC issued task order 0005, which provided $18 million to train the Afghan National Army in radio maintenance, communications maintenance, and systems engineering. As of September 29, 2013, six modifications to task order 0004 and seven modifications to task order 0005 had increased the combined value to over $86 million.

SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe Horwath), reviewed $45,402,656 in expenditures charged to the two task orders from June 17, 2012, to September 29, 2013. The audit objectives were to (1) identify and report on significant deficiencies or material weaknesses in DRS's internal controls related to the awards; (2) identify and report on instances of material noncompliance with the terms of the award and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether DRS has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of DRS's Special Purpose Financial Statement. See Crowe Horwath'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, we oversaw the audit and reviewed its results. Our review disclosed no instances where Crowe Horwath did not comply, in all material respects, with U.S. generally accepted government auditing standards.

WHAT THE AUDIT FOUND

Crowe Horwath LLP (Crowe Horwath) identified one significant deficiency in internal controls and one instance of noncompliance with the terms and conditions of the task orders. Crowe found six instances in which a DRS Technical Services, Inc. (DRS) project director billed the government for hours in excess of the authorized 72-hour work week without first obtaining approval from the contracting officer. DRS was unable to produce evidence of the government's approval for these exceptions to the authorized schedule.

As a result of this internal control weakness and instance of noncompliance, Crowe Horwath identified $1,408 in total questioned costs, all of it consisting of unsupported costs—costs not supported with adequate documentation or that did not have required prior approval. Crowe Horwath did not identify any ineligible costs—costs prohibited by the task orders, applicable laws, or regulations.

Category	Ineligible	Unsupported	Questioned Costs Total
Direct Labor	$0	$1,408	$1,408
Totals	**$0**	$1,408	**$1,408**

Crowe Horwath did not identify any prior audits, reviews, or assessments that pertained to DRS's implementation of the contract or were material to the Special Purpose Financial Statement.

Crowe Horwath issued an unmodified opinion on DRS's Special Purpose Financial Statement. Crowe Horwath noted that the statement presents fairly, in all material respects, revenues received, costs incurred, and the balance for the indicated period of audit.

WHAT SIGAR RECOMMENDS

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

1. **Determine the allowability of and recover, as appropriate, $1,408 in questioned costs identified in the report.**
2. **Advise DRS to address the report's internal control finding.**
3. **Advise DRS to address the report's noncompliance finding.**

SIGAR | Office of the Special Inspector General for Afghanistan Reconstruction

June 17, 2015

The Honorable Ashton B. Carter
Secretary of Defense

General Lloyd J. Austin III
Commander, U.S. Central Command

General John F. Campbell
Commander, U.S. Forces–Afghanistan and
Commander, Resolute Support

General Dennis L. Via
Commanding General, U.S. Army Materiel Command

Major General Theodore C. Harrison III,
Commanding General, U.S. Army Contracting Command

We contracted with Crowe Horwath LLP (Crowe Horwath) to audit the costs incurred by DRS Technical Services, Inc. (DRS) under two Army Contracting Command task orders to provide communications equipment and training for the Afghan National Police and Afghan National Army.[1] Crowe Horwath's audit covered $45,402,656 in expenditures charged to the task orders from June 17, 2012, to September 29, 2013. Our contract 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 the Army Contracting Command:

1. **Determine the allowability of and recover, as appropriate, $1,408 in questioned costs identified in the report.**
2. **Advise DRS to address the report's internal control finding.**
3. **Advise DRS to address the report's noncompliance finding.**

The results of Crowe Horwath's audit are further detailed in the attached report. We reviewed Crowe Horwath's report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on DRS's Special Purpose Financial Statement. We also express no opinion on the effectiveness of DRS's internal control or compliance with the task orders, laws, and regulations. Crowe Horwath is responsible for the attached auditor's report and the conclusions expressed in the report. However, our review disclosed no instances where Crowe Horwath 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-063)

[1] The Army Contracting Command (ACC) awarded contract number W15P7T-10-D-D416 and associated task orders 0004 and 0005 to DRS. ACC awarded task order 0004 on June 17, 2012, and task order 0005 on September 7, 2012. The task orders called for providing the Afghan National Police and the Afghan National Army with mobile and handheld radios, and communication support and training.

