

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 22-39 Financial Audit

Department of the Army's Afghanistan Air Force Aircraft Maintenance Training Program: Audit of Costs Incurred by Raytheon Company

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



SEPTEMBER
2022

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On July 10, 2019, the Army Contracting Command (ACC) awarded a 3-year, \$31,704,840, combination cost-reimbursement and firm-fixed-price task order under the Enterprise Training Services Contract to Raytheon Company (Raytheon) in support of the Afghanistan Air Force Aircraft Maintenance Training program. The program's objectives were to, among other things, provide fixed and rotary wing maintenance training and English language lessons. ACC modified the contract 13 times; the total amount increased to \$45,543,462. ACC terminated the contract for the convenience of the government effective October 29, 2021.

SIGAR's financial audit, performed by Conrad LLP (Conrad), reviewed \$ [REDACTED] in costs charged to the contract from July 10, 2019, through July 9, 2021. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in Raytheon'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 Raytheon has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of Raytheon's Special Purpose Financial Statement (SPFS). See Conrad's report for the precise audit objectives.

In contracting with an independent audit firm and drawing from the results of the audit, auditing standards require SIGAR to review the work performed. Accordingly, SIGAR oversaw the audit and reviewed its results. SIGAR's review disclosed no instances wherein Conrad did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

September 2022

Department of the Army's Afghanistan Air Force Aircraft Maintenance Training Program: Audit of Costs Incurred by Raytheon Company

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WHAT SIGAR FOUND

Conrad identified one deficiency, one significant deficiency, and one material weakness in Raytheon's internal controls, and three instances of noncompliance with terms of the award. For example, the auditors found that subcontractors did not certify their billings, and Raytheon did not require subcontractors to maintain source documentation to support purchases and services. Additionally, the auditors found that Raytheon did not maintain or provide adequate documentation to support course completion and stipend payments made to students in the training program.

Because of the deficiencies in internal controls and instances of noncompliance, Conrad identified \$10,275,498 in total questioned costs consisting of \$10,271,675 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval—and \$3,823 in ineligible costs—costs prohibited by the contract and applicable laws and regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Total Firm-Fixed Price	\$3,275	\$2,774,136	\$2,777,411
Total Cost Reimbursement	\$548	\$7,497,539	\$7,498,087
Total Costs	\$3,823	\$10,271,675	\$10,275,498

Conrad identified one prior audit report that was relevant to Raytheon's contract. The report did not have any findings and recommendations.

The auditors reported that Raytheon was unwilling to provide them with a requested list of instructors and related policies and procedures unless Conrad signed Raytheon's non-disclosure and confidentiality agreements. Conrad had already signed a non-disclosure agreement with SIGAR, and Conrad deemed the subsequent agreements to be an unnecessary and unacceptable constraint. Raytheon's refusals to release the information resulted in a scope limitation for the auditors because they were not able to complete all aspects of the audit procedures. Due to the scope limitation and a material internal control weakness, Conrad issued a modified opinion on Raytheon's SPFS.

WHAT SIGAR RECOMMENDS

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

1. Determine the allowability of and recover, as appropriate, \$10,275,498 in questioned costs identified in the report.
2. Advise Raytheon to address the report's scope limitation.
3. Advise Raytheon to address the report's three internal control findings.
4. Advise Raytheon to address the report's three noncompliance findings.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

September 12, 2022

The Honorable Lloyd J. Austin III
Secretary of Defense

The Honorable Christine Wormuth
Secretary of the Army

Brigadier General Christine A. Beeler
Commanding General, U.S. Army Contracting Command

We contracted with Conrad LLP (Conrad) to audit the costs incurred by Raytheon Company (Raytheon) under a 3-year combination cost-reimbursement and firm-fixed-price contract task order from the Army Contracting Command to support the Afghanistan Air Force Aircraft Maintenance Training program.¹ The program's objectives were to, among other things, provide fixed and rotary wing maintenance training and English language lessons. Conrad reviewed \$ [REDACTED] in costs charged to the contract from July 10, 2019, through July 9, 2021. Our contract with Conrad required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$10,275,498 in questioned costs identified in the report.**
- 2. Advise Raytheon to address the report's scope limitation.**
- 3. Advise Raytheon to address the report's three internal control findings.**
- 4. Advise Raytheon to address the report's three noncompliance findings.**

Conrad discusses the results of the audit in detail in the attached report. We reviewed Conrad's report and related documentation. We also inquired about Conrad's conclusions in the report and the firm's compliance with applicable standards. Our review, as differentiated from an audit of the financial statements 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 Raytheon's Special Purpose Financial Statement, or conclusions about the effectiveness of internal control over financial reporting, or on compliance with laws and other matters. Conrad is responsible for the attached auditor's report, dated July 15, 2022, and the conclusions expressed therein. However, our review disclosed no instances where Conrad did not comply, in all material respects, with U.S. generally accepted government auditing standards issued by the Comptroller General of the United States.

¹ The contract number is W900KK-18-D-0027.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

Please provide documentation related to corrective actions taken and/or target dates for planned completion for the recommendations to sigar.pentagon.audits.mbx.recommendation-followup@mail.mil, within 60 days from the issue date of this report.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-234)

Raytheon Company

Financial Audit of Costs Incurred Under
Contract No. W900KK-18-D-0027, Task Order No. W900KK19F0114 Awarded by the
United States Department of Defense, Army Contracting Command, in Support of
Afghanistan Air Force Aircraft Maintenance Training Program

For the Period of July 10, 2019 through July 09, 2021

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July 19, 2022

Board of Directors
Raytheon Company
Orlando, Florida, USA

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

Conrad LLP (referred to as "Conrad" or "we") hereby provides to you our final report, which reflects results from the procedures we completed during our audit of Raytheon Company's Special Purpose Financial Statement for costs incurred under Contract No. W900KK-18-D-0027, Task Order No. W900KK19F0114 awarded by the U.S. Department of Defense's Army Contracting Command, in support of the Afghanistan Air Force Aircraft Maintenance Training Program, for the period of July 10, 2019 through July 09, 2021.

On April 25, 2022, we provided SIGAR with a draft report reflecting our audit procedures and results. Raytheon Company received a copy of the report on June 15, 2022; and provided written responses subsequent thereto. These responses have been considered in the formation of the final report, along with the written and oral feedback provided by SIGAR and Raytheon Company. Raytheon Company's responses and our corresponding auditor analysis are incorporated into this report following our audit reports.

Thank you for providing us the opportunity to work with you and to conduct the audit of this Contract/Order.

Sincerely,

A handwritten signature in blue ink that reads "S Perera". The signature is written in a cursive style with a horizontal line underneath the name.

Sam Perera, CPA, CFE, CITP, CGMA
Partner

Raytheon Company

Financial Audit of Costs Incurred Under
Contract No. W900KK-18-D-0027, Task Order No. W900KK19F0114 Awarded by the United
States Department of Defense's Army Contracting Command, in Support of Afghanistan Air
Force Aircraft Maintenance Training Program

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Background

On July 10, 2019, the U.S. Department of Defense's ("DOD") Army Contracting Command ("ACC") under the Enterprise Training Services Contract ("Contract") No. W900KK-18-D-0027 awarded a combination Cost Reimbursement ("Cost") and Firm-Fixed-Price ("FFP") Task Order ("Order") W900KK19F0114 to Raytheon Company ("Raytheon") in support of the Afghanistan Air Force Aircraft Maintenance Training ("AMT") Program (the "Program").

The Program aimed to provide the Afghanistan Air Force with fixed and rotary wing training, which consisted of technical maintenance, English language lessons, general maintenance, and specific fixed and rotary wing maintenance training for the UH-60A and the MD-530 helicopter, and the C-203 aircraft.

Key performance objectives of the AMT Program included:

1. Conduct training and provide training assistance for military and civilian subjects in contingency and non-contingency operations in austere and non-austere environments.
2. Provide qualified Instructors and Subject Matter Experts ("SMEs") for training and instruction in both classroom and field environments.
3. Develop and provide training for varying class sizes utilizing an array of formats, mediums, and methodologies.
4. Evaluate and report on the results of the training and instruction.
5. Procure ancillary supplies and equipment in support of training.
6. Provide both oral and written translation services for course material and/or course instruction.

As detailed in the *Summary of Contract/Order* below, the initial approved budget was \$31,704,840, which included [REDACTED] under the FFP portion and [REDACTED] under the Cost portion of the Contract/Order. The performance period for the Contract/Order was from July 10, 2019 through July 09, 2022, which included a base year and two option periods. There were thirteen modifications executed throughout the period of performance and the first 7 modifications were executed during our audit period. The thirteen modifications increased the contract amount to \$45,543,462, which included [REDACTED] under the FFP portion and [REDACTED] under the Cost portion of the Contract/Order, with no change in the period of performance. The general performance requirements associated with the execution of the Contract/Order were outlined in the Performance Work Statement ("PWS"). Subsequently, on October 29, 2021, DOD-ACC issued a Notice of Termination for Convenience and on December 2, 2021, executed Modification #13 to terminate the AMT Program on October 29, 2021. See the *Summary of Contract/Order* on the next page.

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Summary of Contract/Task Order

Contract/Task Order Number	Original Budget and Period of Performance			Modified Budget and Period of Performance		
	Original Approved Budget (\$)	Start Date	End Date	No. of Modifications	Final Approved Budget (\$)	End Date
W900KK-18-D-0027 / W900KK19F0114*	██████████ (FFP)	07/10/19	07/09/22	13	██████████ (FFP)	10/29/21
	██████████ (Cost)				██████████ (Cost)	
Total:	\$31,704,840			13	\$45,543,462	

*Indicates the Contract/Order was modified.

Raytheon is an aerospace and defense company that provides advanced systems and services worldwide for commercial, military, and government customers. Raytheon develops integrated air and missile defense, electronic warfare, command, control, communications, computers, intelligence, surveillance and reconnaissance, space systems, and cyber products. On September 8, 2021, Raytheon and Vertex Aerospace Company ("Vertex") entered into a share and asset purchase and sale agreement, and Vertex acquired Raytheon's Training Solutions and Mission Critical Solutions businesses, including the Contract/Order of the AMT Program. On December 6, 2021, the Contract/Order was transferred to Vertex.

Work Performed

Conrad LLP ("Conrad") was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") to conduct a financial audit of the Contract/Order, as previously mentioned above, of Raytheon Company's ("Raytheon") Special Purpose Financial Statement ("SPFS") for costs incurred under the Program for the period from July 10, 2019 through July 09, 2021, with a total incurred cost and FFP combined of ██████████.

Objectives, Scope, and Methodology

Audit Objectives

The objectives of the audit for the aforementioned Contract/Order include the following:

- *Special Purpose Financial Statement ("SPFS")* – Express an opinion on whether Raytheon's

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Raytheon Company

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SPFS for the Contract/Order presents fairly, in all material respects, the 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/Order and generally accepted accounting principles or other comprehensive basis of accounting.

- *Internal Controls* – Evaluate and obtain a sufficient understanding of Raytheon's internal controls related to the Contract/Order, assess control risk, and identify and report on significant deficiencies, including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether Raytheon complied, in all material respects, with the Contract/Order requirements and applicable laws and regulations, and identify and report on instances of material noncompliance with terms of the Contract/Order 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 Raytheon has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the SPFS or other financial data significant to the audit objectives.

Scope

The scope of this audit included all costs incurred under the Contract/Order during the period of July 10, 2019 through July 09, 2021 totaling [REDACTED], which included [REDACTED] under the FFP portion and [REDACTED] under the Cost portion of the Contract/Order. Our testing of the Overhead and the General and Administrative Costs was limited to determining that the Overhead and the General and Administrative Costs were calculated using the provisional billing rates approved by the Defense Contract Management Agency's ("DCMA") Divisional Administrative Contracting Officer ("DACO").

