

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 23-26 Financial Audit

Department of the Air Force's Former A-29 Pilot and Maintenance Training Program in Afghanistan: Audit of Costs Incurred by Sierra Nevada Corporation

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



JUNE
2023

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

In December 2019 and 2020, the U.S. Department of the Air Force awarded Sierra Nevada Corporation (SNC) two 9-month, cost-plus-firm-fixed-price task orders, valued at a total of \$20,481,419, to support the Department of the Air Force's A-29 Pilot and Maintenance Training program in Afghanistan. The program's objective was to provide the Afghan Air Force technical services and materials necessary to prepare and present A-29 pilot and aircraft maintenance training courses, with the goal of making the Afghan Air Force self-sufficient in operations and maintenance tasks. The Air Force modified the orders 10 times, increasing the value of the task orders to \$21,995,279, and extending the periods of performance to December 31, 2020, and January 31, 2023, respectively.

SIGAR's financial audit, performed by Williams, Adley & Company-DC LLP (Williams Adley), reviewed \$1,387,208 in costs charged to the task orders from January 1, 2020, through June 30, 2022. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in SNC's internal controls related to the award; (2) identify and report on instances of material noncompliance with the terms of the award and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether SNC has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of SNC's Special Purpose Financial Statement (SPFS). See Williams Adley'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. Our review disclosed no instances wherein Williams Adley did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

June 2023

Department of the Air Force's Former A-29 Pilot and Maintenance Training Program in Afghanistan: Audit of Costs Incurred by Sierra Nevada Corporation

SIGAR 23-26-FA

WHAT SIGAR FOUND

Williams Adley identified two significant deficiencies in SNC's internal controls and two instances of noncompliance with the terms of the task orders. For example, SNC charged the Air Force for business taxes, which SNC failed to withhold from Afghan vendor payments and remit to the Afghan government. In another example, SNC did not maintain inventory records in accordance with federal acquisition regulations. SNC was notified of these deficiencies and compliance issues prior to the publication of this report.

Because of the deficiencies in internal controls and instances of noncompliance, Williams Adley identified \$1,030 in total questioned costs, consisting entirely of unsupported costs—costs not supported with adequate documentation or that did not have required prior approval. Williams Adley did not identify any ineligible costs—costs prohibited by the task orders and applicable laws and regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Materials		■	■
General and Administrative	\$0	■	■
Total Costs	\$0	\$1,030	\$1,030

Williams Adley identified one prior audit report that was relevant to the task orders. The report had three findings that could have a material effect on the SPFS. Williams Adley conducted follow-up procedures and concluded that SNC took adequate corrective action on all three findings.

Williams Adley issued an unmodified opinion on SNC's SPFS, noting it presents fairly, in all material respects, revenues earned, costs incurred, and balance for the period audited.

WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the responsible contracting officer at the Department of the Air Force:

1. Determine the allowability of and recover, as appropriate, \$1,030 in questioned costs identified in the report.
2. Advise SNC to address the report's two internal control findings.
3. Advise SNC to address the report's two noncompliance findings.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

June 5, 2023

The Honorable Lloyd J. Austin III
Secretary of Defense

The Honorable Frank Kendall
Secretary of the Air Force

We contracted with Williams, Adley & Company–DC LLP (Williams Adley) to audit the costs incurred by Sierra Nevada Corporation (SNC) under two U.S. Department of the Air Force cost-plus-firm-fixed-price task orders to support the A-29 Pilot and Maintenance Training program in Afghanistan.¹ The program’s objective was to provide the Afghan Air Force technical services and materials necessary to prepare and present A-29 pilot and aircraft maintenance training courses, with the goal of making the Afghan Air Force self-sufficient in operations and maintenance tasks. Williams Adley reviewed \$1,387,208 in costs charged to the task orders from January 1, 2020, through June 30, 2022. Our contract with Williams Adley 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 Department of the Air Force:

- 1. Determine the allowability of and recover, as appropriate, \$1,030 in questioned costs identified in the report.**
- 2. Advise SNC to address the report’s two internal control findings.**
- 3. Advise SNC to address the report’s two noncompliance findings.**

Williams Adley discusses the results of the audit in detail in the attached report. We reviewed Williams Adley’s report and related documentation. We also inquired about Williams Adley’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 SNC’s Special Purpose Financial Statement, or conclusions about the effectiveness of internal control over financial reporting or on compliance with laws and other matters. Williams Adley is responsible for the attached auditor’s report, dated April 11, 2023, and the conclusions expressed therein. However, our review disclosed no instances where Williams Adley did not comply, in all material respects, with U.S. generally accepted government auditing standards issued by the Comptroller General of the United States.

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-239)

¹ The task order numbers are FA300220F0029 and FA300221F0028 under contract no. FA300219DA003.



Audit Report

Special Inspector General for Afghanistan Reconstruction (SIGAR)

**Financial Audit of the Special Purpose Financial Statement for Contract No.
FA300219DA003**

Task Orders FA300220F0029 and FA300221F0028

SIERRA NEVADA CORPORATION

For the Period January 1, 2020 – June 30, 2022

Audit F-239



April 11, 2023

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Transmittal Letter

April 11, 2023

Board of Directors of Sierra Nevada Corporation
444 Salomon Circle
Sparks, Nevada 89434

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

We hereby provide to you our report, which reflects results from the procedures we completed during our financial audit of the Sierra Nevada Corporation's (SNC) Special Purpose Financial Statement for revenues received and costs incurred under United States Air Force (USAF) Contract No. FA300219DA003, Task Orders FA300220F0029 and FA300221F0028 for the period of January 1, 2020, through June 30, 2022.