DRS Technical Services, Inc.

Special Purpose Financial Statement

Afghan National Police C4ISR Fielding and Training Project

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

For the Period June 17, 2012, through September 29, 2013

(With Independent Auditor's Report Thereon)

Table of Contents

TRANSMITTAL LETTER 1

SUMMARY 2

INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT 6

SPECIAL PURPOSE FINANCIAL STATEMENT 8

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT 10

NOTES TO THE QUESTIONED COSTS PRESENTED ON THE SPECIAL PURPOSE FINANCIAL STATEMENT 12

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL 13

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE 15

SECTION I - SCHEDULE OF FINDINGS AND QUESTIONED COSTS 17

SECTION II - SUMMARY SCHEDULE OF PRIOR AUDIT, REVIEW, AND ASSESSMENT FINDINGS 18

APPENDIX A - VIEWS OF RESPONSIBLE OFFICIALS 19

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TRANSMITTAL LETTER

May 7, 2015

To the Management of DRS Technical Services, Inc.
12930 Worldgate Drive, Suite 700
Herndon, Virginia 20170

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

We appreciate the opportunity to provide to you our report regarding the procedures that we have completed during the course of our audit of DRS Technical Services, Inc.'s ("DRS") contract number W15P7T-10-D-D416, Order Numbers 0004 and 0005, for the period June 17, 2012, through September 29, 2013.

Within the pages that follow, we have provided a brief summary of the work performed. Following the summary, we have incorporated our report on the Special Purpose Financial Statement, report on internal control, and report on compliance. Accordingly, we do not express an opinion on the summary and any information preceding our reports.

When preparing our report, we considered comments, feedback, and interpretations of DRS, SIGAR, and the United States Army's Army Contracting Command provided both in writing and orally throughout the audit planning, fieldwork, and reporting phases. Management's response to the report has been incorporated as an appendix to this report.

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

Sincerely,

Melinda DeCorte, CPA, Partner
Crowe Horwath LLP

SUMMARY

Background

DRS Technical Services, Inc. ("DRS") was awarded two task orders issued under contract number W15P7T-10-D-D416 by the United States Army's Army Contracting Command. The first, task order number 0004, funded the Afghan National Police C4ISR Fielding and Training Project, or the "ANP" project. The second, task order number 0005, funded the Afghanistan National Army Communications Equipment Service Mentoring, Systems Engineering and Technical Assistance and Training and Maintenance Radio Sustainment, or the "ANA" project.

The ANP project's original task order was issued effective June 17, 2012, and included an initial project completion date of June 16, 2013. The order was funded at the level of $24,509,734, and included two option periods that the Government could elect to exercise. As of September 29, 2013, the order had been modified six times. Through the modifications, the Government exercised the first option year and increased the obligated funding amount to $51,427,589. DRS reported $32,777,950 in costs incurred and fixed fee payments earned under the task order as of September 29, 2013. The project remains active.

With respect to the ANA project, the original task order provided funding at the level of $17,831,670. The order was issued effective September 7, 2012, and included an initial performance completion date of September 6, 2013. The Government subsequently issued seven modifications and exercised the first option year reflected in the task order. The modifications increased the obligated amount to $35,141,469. DRS reported $13,855,188 in actual costs incurred and fixed fee payments earned under the task order as of September 29, 2013. DRS reported that work under this task order concluded on December 31 2014.

Throughout the projects' periods of performance, DRS reported having accomplished the following key results (unaudited by Crowe Horwath LLP):

Task Order 0004

- Provided Data Encryption Standard conversion for 15,000 Very High Frequency Handheld Radios and 10,000 VHF Mobile Radio to provide the Warfighter with increased level of personnel security during classified movements;
- Provided 16 Field Service Representatives at eight (8) hazardous remote Forward Operation Bases warfront locations throughout Afghanistan to provide readily available Subject Matter Expert technical assistance, over-the-shoulder training, inspections, installations, maintenance, and logistics support;
- Designed, developed, implemented, and operated the MoI ANP Radio and Information Technology (IT) formal training facilities at 16 remote locations throughout Afghanistan;
- Procured, distributed, installed, and maintained over 92,000 HF, VHF, and UHF Base Station, Repeater, Mobile, and Handheld Radios throughout Afghanistan; and
- Conducted Radio Frequency (RF) propagation studies for the successful fielding of 411 VHF Radio Frequency Repeater Systems and the UHF P25 Radio Trunking System 5 Node Sites.