Audit 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 on October 12, 2021 with representatives of Raytheon, Conrad, SIGAR, and the DOD-ACC participating via conference call. The purpose of the entrance conference was to discuss the nature, timing, and extent of audit work to be performed, establish key contacts throughout the engagement, and schedule status briefings. We also discussed the timeframe for the completion of the audit.

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Planning

During our planning phase, we performed the following:

- Obtained an understanding of Raytheon. The scope of our audit included Raytheon's management and employees, internal and external factors that affect operations, and accounting policies and procedures. We gained an understanding of Raytheon through interviews, observations, and reading the policies and manuals. We interviewed top management and employees responsible for significant functions and/or programs. In addition, we reviewed the following:
 - Contract/Order terms and conditions;
 - Performance Work Statement ("PWS");
 - Any regulations that are specific to the Contract/Order's requirements, such as Defense Federal Acquisition Regulation Supplement ("DFARS"), Federal Acquisition Regulation ("FAR") Part 31, and FAR Part 52; and
 - Previous SIGAR financial audit reports.
- Financial reconciliation – obtained and reviewed all financial reports submitted during the audit period and reconciled these reports to the accounting records to ensure all costs were properly recorded.

Special Purpose Financial Statement

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Contract/Order and the applicable general ledgers on the Cost portion of the Contract/Order;
- Documented procedures associated with controlling funds, including bank accounts and bank reconciliations;
- Traced receipt of funds to the accounting records;
- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the cost portion Contract/Order, and reasonable;
- Recalculated the Overhead and the General and Administrative Costs using the approved DCMA's provisional billing rates to ensure that they were accurately applied.

Internal Controls Related to the Contract/Order

To obtain reasonable assurance of Raytheon's financial reporting function and compliance with applicable laws and regulations, we reviewed Raytheon's internal control related to the Contract/Order

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to gain an understanding of the implemented system of internal control. This review was accomplished through interviews with management and key personnel, reviewing policies and procedures, identifying key controls within significant transaction cycles, and testing those key controls.

Compliance with Contract/Order Requirements and Applicable Laws and Regulations

To determine whether Raytheon complied, in all material respects, with the Contract/Order requirements, the Performance Work Statement ("PWS"), FAR Part 31, FAR Part 52, DFARS Part 231 and any other applicable laws and regulations, we performed tests of transactions. We also identified and reported on instances of material noncompliance with terms of the Contract/Order and applicable laws and regulations, including potential fraud or abuse that may have occurred.

Corrective Action on Prior Findings and Recommendations

We requested that Raytheon provide previous audit engagements so that we could determine if their findings and recommendation could have a material effect on Raytheon's SPFS. In addition, we conducted a search online of various governmental websites, including SIGAR (www.sigar.mil), USAID (www.usaid.gov), SEC (www.sec.gov), and other applicable Federal agencies, to identify previous engagements that could have a material effect on Raytheon's SPFS. For those engagements, Conrad evaluated the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS.

Exit Conference

An exit conference was held on April 07, 2022, via conference call. Participants included representatives from Conrad, Raytheon, SIGAR, and DOD-ACC. During the exit conference, we discussed the preliminary results of the audit and the reporting process.

Summary of Results

We have summarized the details of these results in the Findings and Questioned Costs/Price Reductions subsection below. Our summary is intended to present an overview of the audit results and is not intended to be a representation of the audit's results in their entirety.

Auditor's Opinion on the SPFS

Conrad issued a modified opinion on the fairness of the presentation of the SPFS due to a scope limitation and a material internal control weakness that was identified. A scope limitation is a restriction on an audit that is caused by the auditee, issues beyond the control of the auditee, or other events that do not allow the auditor to complete all aspects of his or her audit procedures.

We identified \$10,275,498 in total questioned costs for Cost CLINs and price reductions for FFP CLINs, which were composed of \$3,823 in ineligible costs for Cost CLINs and price reductions for FFP CLINs and \$10,271,675 in unsupported costs for Cost CLINs and price reductions for FFP CLINs. Ineligible

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costs were explicitly questioned because they were unreasonable, prohibited by the Contract/Order's provisions or applicable laws and regulations, or not related to the Contract/Order. Unsupported costs were not supported with adequate documentation or did not have required prior approvals or authorizations. Price reductions is a recommended reduction for the awarded price under the FFP portion of the Contract/Order due to ineligible or insufficient support to demonstrate compliance with the PWS and contract requirements.

Internal control findings were classified as a deficiency, a significant deficiency, or a material weakness based on their impact on Raytheon's SPFS. 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*. In situations where the control and compliance findings pertained to the same matter, the findings were consolidated within a single finding.

Scope Limitation

Our audit discovered one scope limitation. See *Independent Auditor's Report on the Special Purpose Financial Statement* on page 10.

Internal Control Findings

Our audit discovered three internal control findings. One deficiency, one significant deficiency, and one material weakness. See *Independent Auditor's Report on Internal Control* on page 19.

Compliance Findings

The results of our testing disclosed three instances of noncompliance. See the *Independent Auditor's Report on Compliance* on page 21.

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*. Raytheon did not have any instance of alleged fraud during the audit period that could have potentially impacted the Program and the SPFS. As such, there are no further communications warranting additional consideration.

The following table summarizes the audit results:

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Raytheon Company

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States Department of Defense's Army Contracting Command, in Support of Afghanistan Air
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Finding Number	Nature of Finding	Matter	Ineligible Costs/Price Reductions	Unsupported Costs/Price Reductions	Cumulative Questioned Costs/Price Reductions
2022-01	Scope Limitation	Instructor's Qualifications and Raytheon's Key Internal Policies were not made available	\$0	\$2,768,130	\$2,768,130
2022-02	Non-Compliance; Internal control – Material Weakness	Unsupported Costs were Charged to the Program	\$0	\$7,497,539	\$10,265,669
2022-03	Non-Compliance; Internal control – Significant Deficiency	Inadequate Monitoring Over Program Compliance Requirements Performed and Cost Incurred by the Subcontractor	\$3,660	\$6,006	\$10,275,335
2022-04	Non-Compliance; Internal control – Deficiency	Ineligible Costs Charged to the Program	\$163	\$0	\$10,275,498
Total Questioned Costs/Price Reductions			\$3,823	\$10,271,675	\$10,275,498

Review of Prior Findings and Recommendations

We requested and searched for prior engagements pertinent to Raytheon's activities under the Contract/Order. We identified one prior audit report dated August 2015 performed by Crowe Horwath, LLP, on behalf of SIGAR. The financial audit reviewed the Department of the Army's Afghan National Army Depot Project for the period of July 15, 2011 through June 19, 2013. The report had no findings and recommendations.

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Summary of Raytheon's Responses to Audit Findings

The following represents a summary of the responses provided by Raytheon to the findings identified in this report. The complete responses received can be found in **Appendix A** starting on page 37 of this report.

Finding 2022-01 - Raytheon disagreed with the finding.

- a. In response to the finding related to providing data on the European instructors to verify their qualifications, Raytheon disagreed with the finding. Raytheon stated that doing so would have put Raytheon/Conrad/SIGAR at the risk of violating the European Union (EU)'s General Data Protection Regulation ("GDPR"). Raytheon also stated that it had provided evidence from the U.S. Government verifying adequate performance to the AMT PWS through the Quality Assurance Surveillance Reports ("QASR").
- b. In response to the finding related to key internal policies not being made available during the audit, Raytheon disagreed with the finding. Raytheon stated that due to the competitive sensitive nature of the internal policies and to protect the information properly, Raytheon was unable to provide them without signing a Proprietary Information Agreement ("PIA").

Finding 2022-02 – Raytheon partially agreed with the finding.

- a. In response to the finding related to the maintenance of source documents supporting the purchase and services related to Material and Other Direct Costs, Raytheon partially agreed with the finding. Raytheon stated that it had discovered and disclosed the administrative error in its Purchase Orders ("PO") with two suppliers during the audit. However, it did not state a lack of management oversight as the cause of the error.
- b. In response to the finding related to missing certifications on invoices, Raytheon disagreed with the finding. Raytheon stated that the requirement was part of the letter of subcontract and not a requirement of the AMT Task Order. Due to the administrative error in the Purchase Order contract type, Raytheon did not require self-certification of subcontract billings but provided confirmations from the subcontractors certifying the items and the amount invoiced. In addition, Raytheon stated that this finding did not impact the subcontractor invoices or the SPFS submitted.

Finding 2022-03 – Raytheon disagreed with 6 of the 7 issues.

- a. In response to the issues related to missing course completion certificates and missing signatures on the course completion certificates, Raytheon disagreed with the findings. Raytheon stated that it did provide examples of signed certificates for some students. Some certificates were created, signed, and presented to the student upon course completion. Raytheon stated that it provided pictures of the graduation ceremony and confirmation from the Contracting Officer Representative ("COR") of students receiving the course completion certificates. In addition, Raytheon stated that evidence of certificates was not a requirement in the PWS.

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Raytheon Company

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- b. In response to the issue related to missing course attendance logs, Raytheon disagreed with the finding. Raytheon stated that it could provide partial documentation of attendance logs and that evidence of student attendance was not a requirement in the PWS.
- c. In response to the issue related to missing course material, Raytheon disagreed with the finding. Raytheon stated that although it agrees that one of the course materials was dated 2022, the documentation provided was the same course used for student training in prior years. At the time of the request for documentation, the vendor had provided an updated copy of the course material.
- d. In response to the issue related to missing stipend support, Raytheon partially agreed with the finding. Raytheon stated that although the major subcontractor was unable to provide documentation for specific months of stipend payments for some students, all major subcontractors were able to provide some evidence of stipends provided to students. In addition, Raytheon stated that the COR stated in writing that there were no instances where a stipend was not provided to a student.
- e. In response to the issue related to the stipend paid being accepted by an individual other than the student, Raytheon disagreed with the finding. Raytheon stated that there were instances where another student accepted the stipend on behalf of another student, usually due to medical reasons, and there were no reported issues with utilizing this method. In addition, Raytheon stated that the COR stated in writing that there were no instances where a stipend was not provided to a student.
- f. In response to the issue related to unallowable costs charged to the program, Raytheon agreed with the finding and stated that corrective actions had been taken.

Raytheon stated that based on the management responses provided for Finding 2022-03, the nature of the classification as "Significant Deficiency" is inappropriate.

Finding 2022-04 – Raytheon agreed with the finding and stated that corrective actions had been taken.

(Continued)



INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Directors
Raytheon Company
Orlando, Florida, USA

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

Report on the Special Purpose Financial Statement

We have audited the accompanying Special Purpose Financial Statement of Raytheon Company ("Raytheon") and the related notes to the Special Purpose Financial Statement with respect to the Contract No. W900KK-18-D-0027 ("Contract"), Task Order No. W900KK19F0114 ("Order") awarded by the U.S. Department of Defense's Army Contracting Command ("DOD-ACC"), for the period of July 10, 2019 through July 09, 2021.

Management's Responsibility for the Special Purpose Financial Statement

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

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 Raytheon's preparation and fair presentation of

the Special Purpose Financial Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Raytheon'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 qualified audit opinion.

Basis for Qualified Opinion

We identified one scope limitation related to Raytheon's unwillingness to provide a list of instructors under one of its major subcontractors to be audited and some key policies and procedures, without signing Raytheon's non-disclosure and confidentiality agreements. We also identified \$10,275,498 in aggregate questioned costs and price reductions resulting from the scope limitation, material weakness, significant deficiency, and deficiency in internal controls and non-compliance with the terms and conditions of the Contract/Order. The total questioned cost amount is considered material to the Special Purpose Financial Statement.

Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received, costs incurred, and balances for the indicated period of July 10, 2019 through July 09, 2021, in accordance with the terms of the Contract/Order and conformity with the basis of accounting described in Note 3.