Task Order 0005

- Provided quality radio maintenance and network expansion training for six (6) Army Corps level regions, one Air Force region, and the Capital Region. This included complete restructure of POIs, establishing workshops, and fielding of test equipment;
- Graduated/Certified over 250 communications maintenance repairmen, train the trainer (T3) instructors, test measurement & diagnostic equipment (TMDE-Calibration) technicians, and QA/QC technicians;

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- Provided training and mentoring to the ANA Logistics team through execution of inventories, transfers, and accountability training, functions, and operations;
- Provided IT network expansion and training to extend networks down to subordinate units, including site surveys, engineering, contracting, and procurement training; and
- Graduated and certified 198 students and technicians in their designated disciplines (Networking / Microsoft Suite Software).

Work Performed

Crowe Horwath LLP ("Crowe") was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") to conduct a financial audit of DRS Technical Services, Inc.'s contract number W15P7T-10-D-D416, Task Order Numbers 0004 and 0005.

Objectives Defined by SIGAR
The following audit objectives were defined within the *Performance Work Statement for Financial Audits of Costs Incurred by Organizations Contracted by the U.S. Government for Reconstruction Activities in Afghanistan*:

Audit Objective 1 – Special Purpose Financial Statement
Express an opinion on whether the Special Purpose Financial Statement for the task orders 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 accounting principles generally accepted in the United States of America or other comprehensive basis of accounting.

Audit Objective 2 – Internal Controls
Evaluate and obtain a sufficient understanding of DRS's internal controls related to the task orders; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.

Audit Objective 3 – Compliance
Perform tests to determine whether DRS complied, in all material respects, with the task orders' 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.

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations
Determine and report on whether the audited entity has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the special purpose financial statement.

Scope
The scope of the audit included the period June 17, 2012, through September 29, 2013, for the two task orders. The audit was limited to those matters and procedures pertinent to the task orders that have a direct and material effect on the Special Purpose Financial Statement ("SPFS") and evaluation of the presentation, content, and underlying records of the SPFS. The audit included reviewing the financial records that support the SPFS to determine if there were material misstatements and if the SPFS was presented in the format required by SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation: R4

- Allowable Costs;
- Allowable Activities;
- Cash Management;
- Equipment and Property Management; and
- Procurement.

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Methodology
To meet the aforementioned objectives, Crowe completed a series of tests and procedures to audit the SPFS, tested compliance and considered the auditee's internal controls over compliance and financial reporting, and determined if adequate corrective action was taken in response to prior audit, assessment, and findings and review comments, as applicable.

For purposes of meeting Audit Objective 1 pertaining to the SPFS, transactions were selected from the financial records underlying the SPFS and were tested to determine if the transactions were recorded in accordance with the basis of accounting identified by the auditee; were incurred within the period covered by the SPFS and in alignment with specified cutoff dates; and were adequately supported.

With regard to Audit Objective 2 regarding internal control, Crowe requested and the auditee provided copies of policies and procedures to provide Crowe with an understanding of the system of internal control established by DRS. The system of internal control is intended to provide reasonable assurance of achieving reliable financial and performance reporting and compliance with applicable laws and regulations. Crowe corroborated internal controls identified by the auditee and conducted testing of select key controls to understand if they were implemented as designed.

Audit Objective 3 requires that tests be performed to obtain an understanding of the auditee's compliance with requirements applicable to the task orders. Crowe identified – through review and evaluation of the task orders executed by and between DRS and the U.S. Army, the Code of Federal Regulations ("CFR"), and the indefinite delivery indefinite quantity contract upon which the task orders were issued – the criteria against which to test the SPFS and supporting financial records and documentation. Using sampling techniques, Crowe selected expenditures, payment requests submitted by DRS to the Government, procurements, and property and equipment inventories and dispositions for audit. Supporting documentation was provided by the auditee and subsequently evaluated to assess DRS's compliance. Testing of indirect costs was limited to determining whether indirect costs were charged to the U.S. Government in accordance with the rate limitations established within the contracts.

Regarding Audit Objective 4, Crowe inquired of both DRS and the U.S. Army regarding prior audits and reviews to obtain an understanding of the nature of audit reports and other assessments that were completed and that required corrective action. Both DRS and the U.S. Army responded that there were no audits, reviews, or assessments pertinent to the task orders under audit. Accordingly, no procedures to follow-up on prior audit recommendations and/or findings were required.

Due to the location and nature of the project work, certain vendors and individuals who supported the project still residing in Afghanistan, physical structures that were maintained under the awards, and assets purchased with the Federal funds still being physically located in-country, certain audit procedures were performed on-site in Afghanistan, as deemed necessary.

Summary of Results
Upon completion of Crowe's procedures, Crowe issued an unmodified opinion on the Special Purpose Financial Statement.

With regard to matters of internal control and compliance, Crowe identified an instance of noncompliance which resulted in questioned costs and a significant deficiency in internal control. A total of $1,408 was questioned as a result of the noncompliance.

Other matters that did not meet the aforementioned criteria were communicated to DRS within a management letter issued on April 22, 2015.

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to DRS's financial performance under the task orders. Per communications with DRS and the U.S. Army, there were no prior audit, review, or assessment reports issued that pertained to the two task orders under audit.

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Summary of Management Comments

Management concurred with the audit finding.

References to Appendices

The auditor's reports are supplemented by one appendix - **Appendix A** containing the Views of Responsible Officials.

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INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

To the Management of DRS Technical Services, Inc.
12930 Worldgate Drive, Suite 700
Herndon, Virginia 20170

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

Report on the Special Purpose Financial Statement

We have audited the Special Purpose Financial Statement ("the Statement") of DRS Technical Services, Inc. ("DRS"), and related notes to the Statement, as of September 29, 2013, and for the period June 17, 2012, through September 29, 2013, with respect to contract number W15P7T-10-D-D416, Order Numbers 0004 and 0005.

Management's Responsibility for the Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of the Statement in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") in Appendix IV of Solicitation ID11140014 ("the Contract"). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a Statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

(Continued)

Opinion

In our opinion, the Statement referred to above presents fairly, in all material respects, the revenues earned, costs incurred, and balance for the indicated period in accordance with the requirements established by the Office of the Special Inspector General for Afghanistan Reconstruction in Appendix IV of the Contract and on the basis of accounting described in Note 1.

Basis of Presentation

We draw attention to Note 1 to the Statement, which describes the basis of presentation. The Statement was prepared by DRS in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction in Appendix IV of the Contract and presents those expenditures as permitted under the terms of contract number W15P7T-10-D-D416, Order Numbers 0004 and 0005, which is a basis accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the contract task orders referred to above. Our opinion is not modified with respect to this matter.

Restriction on Use

This report is intended for the information of DRS Technical Services, Inc., the United States Army, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued reports dated April 22, 2015, on our consideration of DRS's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DRS's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

April 22, 2015
Washington, D.C.

DRS Technical Services
Special Purpose Financial Statement
W15P7T-10-D-D416, Order No. 0004 and W15P7T-10-D-D416, Order No. 0005
For the Period June 17, 2012, through September 29, 2013

R1

					Questioned Costs		
		Funding		**Actual**	**Ineligible**	**Unsupported**	**Notes**
Revenues							
W15P7-10-D-D416, Order No. 0004 - ANP Project	$	51,427,589	$	32,777,950			
W15P7T-10-D-D416, Order No. 0005 - ANA Project		35,141,469		13,855,188			
Total Revenue	$	86,569,058	$	46,633,138			3, 7
Costs Incurred							5
W15P7-10-D-D416, Order No. 0004 - ANP Project							
Total Costs	$	49,863,242					
Direct Labor			$	[redacted]			
Non-Labor							
Indirect Costs							6
Sub-Total: Costs Incurred - ANP Project	$	49,863,242	$	31,701,688			
W15P7-10-D-D416, Order No. 0005 - ANA Project							
Total Costs	$	34,863,361					
Direct Labor			$	[redacted]		$ 1,408	A
Non-Labor							
Indirect Costs							6
Sub-Total: Costs Incurred - ANA Project	$	34,863,361	$	13,700,968			
Total Costs Incurred	$	84,726,603	$	45,402,656		$ 1,408	