Basis of Accounting

We draw attention to Note 1 and Note 3 to the Special Purpose Financial Statement, which describes the basis of presentation and basis of accounting. As described in Note 1 to the Statement, the Statement is prepared by Raytheon on the basis of the requirements provided by SIGAR, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated July 15, 2022 on our consideration of Raytheon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, terms of the Contract/Order 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 Raytheon's internal control over financial reporting and compliance.

Restriction on Use

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

Conrad LLP

Lake Forest, California
July 15, 2022

Raytheon Company

Financial Audit of Costs Incurred Under Contract No. W900KK-18-D-0027, Task Order No. W900KK19F0114 Awarded by the United States Department of Defense's Army Contracting Command, in Support of Afghanistan Air Force Aircraft Maintenance Training Program

For the Period of July 10, 2019 through July 09, 2021

Special Purpose Financial Statement

	<u>Firm Fixed Price</u>		Price Reductions			Notes
	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	
Revenues	\$ ██████████	\$ ██████████	\$ -	\$ -	\$ -	(5)
Total revenues	<u>23,364,728</u>	<u>██████████</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						
Task Order Award Conference FFP (CLIN 0001)	██████████	██████████	-	-	-	
Training & Assistance FFP (CLIN 0010)	██████████	██████████	3,275	██████████	██████████	(A)
Task Order Management Review FFP (CLIN 0015)	██████████	██████████	-	-	-	
Base Year Closeout FFP (CLIN 0050)	██████████	██████████	-	-	-	
Option Year 1 Training & Assistance (CLIN 1010)	██████████	██████████	-	██████████	██████████	(A)
Equitable Adjustment for COVID-19 Delay (CLIN 1012)	██████████	██████████	-	-	-	
Option Year 1 Task Order Management Review FFP (CLIN 1015)	██████████	-	-	-	-	
Option Year 1 Contract Data Requirement List (FFP) (CLIN 1050)	██████████	██████████	-	-	-	
Option Year 1 Technical Maintenance English Training POI FFP (CLIN 1070)	<u>██████████</u>	<u>██████████</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total Price Reductions	<u>23,364,728</u>	<u>██████████</u>	<u>\$ 3,275</u>	<u>\$ 2,774,136</u>	<u>\$ 2,777,411</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ -</u>				

See Notes to the Special Purpose Financial Statement and Notes to Questioned Costs/Price Reductions
Presented on the Special Purpose Financial Statement

Raytheon Company

Financial Audit of Costs Incurred Under Contract No. W900KK-18-D-0027, Task Order No. W900KK19F0114 Awarded by the United States Department of Defense's Army Contracting Command, in Support of Afghanistan Air Force Aircraft Maintenance Training Program

For the Period of July 10, 2019 through July 09, 2021

Special Purpose Financial Statement

Cost Reimbursement

			Questioned Costs			Notes
	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	
Revenues	\$ [REDACTED]	\$ [REDACTED]	\$ -	\$ -	\$ -	(5)
Total revenues	<u>19,963,110</u>	<u>[REDACTED]</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						
Material/Subcontract (CLINs 0020, 0025, and 0030)	[REDACTED]	[REDACTED]	-	[REDACTED]	[REDACTED]	(B)
Other Direct Costs (CLINs 0020, 0025, 0030, 0035, 0040, 1020, 1025, 1030, 1035 and 1040)	[REDACTED]	[REDACTED]	548	[REDACTED]	[REDACTED]	(C)
Material Overhead (CLINs 0020, 0025, and 0030)	[REDACTED]	[REDACTED]	-	[REDACTED]	[REDACTED]	(9) (B)
General & Administrative (G&A) (CLINs 0020, 0025, 0030, 0035, 0040, 1020, 1035 and 1040)	[REDACTED]	[REDACTED]	-	-	-	(9)
Undistributed	[REDACTED]	-	-	-	-	(10)
Total costs incurred	<u>\$19,963,110</u>	<u>\$ [REDACTED]</u>	<u>\$ 548</u>	<u>\$ 7,497,539</u>	<u>\$ 7,498,087</u>	
Outstanding fund balance	<u>\$ -</u>	<u>(\$ [REDACTED])</u>				(7)

Total SPFS Revenue, FFP and Costs Incurred

			Questioned Costs and Price Reductions			Notes
	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	
Total Revenue	\$ 43,327,838	\$ [REDACTED]	\$ -	\$ -	\$ -	(5)
Costs incurred:						
Total Firm-Fixed Price	[REDACTED]	[REDACTED]	3,275	2,774,136	2,777,411	
Total Cost Reimbursement	[REDACTED]	[REDACTED]	548	7,497,539	7,498,087	
Total Costs Incurred	<u>\$ 43,327,838</u>	<u>\$ [REDACTED]</u>	<u>\$ 3,823</u>	<u>\$ 10,271,675</u>	<u>\$ 10,275,498</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ ([REDACTED])</u>				

See Notes to the Special Purpose Financial Statement and Notes to Questioned Costs/Price Reductions
Presented on the Special Purpose Financial Statement

Raytheon Company

Financial Audit of Costs Incurred Under
Contract No. W900KK-18-D-0027, Task Order No. W900KK19F0114 Awarded by the United
States Department of Defense's Army Contracting Command, in Support of Afghanistan Air
Force Aircraft Maintenance Training Program

For the Period of July 10, 2019 through July 09, 2021

Notes to the Special Purpose Financial Statement¹

(1) **Basis of Presentation**

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under ETSC Aviation Maintenance Training Program ("ETSC AMT") Contract Number W900KK-18-D-0027, Task Order W900KK19F0114 for the period July 10, 2019 through July 09, 2021. 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 Contract Number W900KK-18-D-0027, Task Order W900KK19F0114. Because the Statement presents only a selected portion of the operations of Raytheon, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Raytheon. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(2) **Program Status**

Contract Number W900KK-18-D-0027, Task Order W900KK19F0114 was extended beyond the audit period to January 9, 2022, via modification P0008, and subsequently was issued a Notice of Termination for Convenience on October 29, 2021. On December 2, 2021, DOD ACC executed Modification #13 to terminate the AMT Program on October 29, 2021.

(3) **Basis of Accounting**

Expenditures reported on the Statement are reported on costs incurred. Such expenditures are recognized following the cost principles contained in U.S. GAAP, FAR, and Cost Accounting Standards ("CAS"), wherein certain types of expenditures are not allowable or are limited to reimbursement.

(4) **Foreign Currency Conversion Method**

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

(5) **Revenues**

Budgeted revenues on the Statement represent the amount of funds to which Raytheon is entitled to receive from the Department of Defense under the contract during the period of performance.

(6) **Cost Incurred by Budget Category**

The budget categories presented, and associated amounts reflect the budget line items presented within Contract Number W900KK-18-D-0027, Task Order W900KK19F0114, original award through modification P00007.

¹ These Notes to the Special Purpose Financial Statement are the responsibility of Raytheon.

Raytheon Company

Financial Audit of Costs Incurred Under
Contract No. W900KK-18-D-0027, Task Order No. W900KK19F0114 Awarded by the United
States Department of Defense's Army Contracting Command, in Support of Afghanistan Air
Force Aircraft Maintenance Training Program

For the Period of July 10, 2019 through July 09, 2021

Notes to the Special Purpose Financial Statement¹

(7) Fund Balance

The balance of \$ [REDACTED] presented on the Statement represents indirect costs incurred but not yet invoiced by Raytheon nor reimbursed by the U.S. government within the audit period.

(8) Currency

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

(9) Overhead and General and Administrative Cost

Raytheon uses a U.S. Government approved system compliant with all Cost Accounting Standards (FAR Part 30) and invoices the Government per each Business Unit's disclosure statement for handling direct and indirect costs. Raytheon uses DACO approved provisional billing rates as per FAR 42.704 to invoice overhead and general and administrative costs.

(10) Undistributed Budget

The U.S. Government reduced Cost CLIN contract and funding values ("Revenues Budget") on task order modification P00003 by ~\$ [REDACTED] to account for base year (07/10/2019 – 07/09/2020) underruns. Internally, because we are past the Period of Performance of these CLINs, Cost Incurred Budget is set equal to actuals for the base year that was completed on 07/09/2020. The remaining portion of base year funds that the U.S. Government has not de-obligated from contract value (Revenues Budget) is budgeted in costs as 'Undistributed'.

(11) Subsequent Events

Subsequent events to the period of July 10, 2019 through July 09, 2021 have not been included in the SPFS.

¹ These Notes to the Special Purpose Financial Statement are the responsibility of Raytheon.

Raytheon Company

Financial Audit of Costs Incurred Under
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United States Department of Defense's Army Contracting Command, in Support of
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For the Period of July 10, 2019 through July 09, 2021

Notes to Questioned Costs/Price Reductions Presented on the Special Purpose Financial Statement²

(A) Student and Instructors (FFP CLINs 0010 and 1010)

Raytheon reported a total of \$ [REDACTED] and \$ [REDACTED] for Training and Assistance Costs under CLIN 0010 and CLIN 1010, respectively, of the FFP portion of the Contract/Order for the base year and option year 1. These funds are related to students, instructors, and courses conducted under the FFP portion of the contract for the period of July 10, 2019 through July 09, 2021.

During our review of Raytheon's compliance with the PWS requirements, we noted:

- Raytheon was unable to provide the names and other supporting details for the instructors for one of its major subcontractors. We were unable to review the qualifications of the instructors utilized by the subcontractor during the execution of the Program. This resulted in a price reduction of \$2,768,130. See **Finding No. 2022-01** in the *Schedule of Findings and Questioned Costs/Price Reductions* section of this report.
- Seven (7) instances where supporting documentation for stipends payments made to students was not provided. This resulted in a price reduction of \$6,006. See **Finding No. 2022-03** in the *Schedule of Findings and Questioned Costs/Price Reductions* section of this report.

Total price reductions due to insufficient support identified are \$2,774,136.

- Eight (8) instances where the payment of the stipends was accepted by an individual other than the student. This resulted in a price reduction of \$3,275. See **Finding No. 2022-03** in the *Schedule of Findings and Questioned Costs/Price Reductions* section of this report.

Total price reductions due to ineligible support identified are \$3,275.

(B) Material Costs (Cost CLINs 0020, 0025, and 0030)

Raytheon reported a total of \$ [REDACTED] for Material Costs under the Cost Reimbursement portion of the Contract/Order for the period of July 10, 2019 through July 09, 2021.

During our audit of these costs, we noted:

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

Raytheon Company

Financial Audit of Costs Incurred Under
Contract No. W900KK-18-D-0027, Task Order No. W900KK19F0114 Awarded by the
United States Department of Defense's Army Contracting Command, in Support of
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For the Period of July 10, 2019 through July 09, 2021

Notes to Questioned Costs/Price Reductions Presented on the Special Purpose Financial Statement²

- Two (2) instances where Raytheon did not maintain the vendor's original receipts/invoices for materials purchased by one of its major subcontractors and three (3) instances where the subcontractor's billings to Raytheon were not certified by the subcontractor for accuracy as required by the terms of the sub-agreement. This resulted in unsupported costs of \$ [REDACTED] and associated overhead costs of \$ [REDACTED] for a total questioned cost of [REDACTED]. See **Finding No. 2022-02** in the *Schedule of Findings and Questioned Costs/Price Reductions* section of this report.

(C) **Other Direct Costs (Cost CLINs 0020, 0025, 0030, 0035, 0040, 1020, 1025, 1030, 1035 and 1040)**

Raytheon reported a total of \$ [REDACTED] for Other Direct Costs under the Cost Reimbursement portion of the Contract/Order for the period of July 10, 2019 through July 09, 2021.