(Continued)

Fixed Fee		
Order No. 0004	$ [redacted]	$ [redacted]
Order No. 0005		
Total Earned Fixed Fee	1,842,455	1,230,482
Balance		$ -

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

Note 1. Basis of Presentation

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Contract Number W15P7T-10-D-D416, Task Order Numbers 0004 and 0005 for the period June 17, 2012, through September 29, 2013. Task order 0004 funded the Afghan National Police (ANP) C4ISR Fielding and Training project. The project funded by task order 0004 is referred to as the “ANP” project on the Statement.

Task order 0005 funded the Afghanistan National Army Communications Equipment Service Mentoring, Systems Engineering and Technical Assistance and Training and Maintenance Radio Sustainment project. The project funded by task order 0005 is referred to as the “ANA” project on the Statement.

Because the Statement presents only a selected portion of the operations of the DRS Technical Services, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of DRS Technical Services, Inc. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal task orders. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Basis of Accounting

Expenditures reported on the Statement are reported on accrual basis of accounting. Such expenditures are recognized following the cost principles contained in FAR 31.205, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Revenues

Revenues on the Statement represent the amount of funds to which DRS Technical Services, Inc. is entitled to receive for allowable, eligible costs incurred and a corresponding fixed fee amount under the contract task orders during the period of performance.

Note 4. Currency

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

Note 5. Presentation of Funding Amounts

Amounts presented in the “Funding” column on the Statement reflect the funds allotted for estimated costs incurred and the associated fixed fee amounts for each contract task order. Amounts presented for task order 0004 reflect the values contained in Modification Number 6 to the order dated August 21, 2013. Amounts presented for task order 0005 reflect the values contained in Modification Number 7 to the order dated September 5, 2013.

(Continued)

Note 6. Indirect Costs

DRS incurred [redacted] in indirect costs under task order number 0004 and [redacted] in indirect costs under task order 0005. Due to the contracts containing an upward bound limit on the indirect cost rates that may be utilized for invoicing costs to the Government, the amounts presented on the Statement are lower than actual indirect costs incurred. Amounts presented on the Statement reflect the indirect cost amounts that are billable to the Government.

Note 7. Reconciliation of Reported Revenues and Amounts Invoiced

As of September 29, 2013, DRS had invoiced the Government a total of $28,712,038 under contract task order 0004. Revenues reported on the Statement of $32,777,950 reflect total revenues earned under the contract task order. The balance of $4,065,912 reflects accrued revenue earned that was unbilled as of September 29, 2013.

Under contract task order 0005, DRS had invoiced the Government a total of $11,099,829 as of September 29, 2013. Revenues reported on the Statement of $13,855,188 reflect total revenues earned under the contract task order. The balance of $2,755,359 reflects accrued revenue earned that was unbilled as of September 29, 2013.

Note 8. Program Status

Both task orders 0004 and 0005 remain open. Pending completion of the projects and final audits of indirect cost rates by the Government, adjustments to the amounts reported on the SPFS may be required.

Note 9. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the September 29, 2013, end of the period of performance covered by the Statement. Management has performed their analysis through April 22, 2015.

NOTES TO THE QUESTIONED COSTS PRESENTED ON THE SPECIAL PURPOSE FINANCIAL STATEMENT [1]

Note A. Questioned Costs – Personnel Costs in Excess of Approved Workweeks

Finding 2015-01 identified $1,408 in questioned costs due to an employee's having worked and billed the Government for more hours than were permitted within one week for project directors.

[1] Notes to the 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 Statement.

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Management of DRS Technical Services, Inc.
12930 Worldgate Drive, Suite 700
Herndon, Virginia 20170

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

We have audited the Special Purpose Financial Statement ("the Statement") of DRS Technical Services, Inc. ("DRS"), and related notes to the Statement, for the period June 17, 2012, through September 29, 2013, with respect to contract number W15P7T-10-D-D416, Order Numbers 0004 and 0005. We have issued our report thereon dated April 22, 2015.