During our audit of these costs, we noted:

- Seven (7) instances where Raytheon did not maintain vendor's receipts/invoices for the items/services purchased by its subcontractors and in seven (7) instances the subcontractor's billings to Raytheon were not certified by the subcontractor for accuracy as required by the terms of the sub-agreement. This resulted in a questioned cost of \$ [REDACTED]. See **Finding No. 2022-02** in the *Schedule of Findings and Questioned Costs/Price Reductions* section of this report.
- One instance where an unallowable cost related to travel was incorrectly charged to the Program. This resulted in a questioned cost of \$385. See **Finding No. 2022-03** in the *Schedule of Findings and Questioned Costs/Price Reductions* section of this report.
- One instance where an unallowable cost related to labor was incorrectly charged to the Program. This resulted in a questioned cost of \$163. See **Finding No. 2022-04** in the *Schedule of Findings and Questioned Costs/Price Reductions* section of this report.

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



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Board of Directors
Raytheon Company
Orlando, Florida, USA

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 and related notes to the Statement, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, by Raytheon Company ("Raytheon") under Contract No. W900KK-18-D-0027 ("Contract"), Task Order No. W900KK19F0114 ("Order") supporting Afghanistan Air Force Aircraft Maintenance Training Program (the "Program"), for the period of July 10, 2019 through July 09, 2021. We have issued our report thereon dated July 15, 2022 with a modified opinion. We identified one scope limitation related to Raytheon being unwilling to provide a list of instructors under one of its major subcontractors to be audited and some key policies and procedures, without signing Raytheon's non-disclosure and confidentiality agreements as described in Finding 2022-01.

Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement for the period of July 10, 2019 through July 09, 2021, we considered Raytheon's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the Special Purpose Financial Statement, but not for the purpose of expressing an opinion on the effectiveness of Raytheon's internal control. Accordingly, we do not express an opinion on the effectiveness of Raytheon's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *Schedule of Findings and Questioned Costs/Price Reductions*, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. We consider the deficiency described in the accompanying *Schedule of Findings and Questioned Costs/Price Reductions* as Finding 2022-04 to be a deficiency. 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. We consider the deficiency described in the accompanying *Schedule of Findings and Questioned Costs/Price Reductions* as Finding 2022-02 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying *Schedule of Findings and Questioned Costs/Price Reductions* as finding 2022-03 to be a significant deficiency.

Raytheon's Response to Findings

Raytheon's response to the findings identified in our audit is included verbatim in *Appendix A*. Raytheon's response was not subjected to the auditing procedures applied in the audit of the Special Purpose Financial Statement, and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control, and the result of that testing, and not to provide an opinion on the effectiveness of Raytheon'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 Raytheon, U.S. Department of Defense's Army Contracting Command, and the Special Inspector General for Afghanistan Reconstruction and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905, should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.



Lake Forest, California
July 15, 2022



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Board of Directors
Raytheon Company
Orlando, Florida, USA

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 ("Statement") and related notes to the Statement, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, by Raytheon Company ("Raytheon") under Contract No. W900KK-18-D-0027 ("Contract"), Task Order No. W900KK19F0114 ("Order") supporting Afghanistan Air Force Aircraft Maintenance Training Program ("the Program") for the period of July 10, 2019 through July 09, 2021. We have issued our report thereon dated July 15, 2022 with a modified opinion. We identified one scope limitation related to Raytheon being unwilling to provide a list of instructors under one of its major subcontractors to be audited and some key policies and procedures, without signing Raytheon's non-disclosure and confidentiality agreements as described in Finding 2022-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Raytheon's Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned Contract/Order, 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 three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *Schedule of Findings and Questioned Costs/Price Reductions* as Findings 2022-02, 2022-03, and 2022-04.

Raytheon's Response to Findings

Raytheon's response to the findings identified in our audit is included verbatim in *Appendix A*. Raytheon's response was not subjected to the auditing procedures applied in the audit of the Special Purpose Financial Statement, and accordingly, we express no opinion on it.

Purpose of this Report

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

Restriction on Use

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

The image shows a handwritten signature in blue ink that reads "Conrad LLP". The signature is written in a cursive, slightly slanted style.

Lake Forest, California
July 15, 2022

Raytheon Company

Financial Audit of Costs Incurred Under
Contract No. W900KK-18-D-0027, Task Order No. W900KK19F0114 Awarded by the United
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For the Period of July 10, 2019 through July 09, 2021

Schedule of Findings and Questioned Costs/Price Reductions

Finding 2022-01: Instructor's Qualifications and Raytheon's Key Internal Policies were not made available.

Nature of Finding: Scope Limitation

Condition: During the preliminary phase of the audit, we requested that Raytheon provide a list of instructors from one of its major subcontractors and key policies and procedures related to the Program. The following scope limitation was noted:

- Raytheon did not provide Conrad with documentation, such as a list of instructors employed, to support Raytheon's contract compliance with respect to the qualifications of the instructors for one of its major subcontractors and to ensure they met the minimum instructor's qualification requirements. The funds associated with the instructors to provide training under the firm-fixed price CLIN 0010 and CLIN 1010 totaled \$2,768,130.

During Conrad's draft report process and subsequent to the end of the fieldwork, Raytheon provided the Quality Assurance Surveillance Report ("QASR") which was conducted by DOD at the start of the Program. This report provided the overall subcontractor's performance on the Program, and simply concluded that the "instructors and facilitators of this Program were motivated to be part of the Program and were well qualified"; however, did not include additional details on how the instructors met the qualification requirements. Conrad is engaged in conducting an independent audit of Raytheon's AMT Program. In accordance with GAGAS, if Conrad was to rely on another agency's work, Conrad would need to develop and perform procedures in making a determination such as reviewing the agency's report, procedures performed, documentation reviewed, and/or performing tests of the agency's work completed. Conrad was not engaged to conduct such a review.

- Raytheon did not provide Conrad with the policies and procedures related to Disbursements, Accounts Payable, Record Retention, and Subcontractor Monitoring and therefore Conrad could not review the internal control process surrounding these control areas.

Criteria:

According to the Task Order, Section C – Descriptions and Specifications, states in part:

"Task Order Close-Out

... For Cost CLINs, submit contractor formatted documentation that the period of performance is complete; that services have been performed in accordance with this PWS; ...

... For FFP CLINs, Submit contractor formatted documentation that the period of performance is complete; that services have been performed in accordance with this PWS..."

Raytheon Company

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Schedule of Findings and Questioned Costs/Price Reductions

According to section 3.1.1.1 of the Performance Work Statement (PWS), The Contractor shall provide qualified Instructors and Subject Matter Experts (SMEs) for training and instruction, encompassing a variety of complex military and civilian related subjects, in both classroom and field environments, states, in part:

"The Contractor shall provide certified Maintenance Instructors with maintenance instruction experience on the relevant MDS and/or a combination of instruction experience, education and/or training/qualification(s) directly related to the required aviation platforms (UH-60A helicopter, MD-530 helicopter, and C-208 aircraft)."

Cause: Raytheon's legal department stated that the list of instructors from its subcontractor was protected under the European General Data Protection Regulation ("GDPR") and was unwilling to provide any information on the instructors unless Conrad signed a Data Processing and Transfer Agreement ("DPTA") with Raytheon. In addition, Raytheon's legal department advised not to provide the policies unless a Proprietary Information Agreement ("PIA") was signed by Conrad. Raytheon provided copies of the DPTA and PIA to Conrad with terms and conditions that would restrict the independent conduct of the audit and posting of the report on SIGAR's website. Furthermore, Conrad had already signed a Non-Disclosure Agreement ("NDA") with SIGAR. As such, Conrad viewed the NDA with SIGAR sufficient for both matters and SIGAR also considered a separate DPTA and a PIA unnecessary and excessively restrictive.

Effect: The U.S. Government is unable to determine whether training was provided, as agreed to in the contract, by qualified instructors and, as a result, whether the funds paid under the FFP CLIN accomplished the compliance requirements of the PWS. In addition, the adequacy of the control environment cannot be determined. The inability to assess the control environment undermines confidence that oversight of the Contract/Order has been effective and that disbursements, record retention, and subcontractor monitoring were executed in accordance with company policies and procedures.

Price Reductions: Price reductions due to insufficient support provided to demonstrate compliance with the PWS totaled \$2,768,130. Since the instructors' qualifications could not be verified, all the funds awarded to the subcontractor relating to the objectives of the AMT Program, in the amount of \$ [REDACTED], can potentially be reduced if the instructors were not qualified to perform the training.

Recommendation:

- (1) We recommend that Raytheon provide compelling and comprehensive support, and evidence of the subcontractor's oversight, that the instructors paid for by the U.S. Government met qualification requirements stipulated in the Contract or return \$2,768,130 in funds awarded to Raytheon for the FFP CLINs back to the U.S. Government.

(Continued)

Raytheon Company

Financial Audit of Costs Incurred Under
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Schedule of Findings and Questioned Costs/Price Reductions

- (2) We recommend that Raytheon develop policies to allow the U.S. Government and its designated auditors access to all audit documents or alternate procedures which would allow the review of audit documents without signing a DPTA or PIA.

(Continued)

Raytheon Company

Financial Audit of Costs Incurred Under
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Schedule of Findings and Questioned Costs/Price Reductions

Finding 2022-02: Unsupported Costs were Charged to the Program

Nature of Finding: Non-compliance and Internal Control – Material Weakness

Condition: During our testing, to determine if the costs incurred under the Cost Reimbursement portion of the Task Order were adequately supported, accurate, allowable, and properly approved, Conrad tested four (4) Material Cost samples totaling \$1,026,482 out of a population of 14 transactions totaling \$ [REDACTED], and 23 Other Direct Cost (“ODC”) samples totaling \$9,618,666 out of a population of 146 transactions totaling \$ [REDACTED].

During our testing, we noted that for all of the Ancillary Material and Life Support samples tested under the Material and ODC cost categories, incurred by two of its major subcontractors, Raytheon did not require its subcontractors to maintain source documents supporting purchases and services related to these two types of costs.³ Raytheon stated that an administrative error occurred where the Letter of Subcontract and the Purchase Order were incorrectly procured and executed as a cost-plus fixed fee structure rather than a firm-fixed price.

- In two (2) out of the four (4) samples tested for Material Costs, one of the major subcontractors was unable to provide original vendor invoices/receipts for the materials purchased under the Program.
- In seven (7) out of 23 samples tested for Other Direct Costs, one of the major subcontractors was unable to provide original vendor invoices/receipts for the charges incurred to the Program.

In addition, during our testing, we also noted the following subcontractor's billings that were submitted to Raytheon were not in accordance with the terms of the Letter of Subcontract.

- In three (3) out of the four (4) samples tested for Material Costs, one of the major subcontractor's billings to Raytheon was not certified for accuracy by the subcontractor as stipulated in the Letter of Subcontract.
- In seven (7) out of 23 samples tested for Other Direct Costs, one of the major subcontractor's billings to Raytheon was not certified for accuracy by the subcontractor as stipulated in the Letter of Subcontract.

Criteria:

Section 2.3.1.2 Financial Management, of the Performance Work Statement (PWS), states in part:

³ Please note the exceptions identified were all related to Ancillary Material and Life Support tested. The other samples tested with no exceptions were related to other types of costs.

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

FAR 31.201-2 Determining allowability, states, in part:

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

- (1) Reasonableness.
- (2) Allocability.
- (3) Standards promulgated by the CAS Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the circumstances.
- (4) Terms of the contract.
- (5) Any limitations set forth in this subpart....

(d) A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements..."

Cause: Raytheon did not have an adequate management oversight to carry out its internal control over the financial reporting policy and to ensure the procurement for the subcontractor was properly conducted and complied with the terms of the Letter of Subcontract, specifically source documents such as vendor invoices were not provided.

Effect: The U.S. Government may have overpaid for services under this contract.

(Continued)

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Questioned Costs: Unsupported questioned costs identified were \$ [REDACTED] in material/subcontract and other direct costs, and \$ [REDACTED] in material overhead costs, which resulted in \$7,497,539 in total questioned costs. See details below.

Description / Subcontractor	Cost Type*	Samples Impacted	Questioned Cost	Cost Questioned Previously	Net Questioned Cost	Associated Overhead / G&A	Total Questioned Costs
Missing original receipts/invoices							
Subcontractor A	Material	2	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Subcontractor B	ODC	7	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Missing certification by subcontractor employee on invoice							
Subcontractor A	Material	3	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Subcontractor B	ODC	7	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Total		19	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$7,497,539

Given the administrative error, costs incurred by the subcontractors for Ancillary Materials and Life Support under the Material and ODC cost categories pervasively lacked sufficient support. The total Ancillary Materials and Life Support cost incurred by the subcontractors is \$ [REDACTED].

Recommendation:

- (1) We recommend that Raytheon provide sufficient supporting documentation for the procurement of the material and other direct costs charged to the Program or return \$7,497,539 of unsupported costs.
- (2) We recommend that Raytheon develop and implement, or follow established Subcontractor Monitoring policies and procedures, to ensure costs charged to the U.S. Government are in accordance with the subcontractor agreement, properly certified, and supported with sufficient and appropriate documentation.

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Finding 2022-03: Inadequate Monitoring Over Program Compliance Requirements Performed and Costs Incurred by the Subcontractor

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

Condition: During our testing to determine compliance with the terms of the PWS regarding student training and course completion, instructor qualifications, course materials, student stipends payments, and other PWS requirements, Conrad tested 50 students out of a population of 200 students and all 10 courses provided under the Program. It was noted that Raytheon did not maintain or provide adequate supporting documentation for the Program as follows:

- Missing support documentation for students and courses conducted under the FFP portion of the Program.
 - In two (2) out of the 50 samples tested for students trained under the Program, two of the major subcontractors were unable to provide course completion certificates for the students.
 - In 27 out of the 50 samples tested for students trained under the Program, the course completion certificates provided by one of the major subcontractors were not certified by the [REDACTED].
 - In 40 out of the 50 samples tested for students trained under the Program, two of the major subcontractors were unable to provide course attendance logs or other evidence of student attendance at the training courses.
 - In one (1) out of the 10 samples tested for courses provided under the Program, one of the major subcontractors was unable to provide the course material for the training conducted within our audit period. Instead, the subcontractor provided course material which was established in 2022.

The issues identified above are part of the FFP CLINs (Training and Assistance, CLIN 0010 and Option Year 1 Training and Assistance, CLIN 1010), to provide an overview of the possible awarded funds impact resulting from the instances of non-compliance identified, we used a prorated approach based on the number of students trained by the subcontractors to determine the impact to the awarded funds. The total funds impacted resulting from the non-compliance issues stated above is \$5,962,256.

Furthermore, for testing of the student stipends compliance requirements under the FFP portion of the Program, of the 50 student samples selected, Conrad judgmentally selected two months of stipends payments made to each student for testing. Our testing noted the following missing and/or inadequate internal controls over stipends payments made to the students:

(Continued)

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- In seven (7) out of the 50 samples tested for students trained under the Program, one of the major subcontractors was unable to provide supporting documentation for the stipends payment made to the students. This resulted in unsupported stipends payments in the amount of \$6,006.
- In eight (8) out of the 50 samples tested for students trained under the Program, the stipends payment was accepted by an individual on behalf of the student. There was no documented evidence provided to indicate that the individual accepting the payment did indeed provide the payment to the student. This resulted in ineligible stipends payments in the amount of \$3,275.

Finally, Conrad tested 23 Other Direct Cost samples totaling \$9,618,666 out of a population of 146 transactions totaling \$ [REDACTED] to determine if the costs incurred under the Program were adequately supported, accurate, allowable, and properly approved. Our testing noted the following ineligible costs incurred by one of the major subcontractors charged to the Program:

- In one (1) out of 23 samples tested for Other Direct Costs, a subcontractor employee's travel expense that was not related to the Program was incorrectly charged to the Program. This resulted in ineligible costs in the amount of \$385.

Criteria:

Raytheon's Course Management Program (CMP) for all courses, states in part:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Although there is no specific requirement in the PWS or CMP where it indicates the certification of completion is required to be signed, the certificate of completion template itself required signatures from the [REDACTED]:

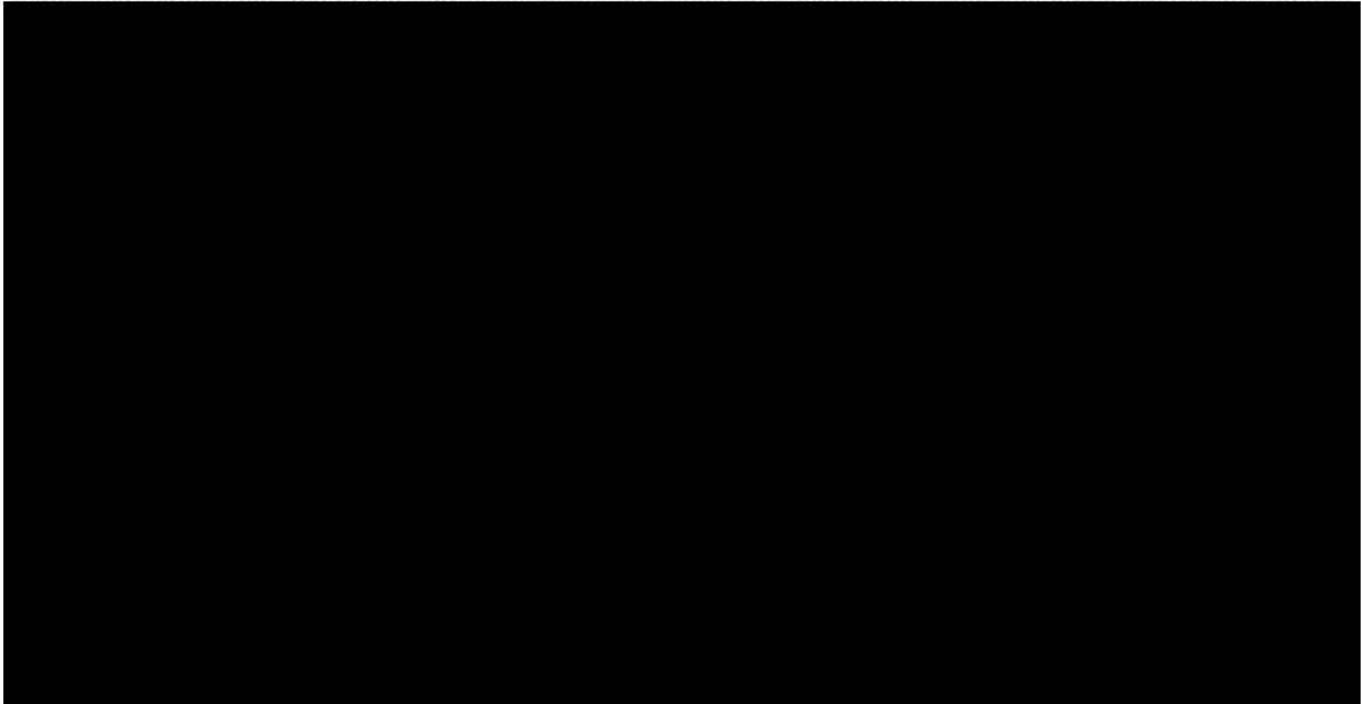
(Continued)

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Performance Work Statement, Section 3.1.1.4 The Contractor shall provide existing, modified and/or Contractor developed training tutorials, courseware curricula and Programs of Instruction (POI) for military and civilian related subjects, states in part:

“b. The Contractor shall provide students with all training manuals, materials, classroom supplies, facilities and ancillary equipment to complete training successfully.”

Performance Work Statement, Section 2.2.1.1 Contractor Furnished Life Support Services, states in part:

“k. For the duration of each student’s enrollment in the training program, the contractor shall provide the student a daily stipend equivalent to \$ [REDACTED] USD, payable twice a month, for miscellaneous living expenses.”

Performance Work Statement, Section 2.3.1 Contractor Contract Management, states in part:

“The Contractor shall provide the necessary resources to manage the overall Enterprise Training Services Contract (ETSC) program and shall perform all management functions required to fulfill the requirements of the Base PWS and TO PWS at the Prime and subcontractor levels. The Contractor shall manage the timeliness, completeness, and quality of problem identification...”

(Continued)

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Performance Work Statement, Section 2.3.1.4 Subcontract Management, states in part:

"The Contractor shall be responsible for any subcontract management necessary to integrate work performed on this requirement and shall be responsible and accountable for subcontractor performance.."

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

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

Cause: As described in Finding 2022-01, Raytheon was unwilling to provide a subcontractor monitoring policy for our review. As such, we are unclear if Raytheon had an adequate internal control policy in place for monitoring its subcontractor. However, based on the issues we identified in this finding, Raytheon either did not have adequate subcontractor monitoring controls in place or Raytheon did not properly implement its subcontractor monitoring procedures.

Effect: It is unclear whether costs were adequately incurred, whether AMT Program objectives were carried out as intended, and whether the U.S. government may have overpaid for student stipends, and other costs.

Questioned Costs/Price Reductions: We identified \$385 in ineligible costs. We also identified \$6,006 in price reductions due to insufficient support and \$3,275 in price reductions due to provided support appearing to be ineligible.

Recommendation:

- (1) We recommend that Raytheon return \$385 of ineligible costs.
- (2) We recommend that Raytheon provide supporting documentation for the stipends payments made to the students under the Program or return \$6,006 for the price reductions.
- (3) We recommend that Raytheon provide supporting documentation demonstrating that the stipends accepted by another individual were given to the student afterward or return \$3,275 for the price reductions. In addition, we recommend that Raytheon and its subcontractor develop and implement additional policies and procedures to ensure compensating controls are in place to maintain evidence of students acknowledging the receipt of stipends payments in cases where the stipends were received by an individual other than the student.

(Continued)

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- (4) We recommend that Raytheon develop policies to allow the U.S. Government and its designated auditors to have access to all policies and procedures or alternate procedures that would allow the review of audit documents.

(Continued)

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Finding 2022-04: Ineligible Costs Charged to the Program

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

Condition: During our testing, to determine if the costs incurred under the Program were adequately supported, accurate, allowable, and properly approved, Conrad tested 23 Other Direct Cost samples totaling \$9,618,666 out of a population of 146 transactions totaling \$ [REDACTED]. In one (1) out of 23 samples tested for Other Direct Costs, Raytheon incorrectly charged labor costs under ODC when no labor costs are budgeted under the CLINs in the ODC cost category. This resulted in an overcharge to the U.S. Government in the amount of \$163.

Criteria:

Raytheon's [REDACTED] Policy, Section 4, Policy, states in part:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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FAR 52.216-26(b), Payment of Allowable Costs Before Definitization, *section (b) limitation of reimbursement*, states in part:

"To determine the amounts payable to the Contractor under this letter contract, *the Contracting Officer shall determine allowable costs* in accordance with the applicable cost principles in [part 31](#) of the Federal Acquisition Regulation (FAR)..."

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

"A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements..."

Cause: As described in Finding 2022-01, Raytheon was unwilling to provide the [REDACTED] policy for our review. As such, we are unclear if Raytheon had an adequate internal control policy in place. However, based on the internal control over financial reporting policy cited, Raytheon did not adequately review the charges associated with the Program to prevent unallowable costs to be billed to U.S Government.

Effect: The U.S. Government overpaid for costs

Questioned Costs: We identified \$163 in ineligible questioned costs. Raytheon identified the ineligible costs and issued a credit to DOD-ACC on their November 2021 invoice. As such, we do not have a recommendation for Raytheon to refund the questioned costs.