Internal Control over Financial Reporting

DRS's management is responsible for establishing and maintaining effective internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the contract; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of presentation described in Note 1 to the Statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the Statement for the period June 17, 2012, through September 29, 2013, we considered DRS's internal controls to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of DRS's internal control. Accordingly, we do not express an opinion on the effectiveness of DRS's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Statement will not be prevented, or detected and corrected, on a timely basis. 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.

(Continued)

Our consideration of internal control was for the limited purpose described in the second paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify all deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We consider the deficiency noted in Finding 2015-01 in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency.

We noted certain matters that we reported to DRS's management in a separate letter dated April 22, 2015.

DRS Technical Services, Inc.'s Response to the Finding

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

Purpose of this Report

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

Restriction on Use

This report is intended for the information of DRS Technical Services, Inc., the United States Army, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

Crowe Horwath LLP

Crowe Horwath LLP

April 22, 2015
Washington, D.C.

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the Management of DRS Technical Services, Inc.
12930 Worldgate Drive, Suite 700
Herndon, Virginia 20170

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

We have audited the Special Purpose Financial Statement ("the Statement") of DRS Technical Services, Inc. ("DRS"), and related notes to the Statement, for the period June 17, 2012, through September 29, 2013, with respect to contract number W15P7T-10-D-D416, Order Numbers 0004 and 0005. We have issued our report thereon dated April 22, 2015.

Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the contract task orders is the responsibility of the management of DRS Technical Services, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in Finding 2015-01 in the accompanying Schedule of Findings and Questioned Costs.

DRS Technical Services, Inc.'s Response to the Finding

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

Purpose of this Report

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

(Continued)

Restriction on Use

This report is intended for the information of DRS Technical Services, Inc., the United States Army, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

Crowe Horwath LLP

Crowe Horwath LLP

April 22, 2015
Washington, D.C.

SECTION I - SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2015-01: Personnel Costs In Excess of Approved Workweeks

Significant Deficiency and Non-Compliance

Criteria: Section 3.4 of DRS's proposal, as accepted by the Government, states the following, "Our OCONUS Project Director and SETA support personnel will accommodate the Government staff schedule of 6 days a week, 12 hours a day, resulting in a 72 hour work-week."

Section H-25 of the Indefinite Delivery Indefinite Quantity contract states, "The Contractor will obtain authorization from the [Contracting Officer Representative] and approval from the Contracting Officer prior to incurring any hours in excess of the contractor work week in accordance with awarded task order hours."

Condition: During our review of the population of labor transactions, we identified six instances in which one project director worked greater than 72 hours per week. The hours were worked while the project director collaborated with another director to transition tasks prior to his taking leave at various times. DRS was unable to produce evidence of the Government's approval for the individuals to work greater than 72 hours in the aforementioned six instances. The resultant overcharge to the Government for her time was $1,408.

In addition, we identified six instances in which a staff member working within the continental United States worked greater than 40 hours without the Government's prior written approval. There is, however, no financial impact on the awards due to the individual's having been a salaried employee. Therefore, there was not an incremental increase in billing due to additional hours having been worked.

No exceptions were noted with respect to individuals working outside of the continental United States.

Questioned costs: $1,408

Effect: The Government paid a greater amount of funds for project director labor than expected as a result of the labor overcharge.

Cause: DRS considered the additional hours to be reasonable due to the nature of the project director's activities and did not consider it necessary to obtain prior approval for the hours worked.

Recommendation: We recommend that DRS reimburse the Government for the $1,408 that was overcharged to the Government. In addition, we recommend that DRS modify its project procedures to require that staff evaluate whether or not overtime is expected as a result of project directors scheduled leave. In such instances where overtime is anticipated, the procedure should incorporate a step that requires DRS to request the Government's approval for additional time worked.

SECTION II – SUMMARY SCHEDULE OF PRIOR AUDIT, REVIEW, AND ASSESSMENT FINDINGS

Per discussion with DRS and the U.S. Army, no prior audits, reviews, or assessments were conducted over the contract task orders under audit. Accordingly, there were no corrective actions required for follow-up by Crowe Horwath.