Recommendation:

- (1) We recommend that Raytheon establish specific procedures for management oversight for costs charged to the federal government to ensure ineligible costs are excluded from their billings to the U.S. Government.

(Continued)

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Raytheon's Responses to Audit Findings

Included on the following pages are Raytheon's responses received to the findings identified in this report.

29 June 2022

Sam Perera
Conrad LLP
23161 Lake Center Drive, Suite 200
Lake Forest, CA 92630

Subject: Raytheon Management Response to Draft Audit Report SIGAR F-234

Reference: Conrad/SIGAR Draft Audit Report received 15 June 2022

Attachments: Appendix A – Detailed Raytheon Management Response

Dear Mr. Perera,

Raytheon Company (Raytheon) has received and reviewed the referenced draft audit report from Conrad LLP (Conrad). As noted in Conrad’s initial engagement letter and draft report, the audit pertains to Raytheon Company’s Prime Contract No. W900KK-18-D-0027, Delivery Order Number W900KK19F0114 – Afghanistan Air Force Aircraft Maintenance Training (AMT) Program for the period of 10 July 2019 through 09 July 2021.

The audit was conducted beginning in October 2021, shortly after the Government of the Islamic Republic of Afghanistan fell. At this point-in-time, training had been stopped and students were being moved to refugee sites throughout the world, as they could no longer safely return to their homes in Taliban-controlled Afghanistan. Had training continued as planned prior to the collapse of Afghanistan, Conrad would have been able to visit our training locations, verify performance, and interview students and instructors (neither of whom were available during the audit conduct period) for many of the areas Conrad is questioning and that ultimately resulted in audit findings.

Raytheon is proud of our performance on the AMT Program. Raytheon’s Contactor Performance Assessment Report (CPAR) for this AMT Program, provided by the USG Department of Defense (DoD) in September 2021 and covering the period of 10 July 2020 through 09 July 2021, contained “[REDACTED]” ratings for all evaluated categories. A few excerpts from the CPAR:

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

Our strong performance continued after the audit period and is evident by our recent CPAR dated 28 June 2022. It covers the remainder of the AMT contract and contains similar [REDACTED] ratings and comments. In addition to the overwhelmingly positive CPAR received from the USG for this AMT Program, Raytheon is very proud of the results from the USG’s Quality Assurance Surveillance Report

(QASR) conducted in November 2019 for this AMT Program. This QASR rated Raytheon positively in the following categories:

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

Based on conversations with Conrad, Raytheon is aware members of the DoD team, who oversaw Raytheon’s performance, were not interviewed for this audit, nor was their positive input and verification of Raytheon’s performance relied upon in Conrad’s audit assessment.

Raytheon respectfully disagrees with many of Conrad’s findings, including the finding related to “Instructor Qualifications” and “Raytheon’s Key Internal Policies” not being made available.

Regarding “Instructor Qualifications”, Conrad has questioned a significant amount of costs due to Raytheon not providing personal information for our European instructors. As Raytheon explained to Conrad and SIGAR, Raytheon was legally unable to provide this data to Conrad without execution of a Data Processing and Transfer Agreement (DPTA) between Raytheon and Conrad. If Raytheon were to provide this information to Conrad without a DPTA, the parties would be at risk for violating the European Union’s General Data Protection Regulation (GDPR). Raytheon presented Conrad with a draft DPTA, but unfortunately Conrad rejected execution. In lieu of the requested personal information for our European instructors, Raytheon was able to provide Conrad with a copy of the USG’s QASR conducted in November 2019 for this AMT Program; this QASR verified our instructors met the qualifications in accordance with the AMT Program’s Performance Work Statement (PWS).

Regarding “Raytheon’s Key Internal Policies”, Conrad issued a finding due to Raytheon not providing certain internal policies. As Raytheon explained to Conrad and SIGAR, the policies in question are competition sensitive and a Proprietary Information Agreement (PIA) between Raytheon and Conrad would be necessary prior to Raytheon being able to provide the policies to Conrad. Raytheon presented Conrad with a draft PIA, but Conrad rejected execution.

Raytheon provides the below table summarizing our overall responses to each of Conrad’s findings. A more detailed response to each finding is provided as Appendix A to this letter.

Number	Nature of Finding	Matter	Raytheon Response
2022-01	Scope Limitation	Instructor’s Qualifications and Raytheon’s Key Internal Policies were not made available.	<p>Raytheon disagrees with Finding 2022-01.</p> <p>Raytheon is legally unable to provide European instructor data without safeguards in place (e.g., the DPTA), as doing so would put Raytheon / Vertex / Conrad / SIGAR at risk for violating the EU GDPR. Raytheon provided Conrad evidence from the USG verifying adequate performance to the AMT PWS.</p> <p>Raytheon is unable to provide competitive sensitive internal policies without ensuring Conrad would properly protect the information through a PIA.</p>
2022-02	Non-Compliance; Internal control – Material Weakness	Unsupported costs were charged to the Program.	<p>Raytheon partially agrees with Finding 2022-02.</p> <p>We were able to provide only partial documentation on some of the Material and ODC items tested, due to an administrative error related to our international commercial subcontracts’ contract type.</p> <p>We disagree with the portion of the finding related to subcontractor certification on invoices.</p>
2022-03	Non-Compliance; Internal control – Significant Deficiency	Inadequate Monitoring Over Program Compliance Requirements Performed and Cost Incurred by the Subcontractor	<p>Raytheon disagrees with Finding 2022-03.</p> <p>Raytheon disagrees with 6 of the 7 issues identified by Conrad in this finding. Raytheon provided documentation to support requested items, some of which were not based on requirements of the AMT PWS. Additionally, Raytheon disagrees with the overall ‘Nature of Finding’, in that based on the nature of the services provided within the testing completed by Conrad, this should not be a <i>Significant</i> Deficiency.</p>
2022-04	Non-Compliance; Internal control – Deficiency	Ineligible costs charged to the Program.	<p>Raytheon agrees with Finding 2022-04.</p> <p>During the audit, unallowable costs from Raytheon totaling \$163 were identified as accidental labor charges to a non-labor cost-type CLIN. Upon identification, these costs were immediately corrected and credited to the Government prior to the conclusion of the audit.</p>

Raytheon appreciates the opportunity to respond to the draft audit report.

Sincerely,



Finding	Nature of Finding	Condition (Per Draft Audit Report F-234)
<p>2022-01: Instructor’s Qualifications and Raytheon’s Key Internal Policies were not made available.</p>	<p>Scope Limitation</p>	<p><i>During the preliminary phase of the audit, we requested that Raytheon provide a list of instructors from one of its major subcontractors and key policies and procedures related to the Program. The following scope limitation was noted:</i></p> <ul style="list-style-type: none"> <i>Raytheon did not provide Conrad with documentation, such as a list of instructors employed, to support Raytheon’s contract compliance with respect to the qualifications of the instructors for one of its major subcontractors and to ensure they met the minimum instructor’s qualification requirements. The funds associated with the instructors to provide training under the firm-fixed price CLIN 0010 and CLIN 1010 totaled \$2,768,130.</i> <p><i>During Conrad’s draft report process and subsequent to the end of the fieldwork, Raytheon provided the Quality Assurance Surveillance Report (“QASR”) which was conducted by DOD at the start of the Program. This report provided the overall subcontractor’s performance on the Program, and simply concluded that the “instructors and facilitators of this Program were motivated to be part of the Program and were well qualified”; however, did not include additional details on how the instructors met the qualification requirements. Conrad is engaged in conducting an independent audit of Raytheon’s AMT Program. In accordance with GAGAS, if Conrad was to rely on another agency’s work, Conrad would need to develop and perform procedures in making a determination such as reviewing the agency’s report, procedures performed, documentation reviewed, and/or performing tests of the agency’s work completed. Conrad was not engaged to conduct such a review.</i></p> <ul style="list-style-type: none"> <i>Raytheon did not provide Conrad the policies and procedures related to Disbursements, Accounts Payable, Record Retention, and Subcontractor Monitoring and therefore Conrad could not review the internal control process surrounding these control areas.</i>

Issue #	Nature of Issue	Raytheon Response
<p>1</p>	<p>Inability to provide EU [REDACTED] Instructor information</p>	<p>Raytheon disagrees with the auditor’s assessment that instructor costs should be questioned.</p> <p>One of Raytheon’s primary subcontractors on the AMT task order is in [REDACTED]. The subcontractor, as well as the personal data it retains and produces, is subject to the European Union (EU) General Data Protection Regulation (GDPR). As prime contractor of the AMT task order, transfer of any personal data from the subcontractor to Raytheon also makes Raytheon subject to compliance with the GDPR.</p> <p>We reviewed Conrad’s original request for information related to instructors with Raytheon Office of General Counsel and Privacy Counsel representatives. Multiple suggested options for providing Conrad information on these instructors was reviewed, but none were found to be acceptable to Raytheon without execution of the Data Processing and Transfer Agreement (DPTA) between Raytheon and Conrad. Raytheon presented Conrad with a draft DPTA, but execution of the agreement was rejected by Conrad. Aside from the subcontractor instructors subject to the EU GDPR, Raytheon provided names of all other instructors and all required and available documentation for the subsequent sampled instructors. Additionally, we provided a Quality Assurance Surveillance Report (QASR) to Conrad, performed by the USG in November</p>

		<p>2019, of the AMT program. The USG performed this surveillance in accordance with the Quality Assurance Surveillance Plan (QASP) as part of the overall Enterprise Training Services Contract (ETSC). This report verified the EU subcontractor instructors met the qualifications in accordance with Performance Work Statement (PWS) Section 3.1.1.1. The USG also briefed this verification from the November 2019 QASR at the exit conference for this audit.</p> <p>Our compliance with the PWS instructor requirements was confirmed by the DoD during and beyond the audit period. This is evident by the recent CPARs (dated 28 September 2021 and 28 June 2022) rating our performance. PEO STRI made several site visits throughout the life of the contract and stated the following which is directly related to this issue, “Raytheon successfully staffed qualified ... instructors, ... despite the challenges posed by the fall of [Government of the Islamic Republic of Afghanistan] and the COVID-19 pandemic.”</p> <p>Given we are legally unable to provide European instructor data without safeguards in place (e.g., the DPTA), as doing so would put Raytheon/Vertex/Conrad/SIGAR at risk for violating the EU GDPR, we believe the Government QASR should have satisfied Conrad’s verification of PWS Section 3.1.1.1.</p>
<p>2</p>	<p>Inability to provide policies and procedures</p>	<p>Raytheon disagrees with the auditor’s assessment regarding Raytheon’s inability to provide certain policies.</p> <p>During the course of the audit, Raytheon was requested to provide numerous written policies and procedures. Raytheon reviewed these requests from Conrad, and the associated policies and procedures, and provided those it thought applicable and less sensitive in nature. Further requests for policies were received and reviewed, and Raytheon determined further protections were warranted due to the policies’ competitive nature and sensitive content. As evidenced in this audit report, subject to the final audit report redaction process between Raytheon and Conrad/SIGAR, Conrad does intend to cite and include for potential public release specific references within applicable Raytheon policies.</p> <p>Upon Raytheon’s request to execute a Proprietary Information Agreement (PIA) between Raytheon and Conrad, Conrad provided a sample employee Non-Disclosure Agreement from a sample audit proposal, not an actual PIA related to this audit. Raytheon’s review of the sample Non-Disclosure Agreement provided by Conrad indicated the protections afforded were only for information provided by SIGAR or the USG to Conrad and gave no description of protections provided for Raytheon information shared directly with Conrad in support of the audit. Raytheon presented Conrad with a draft PIA, but execution of the agreement was rejected by Conrad.</p>

Finding	Nature of Finding	Condition (Per Draft Audit Report F-234)
2022-02: Unsupported Costs were Charged to the Program	Non-compliance and Internal Control – Material Weakness	<p><i>During our testing, to determine if the costs incurred under the Cost Reimbursement portion of the Task Order were adequately supported, accurate, allowable, and properly approved, Conrad tested four (4) Material Cost samples totaling \$1,026,482 out of a population of 14 transactions totaling \$ [REDACTED] and 23 Other Direct Cost samples totaling \$9,618,666 out of a population of 146 transactions totaling \$ [REDACTED].</i></p> <p><i>During our testing, we noted that for all of the Ancillary Material and Life Support samples tested under the Material and ODC cost categories, incurred by two of its major subcontractors, Raytheon did not require its subcontractors to maintain source documents supporting purchases and services related to these two types of costs.³ Raytheon stated due to lack of management oversight, an administrative error occurred where the Letter of Subcontract and the Purchase Order were incorrectly procured and executed as a cost-plus fixed fee structure rather than a firm-fixed price.</i></p> <ul style="list-style-type: none"> <i>• In two (2) out of the four (4) samples tested for Material Costs, one of the major subcontractors was unable to provide original vendor invoices/receipts for the materials purchased under the Program.</i> <i>• In seven (7) out of 23 samples tested for Other Direct Costs, one of the major subcontractors was unable to provide original vendor invoices/receipts for the charges incurred to the Program.</i> <p><i>In addition, during our testing, we also noted the following subcontractor’s billings that were submitted to Raytheon were not in accordance with the terms of the Letter of Subcontract.</i></p> <ul style="list-style-type: none"> <i>• In three (3) out of the four (4) samples tested for Material Costs, one of the major subcontractor’s billings to Raytheon was not certified for accuracy by the subcontractor as stipulated in the Letter of Subcontract.</i> <i>• In seven (7) out of 23 samples tested for Other Direct Costs, one of the major subcontractor’s billings to Raytheon was not certified for accuracy by the subcontractor as stipulated in the Letter of Subcontract.</i>

Issue #	Nature of Issue	Raytheon Response
1	Maintenance of source documents supporting purchases and services related to Material and ODC costs	<p>Raytheon partially agrees with the auditor’s assessment related to maintenance of source documents supporting ODC and Material purchases and services. During the audit, Raytheon discovered and disclosed an administrative error in its purchase orders with two of its major suppliers, both foreign commercial entities; however, Raytheon did not state this administrative error was due to lack of management oversight. While certain portions of the AMT order were awarded as cost-type line items, Raytheon had intended to procure these portions of the order as Firm Fixed Price. This was in alignment with how prior and similar contracts were solicited and executed by Raytheon, and these foreign commercial entities do not have the cost accounting practices in place to even award a cost-type contract to; however, the subcontracts were awarded as cost-type due to an administrative error. The subcontractors, also knowing they had intended to be Firm Fixed Price, as well as the Raytheon program team executing the AMT order, executed these aspects of the order as Firm Fixed Price procurements. Upon discovery of this error, Raytheon disclosed the issue to Conrad, and – in coordination with the DoD – is taking steps to correct the subcontracts for these subcontractors. Because these subcontracts with these foreign commercial subcontractors were intended to and should be Firm Fixed Price, the subcontractors did not maintain, nor should they need to provide, the level of supporting documentation required under an audit of cost-type line items. Raytheon was able to tie each subcontractor invoice amount back to the subcontractor’s proposal prior to invoice approval.</p>

<p>2</p>	<p>Missing Certification on subcontractor invoices LAW subcontract</p>	<p>Raytheon disagrees with the auditor’s assessment related to subcontractor billings that did not include subcontractor certification by an authorized employee of the subcontractor. This requirement was in our Letter Subcontract and Subcontract Agreements with our subcontractors; however, this was not a requirement of the AMT order or the ETSC prime IDIQ contract. Because of the administrative error in PO contract type (described in Issue #1 response to this finding above), and because these POs were operationally executed (performed) as Firm Fixed Price, Raytheon did not require the subcontractor self-certification requirement of the subcontract billings. This requirement is no longer included in our standard subcontract agreements, regardless of contract type. We do not agree this issue should be a finding. This issue did not impact the subcontractor invoices, nor would it have impacted the SPFS submitted during this audit. Additionally, in response to Conrad’s audit item request, Raytheon did provide Conrad confirmation from our subcontractors certifying the items and amounts invoiced for all invoices submitted to Raytheon.</p>
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Finding	Nature of Finding	Condition (Per Draft Audit Report F-234)
<p>2022-03: Inadequate Monitoring Over Program Compliance Requirements Performed and Costs Incurred by the Subcontractor</p>	<p>Non-compliance and Internal Control – Significant Deficiency</p>	<p><i>During our testing to determine compliance with the terms of the PWS regarding student training and course completion, instructor qualifications, course materials, student stipends payments, and other PWS requirements, Conrad tested 50 students out of a population of 200 students and all 10 courses provided under the Program. It was noted that Raytheon did not maintain or provide adequate supporting documentation for the Program as follows:</i></p> <ul style="list-style-type: none"> • <i>Missing support documentation for students and courses conducted under the FFP portion of the Program.</i> <ul style="list-style-type: none"> ○ <i>In two (2) out of the 50 samples tested for students trained under the Program, two of the major subcontractors were unable to provide course completion certificates for the students.</i> ○ <i>In 27 out of the 50 samples tested for students trained under the Program, the course completion certificates provided by one of the major subcontractors were not certified by the [REDACTED].</i> ○ <i>In 40 out of the 50 samples tested for students trained under the Program, two of the major subcontractors were unable to provide course attendance logs or other evidence of student attendance at the training courses.</i> ○ <i>In one (1) out of the 10 samples tested for courses provided under the Program, one of the major subcontractors was unable to provide the course material for the training conducted within our audit period. Instead, the subcontractor provided course material which was established in 2022.</i> <p><i>The issues identified above are part of the FFP CLINs (Training and Assistance, CLIN 0010 and Option Year 1 Training and Assistance, CLIN 1010), to provide an overview of the possible awarded funds impact resulting from the instances of non-compliance identified, we used a prorated approach based on the number of students trained by the subcontractors to determine the impact to the awarded funds. The total funds impacted resulting from the non-compliance issues stated above is \$5,962,256.</i></p> <p><i>Furthermore, for testing of the student stipends compliance requirements under the FFP portion of the Program, of the 50 student samples selected, Conrad judgmentally selected two months of stipends payments made to each student for testing. Our testing noted the following missing and/or inadequate internal controls over stipends payments made to the students:</i></p> <ul style="list-style-type: none"> • <i>In seven (7) out of the 50 samples tested for students trained under the Program, one of the major subcontractors was unable to provide supporting documentation for the stipends payment made to the students. This resulted in unsupported stipends payments in the amount of \$6,006.</i> • <i>In eight (8) out of the 50 samples tested for students trained under the Program, the stipends payment was accepted by an individual on behalf of the student. There was no documented evidence provided to indicate that the individual accepting the payment did indeed provide the payment to the student. This resulted in ineligible stipends payments in the amount of \$3,275.</i> <p><i>Finally, Conrad tested 23 Other Direct Cost samples totaling \$9,618,666 out of a population of 146 transactions totaling \$[REDACTED] to determine if the costs incurred under the Program were adequately supported, accurate, allowable, and properly approved. Our testing noted the following ineligible costs incurred by one of the major subcontractors charged to the Program:</i></p>

		<ul style="list-style-type: none"> In one (1) out of 23 samples tested for Other Direct Costs, a subcontractor employee’s travel expense that was not related to the Program was incorrectly charged to the Program. This resulted in ineligible costs in the amount of \$385.
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Issue #	Nature of Issue	Raytheon Response
1	Missing Course Completion Certificates	<p>Raytheon disagrees with these aspects (Course Complete Certificates) of the overall finding. Where available, we did provide examples of signed certificates for some students. Some certificate documentation provided was the digital copy used to create the hard copy that was signed and physically presented to the student upon course completion. Additionally, we provided pictures showing examples of the students receiving their certificates at graduation ceremonies and the DoD Contracting Officer’s Representative (COR) for the AMT order confirmed we provided all students graduating from a course with certificates. While we were only able to provide partial documentation for Conrad’s request for course completion certificate documentation, a <i>Course Completion Certificate</i>, or any evidence of certificates, is not a requirement of the PWS. Raytheon does not agree this should be a finding.</p>
2	Missing Signatures on Course Completion Certificates	
3	Missing Course Attendance Logs or other evidence of student attendance	<p>Raytheon disagrees with this aspect of the overall finding. While we were only able to provide partial documentation for Conrad’s request for attendance log documentation, an <i>Attendance Log</i>, or any evidence of student attendance, is not a requirement of the PWS. It is worth noting student training was conducted as a cohort, in that students all lived in the same housing, attended courses together, ate meals together, all in the same location. The students were not geographically dispersed, and contractor personnel monitored student attendance and performance every day. Raytheon does not agree this should be a finding.</p>
4	Missing Course Material	<p>Raytheon disagrees with this aspect of the overall finding. While we agree the documentation provided for one course in question was dated 2022 (after completion of training), we do not agree this should be a finding or part of an overall finding. The documentation provided was the same as what was used for the course prior in student training, but the foreign commercial vendor that provided it in response to this audit provided an updated copy, dated in 2022. Raytheon does not agree this should be a finding.</p>
5	Missing Stipend Support	<p>Raytheon partially agrees with this aspect of the overall finding, in that the major subcontractor was not able to provide documentation for some students showing payment of stipend. However, all major subs were able to show some evidence that stipend was provided to students IAW this requirement of the PWS. Additionally, the DoD Contracting Officer’s Representative (COR) for the AMT order confirmed in writing that he was not aware of any instances of students not being provided stipend.</p>
6	Stipend Paid was accepted by an individual on behalf of the student	<p>Raytheon disagrees with this aspect of the overall finding. While we could not provide documentation for Conrad-specified months of stipend provision, documentation was provided showing student signature for receipt of their stipend, proving the process of provision of stipend to students was implemented. There were instances where a student signed for a stipend that wasn’t theirs was because they were signing for a missing student who could not be there in person (usually for medical reasons). The subcontractor had good results using this method with no reported issues. Additionally, the DoD Contracting Officer’s Representative (COR) for the AMT order confirmed in writing that he was not aware of any instances of students not being provided stipend. Raytheon does not agree this should be a finding.</p>
7	Unallowable Cost Charged to the Program	<p>Raytheon agrees with this aspect of the overall finding. During the audit, unallowable costs from one of Raytheon’s subcontractors totaling \$385 were identified as accidental travel charges that shouldn’t have been charged to the program. Upon identification, these costs were immediately corrected and credited to the Government prior to the conclusion of the audit.</p>

Raytheon Response to “Significant Deficiency” Nature of Finding Assessment

Based on the above responses to the identified issues within finding 2022-03, we disagree with the Nature of Finding classification of “Significant Deficiency”. Conrad has asked for items that were not requirements of the AMT PWS. We have provided documentation from both Raytheon and DoD that supported confirmation that student stipend was paid to students and students were provided Course Completion Certificates upon graduation from courses. The only aspect of this overall finding Raytheon believes is warranted is the \$385 accidental travel charge from our US-based subcontractor, that has already been corrected and credited to the Government. For these reasons, we believe the overall Nature of Finding classification itself is inappropriate.

Finding	Nature of Finding	Condition (Per Draft Audit Report F-234)
2022-04: Ineligible Costs Charged to the Program	Non-compliance and Internal Control - Deficiency	<i>During our testing, to determine if the costs incurred under the Program were adequately supported, accurate, allowable, and properly approved, Conrad tested 23 Other Direct Cost samples totaling \$9,618,666 out of a population of 146 transactions totaling \$ [REDACTED]. In one (1) out of 23 samples tested for Other Direct Costs, Raytheon incorrectly charged labor costs under ODC when no labor costs are budgeted under the CLINs in the ODC cost category. This resulted in an overcharge to the U.S. Government in the amount of \$163.</i>

Raytheon Response

Raytheon agrees with this finding.