APPENDIX A - VIEWS OF RESPONSIBLE OFFICIALS

DRS Technologies

A Finmeccanica Company

May 1, 2015

Ms. Melinda DeCorte
Crowe Horwath LLP
1325 G Street NW, Suite 500
Washington, DC 20005-3136

Subject: DRS Technical Services, Inc.'s Management Response to Draft SIGAR Audit Report dated April 27, 2015

Reference: Financial Audit of Contract/Order No. W15P7T-10-D-D416/0004 and 0005

Dear Ms. DeCorte:

The purpose of this letter is to provide DRS Technical Services, Inc.'s ("DRS") management response to the findings in the draft audit report on Task Order numbers 0004 (Afghan National Police C4ISR Fielding and Training project, hereinafter referred to as "ANP task order") and 0005 (Afghanistan National Army Communications Equipment Service Mentoring, Systems Engineering and Technical Assistance and Training and Maintenance Radio Sustainment project, hereinafter referred to as "ANA task order") under contract number W15P7T-10-D-D416 issued by Crowe Horwath LLP ("Crowe") on behalf of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") for the audit period June 17, 2012 through September 29, 2013.

DRS has provided below a response to the single finding listed in the draft audit report.

Finding 2015-01: Personnel Costs In Excess of Approved Workweeks

DRS agrees with the facts of this finding and resulting recommendations. However, DRS firmly believes this scenario is not an inherent or pervasive control issue, especially considering that the costs in question totaled $1,408, an extremely small dollar amount when compared to the $1,889,645 in labor costs incurred during the audit period.

DRS will reimburse the Government for the $1,408. Also, DRS will further qualify its project procedures to ensure whenever overtime is anticipated, regardless of position, DRS program management will, as provided by the contract/order, contact the Contracting Officer's Representative (COR) in advance to request approval, in writing, of the anticipated hours to be worked in excess of the contractually established work week. This project procedure will be disseminated to DRS program/project managers by May 30, 2015.

DRS Technical Services, Inc.
12930 Worldgate Drive, Suite 700
Herndon, VA 20170
Tel: 703.896.7100 Fax 703.896.7346 www.drs.com

In addition, DRS provides the following clarification regarding certain contract/task order information referenced in the draft audit report:

a) The title for the ANA Task Order (number 0005) is "Afghanistan National Army Communications Equipment Service Mentoring, Systems Engineering and Technical Assistance and Training and Maintenance Radio Sustainment". This is the title listed in Section C of the initial award, right above Section 1.0 Scope. (The title used in the draft report is the scope statement listed in Section 1.0 Scope.) Following are the applicable sections of the draft audit report:

   i. Cover Page
   ii. b) Pg. 2, Summary, Background, 1st para., 3rd sentence
   iii. Pg. 10, Independent Auditor's Report on the Special Purpose Financial Statement, Financial Statement, Special Purpose Note 1. Basis of Presentation, 2nd para.

b) Pg. 2, Summary, Background, 3rd para., last sentence – the sentence "DRS continues to execute work under this task order." needs to be revised since performance under the ANA task order ended on December 31, 2014.

c) Pg. 17, Independent Auditor's Report on Compliance, Section I – Schedule of Findings and Questioned Costs, Criteria, 2nd para. – Modification number P00006, effective July 24, 2012, modified Section H-25 of the base contract to state "The Contractor will obtain authorization from the COR prior to incurring any hours in excess of the contractor work week in accordance with awarded task order hours." This modified language was in place for the majority of the audit period for the ANP task order 0004 and for the entire audit period for the ANA task order 0005.

Please contact the undersigned at (703) 896-7152 or email address pchandler@drs.com should you have any questions.

Sincerely,

DRS TECHNICAL SERVICES, INC.

Patricia M. Chandler
Contracts Manager

DRS Technical Services, Inc.
12930 Worldgate Drive, Suite 700
Herndon, VA 20170
Tel: 703.896.7100 Fax 703.896.7346 www.drs.com

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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- Phone DSN Afghanistan: 318-237-3912 ext. 7303
- Phone International: +1-866-329-8893
- Phone DSN International: 312-664-0378
- U.S. fax: +1-703-601-4065

Public Affairs

Public Affairs Officer

- Phone: 703-545-5974
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  2530 Crystal Drive
  Arlington, VA 22202