During the audit, unallowable costs from Raytheon totaling \$163 were identified as accidental labor charges to a non-labor cost-type CLIN. Upon identification, these costs were immediately corrected and credited to the Government prior to the conclusion of the audit. While we agree the accidental charge should not have occurred, as part of our standard contract close-out process, all cost-type CLINs are screened for any accidental charge like this and would be credited to the Government as part of final invoicing.

Conrad Draft Audit Report Miscellaneous Item Responses

Page Number	Report Item	Raytheon Response
24	Conrad Misstatement: “... due to lack of Management oversight...”	<p><i>In prior Conrad preliminary finding summaries (excel files), Conrad wrote for Finding 2022-02: “Raytheon stated that due to an administrative error during the execution of the contract...”. In the Exit Meeting Agenda, Conrad wrote for Finding 2022-02: “Raytheon...stated that due to an administrative error, the contracts with the three subcontractors were incorrectly procured as a cost-plus fixed fee rather than a firm-fixed price.” But in Conrad’s draft report, finding 2022-02 now states: “Raytheon stated due to lack of management oversight, an administrative error occurred where the Letter of Subcontract and the Purchase Order were incorrectly procured and executed as a cost-plus fixed fee structure rather than a firm-fixed price.”</i></p> <p>At no time did Raytheon state the administrative error was due to ‘lack of management oversight’.</p>

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Raytheon disagreed with **Finding 2022-01**, partially agreed with **Finding 2022-02** and **Finding 2022-03**, and agreed with **Finding 2022-04**. We have reviewed Raytheon's responses and provided the following rebuttals:

Finding 2022-01: Raytheon disagreed with the finding.

1. In response to the finding related to Raytheon not providing the list of EU instructor information, Raytheon disagreed with the finding. Raytheon stated that the subcontractor and the data produced by the subcontractor are subject to the EU's GDPR. Raytheon stated that it was unable to provide the instructor information without Conrad signing a DPTA, which Conrad rejected. Raytheon stated that it was legally unable to provide European instructor data without violating the EU GDPR. Raytheon stated that it provided the Quality Assurance Surveillance Report ("QASR") performed by the USG, which verified that the EU contractors met the qualifications per PWS Section 3.1.1.1 and should have satisfied the requirement. Raytheon stated that the DOD confirmed the compliance with PWS instructor requirements as evident in the CPARs ratings and the several site visits performed by the Program Executive Office Simulation, Training and Instrumentation ("PEO STRI") throughout the life of the Contract.

Auditor Rebuttal:

- Section C of the Task Order states the requirement to submit documentation to ensure the services rendered were in accordance with the PWS. Conrad and SIGAR reviewed the DPTA and did not believe Conrad should sign it as Conrad had signed an NDA with SIGAR, which should be sufficient to safeguard any general data protection violation. In addition, in lieu of a signed DPTA, Conrad provided Raytheon with alternative options to review the instructor's qualification, including redacting any sensitive information, visiting Raytheon's Headquarters to review hard copies of the records, or even providing an identifiable employee number to perform our review, all of which was rejected by Raytheon. The QASR, CPARs, and site visits made by PEO STRI are all external reports and assessments performed by the DOD. These reports and assessments do not provide additional details on how the DOD evaluated the instructor's qualification requirements. As mentioned in the finding condition, Conrad is engaged to conduct an independent audit of Raytheon's AMT Program. In accordance with GAGAS, if Conrad was to rely on another agency's work, Conrad would need to develop and perform procedures such as reviewing the agency's report, procedures performed, documentation reviewed, and/or performing tests of the agency's work completed in making a determination. Conrad was not engaged to conduct such a review. As such, our finding and recommendation remains unchanged.
2. In response to the finding related to Raytheon not providing its key policies and procedures, Raytheon disagreed with the finding. Raytheon stated that further protections were warranted

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due to the competitive nature and sensitive content of the requested policies. The Non-Disclosure Agreement provided in lieu of the PIA only afforded protection to the information provided by SIGAR and the USG, not Raytheon. Raytheon stated that due to the competitive sensitive nature of the internal policies and to protect the information properly, Raytheon was unable to them without signing a PIA.

Auditor Rebuttal:

- As mentioned, Conrad had a signed NDA with SIGAR, sufficient to prevent any sensitive information from being disclosed. Also, Conrad had explained to Raytheon that SIGAR audit reports are published on SIGAR's public website, with a redaction process that'll be agreed upon between SIGAR and Raytheon. Finally, Conrad provided Raytheon with the option to redact any sensitive information from the key policies. Raytheon rejected all the options. General auditing procedures require the assessment of the adequacy of the control environment, including a review of key policies and procedures. The inability to assess the control environment undermines confidence that oversight of the Contract/Order has been effective and that disbursements, record retention, and subcontractor monitoring were executed in accordance with company policies and procedures. As such, our finding and recommendation remains unchanged.

Finding 2022-02: Raytheon partially agreed with the finding.

1. In response to the finding related to Raytheon not maintaining source documents supporting purchases and services related to Material and ODC costs, Raytheon agreed with the administrative error in its Purchase Orders with two subcontractors, which resulted in the subcontractors not maintaining supporting documentation. However, Raytheon disagreed with the finding resulting from a lack of management oversight.

Auditor Rebuttal:

- No rebuttal is deemed necessary as Raytheon concurred with the issue related to the administrative error in its Purchase Order and stated that it is taking steps, in coordination with the DOD, to correct the subcontracts for these subcontractors.
 - We revised the condition language and removed reference to Raytheon stating the administrative error occurred due to a lack of management oversight.
2. In response to the finding related to missing certifications on subcontractor invoices, Raytheon disagreed with the finding. Raytheon stated that the self-certification of invoices by the subcontractors was a requirement outlined in the letter of subcontract and was not a requirement of the AMT PWS. This requirement is no longer in Raytheon's subcontractor

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agreements, regardless of the type of agreement. In addition, Raytheon stated that "Raytheon did provide Conrad confirmation from our subcontractors certifying the items and amounts invoiced for all invoices submitted to Raytheon."

Auditor Rebuttal:

- Section 2.3.1.4 of the PWS considers the contractor responsible and accountable for the subcontractor's performance, including compliance with the subcontract agreement requirements. The subcontract letter was still in effect during the scope of the audit, and therefore the subcontractors are still required to follow the agreement requirement. Raytheon's references to providing Conrad with evidence of confirmations from the subcontractors were merely emails with the invoices attached from the Subcontractor requesting payment. There was no indication or certification that the invoices were accurate and abided by the terms of the letter of the subcontracts. In addition, when Conrad brought this issue to Raytheon's attention during fieldwork, Raytheon requested its subcontractor to send a follow-up email confirming the accuracy of the invoice. However, the emails were sent after the fact and a few years after the invoice submission. These do not qualify as adequate evidence. As such, our finding and recommendation remains unchanged.

Finding 2022-03: Raytheon disagreed with 6 of the 7 issues.

- 1&2. In response to the issues related to missing course completion certificates and missing signatures on the course completion certificates, Raytheon disagreed with the findings. Raytheon stated that completed certificates for some students were provided. The digital documentation provided was used to create a hard copy that was signed and physically presented to the students at the graduation ceremony. Raytheon provided pictures of student graduation ceremonies to demonstrate that students received the certificates. The AMT's COR also confirmed students graduating with the certificates. In addition, Raytheon stated that maintaining evidence of certificates issued to students was not a requirement in the PWS.

Auditor Rebuttal:

- As mentioned in the condition section of the finding, the certificate of completion template requires signatures from the [REDACTED]. Raytheon stated that some certificates were signed and physically presented to the students at the graduation ceremony. This demonstrates inconsistency in distributing, certifying, and retaining the certificates, as Raytheon provided some signed certificates but not all. Raytheon provided a few pictures as examples of students receiving certificates at the

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graduation ceremonies, but the pictures only show a few students receiving certifications. There's no indication who the students were, which one matches the one we questioned in our finding, and what classes they were graduating from. Since Conrad is engaged to conduct an independent audit of Raytheon's AMT Program, the COR's confirmation on students receiving the certificates after graduation cannot be considered an acceptable form of evidence. As such, our finding and recommendation remains unchanged.

3. In response to the issue related to missing course attendance logs or evidence of student attendance, Raytheon disagreed with the finding. Raytheon stated that although partial documentation was provided, an attendance log or evidence of student attendance is not required in the PWS. In addition, Raytheon stated that the students were not geographically dispersed, and contractor personnel monitored student attendance and performance daily.

Auditor Rebuttal:

- Section 1-4 of the CMP required the student to be present for 80% of the overall course requirements and 50% of each training subject. In addition, Section 1-10 of the CMP also requires the instructor to track daily student attendance to verify course completion requirements. Without an attendance log or other documented evidence indicating student attendance, we could not determine if the students attended the training to meet the course requirement and be eligible to receive the diploma. As such, our finding and recommendation remains unchanged.
4. In response to the issue related to missing course material, Raytheon disagreed with the finding. Raytheon stated that the course material provided by the subcontractor, even though dated 2022, was the same used for the course in prior years. The subcontractor had updated the course material when the request for course materials was made.

Auditor Rebuttal:

- FAR 31.201-2 (d) deems the contractor responsible for accounting for costs and maintaining records to demonstrate that the costs were allocable to the contract. In addition, the maintenance of documents, including course material, provided by the subcontractors is part of the subcontract management process. Without the course material, we could not determine if the course material provided was the one used during the execution of the AMT program. As such, our finding and recommendation remains unchanged.
5. In response to the issue related to missing stipend support, Raytheon partially agreed with the finding. Raytheon stated that even though the subcontractor was not able to provide

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supporting documentation for specified months showing the payment of stipends to students, all major subcontractors were able to provide some evidence of stipends provided to the students. In addition, Raytheon stated that the COR confirmed that no instances were identified where a student was not provided with a stipend.

Auditor Rebuttal:

- Conrad is engaged to conduct an independent audit of Raytheon's AMT Program, the COR's confirmation on students receiving the stipends cannot be considered an acceptable form of evidence. As such, our finding and recommendation remains unchanged.
6. In response to the issue related to the stipend paid being accepted by an individual on behalf of the student, Raytheon disagreed with the finding. Raytheon stated that a document showing the student's signature for receipt of the stipend was provided. Instances where another individual signed for a student's stipend were in cases where the student could not be there in person (usually for medical reasons). The subcontractor did not identify any issues utilizing this method. In addition, Raytheon stated that the COR confirmed that no instances were identified where a student was not provided with a stipend.

Auditor Rebuttal:

- No documented evidence was provided to indicate that the individual accepting the payment did indeed provide the payment to the student. Since Conrad is engaged to conduct an independent audit of Raytheon's AMT Program, the subcontractors stating that no issues were identified utilizing this method or the COR's confirmation on students receiving the stipends cannot be considered an acceptable form of evidence. As such, our finding and recommendation remains unchanged.
7. In response to the issue related to the unallowable cost charged to the program, Raytheon agreed with the finding. Raytheon confirmed that the cost was immediately corrected, and the amount was credited to the DOD prior to the conclusion of the audit.

Auditor Rebuttal:

- No rebuttal is deemed necessary as Raytheon concurred with the finding and the recommendation and issued a credit for \$385 to the DOD.

Raytheon's disagreed with the nature of Finding 2022-03 as Significant Deficiency based on their response to each issue identified under this finding.

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Auditor Rebuttal

- Based on the auditor's rebuttals provided above, the nature of the finding remains unchanged.

Finding 2022-04: Raytheon agreed with the finding

Auditor Rebuttal:

- No rebuttal is deemed necessary as Raytheon concurred with the finding and the recommendation and issued a credit for \$163 to the DOD.

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SIGAR's Mission

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