Within the pages that follow, we provide a summary of the work performed. Following the summary, we provide our Report on the Special Purpose Financial Statement (the Statement), Report on Internal Control, and Report on Compliance. We do not express an opinion on the summary or any information preceding our reports.

When preparing our reports, we considered comments, feedback and interpretations provided by SNC and SIGAR, in writing and orally, throughout the audit. SNC's final written response to the audit reports and our corresponding auditor analysis are incorporated herein.

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

Sincerely,

A handwritten signature in cursive script that reads 'Leah Southers'.

Leah Southers, CPA, CGFM, CISA, CFE
Partner

WILLIAMS, ADLEY & COMPANY-DC, LLP

Certified Public Accountants / Management Consultants

1030 15th Street, NW, Suite 350 West • Washington, DC 20005 • (202) 371-1397 • Fax: (202) 371-9161

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Summary

Background

On December 19, 2019, and December 16, 2020, the U.S. Department of the Air Force awarded Sierra Nevada Corporation (SNC) two task orders with cost-plus-firm-fixed-price CLINS, in support of its A-29 Pilot and Maintenance Training program in Afghanistan. The task orders required SNC to provide technical services and materials necessary to prepare and present A-29 pilot and aircraft maintenance training courses to the Afghan Air Force (AAF) and United States government personnel. The objective of the task orders was to enable the AAF's A-29 aircraft pilots and maintenance staff to be self-sufficient in operations and maintenance tasks.

At the time of issuance, the value of SNC's Task Orders FA300220F0029 and FA300221F0028 were \$9,504,041 and \$10,977,378, with periods of performance of January 1, 2020, through September 30, 2020, and January 1, 2021 through September 30, 2021, respectively. The Air Force modified the orders a collective ten times, increasing the total value to \$21,995,279 and extending the respective period of performance end dates to December 31, 2020, and January 31, 2023. See summary of modifications below.

FA300219DA003 Task Order FA300220F0029						
Task Order Value			Period of Performance			
				Beginning	End	
Base		\$9,504,041		01/01/2020	09/30/2020	
Modifications to FA300219DA003 Task Order FA300220F0029						
Mod.	Change in TO Value	Task Order Value after Mod.	Modified Period of Performance			
			Period	Beginning	End	
1	\$1,291,334	\$10,795,375	Base	01/01/2020	09/30/2020	
4	(87,989)	10,707,386	Base	01/01/2020	9/30/2020	
5	(189,799)	10,517,587	Base	01/01/2020	12/31/2020	
6	7,303	10,524,890	Base	01/01/2020	12/31/2020	
			TO Termination		12/31/2020	
FA300219DA003 Task Order FA300221F0028						
Task Order Value			Period of Performance			
				Beginning	End	
Base		\$10,977,378		01/01/2021	09/30/2021	
Modifications to FA300219DA003 Task Order FA300221F0028						
Mod.	Change in TO Value	Task Order Value after Mod.	Modified Period of Performance			
			Period	Beginning	End	
1	\$463,367	\$11,440,745	Base	01/01/2021	09/30/2021	
4	29,644	11,470,389	Base	01/01/2021	01/31/2023	

The audit scope included activity for the period January 1, 2020 through June 30, 2022.

Work Performed

The Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) contracted with Williams, Adley & Company-DC, LLP (Williams Adley) to conduct a financial audit of the Special Purpose Financial Statement (SPFS) for revenues received and costs incurred under contract FA300219DA003 Task Orders FA300220F0029 and FA300221F0028 awarded to SNC for the period January 1, 2020, through June 30, 2022.

Engagement Objectives

The objectives of the audit of the aforementioned awards include the following:

Audit Objective 1 – Special Purpose Financial Statement (the Statement)

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

Audit Objective 2 – Internal Controls

Evaluate and obtain a sufficient understanding of SNC's internal controls related to the awards, assess control risk, and identify and report on significant deficiencies, including material internal control weaknesses.

Audit Objective 3 – Compliance

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

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations

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

Scope

The scope of our audit covers SNC's costs incurred under Contract No. FA300219DA003, Task Orders FA300220F0029 and FA300221F0028 for the period January 1, 2020 through June 30, 2022. Within the period under audit, SNC reported \$1,395,028 in total revenue and \$1,387,208 of flexibly priced costs under the task orders. The audit was limited to those matters and procedures pertinent to the task order that have a direct and material effect on the Statement. The audit also included an evaluation of the presentation, content, and underlying records of the Statement. Further, the audit included reviewing the financial records that support the Statement to determine if there were material misstatements and if the Statement was presented in the format required by

SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

- Administrative Procedures and Fraud Risk Assessment
- Disbursements and Financial Reporting
- Procurement and Inventory Management

Methodology

Our audit was performed in accordance with United States Generally Accepted Government Auditing Standards (GAGAS, or the “Yellow Book”) issued by the Comptroller General of the United States. To meet the abovementioned objectives, we designed our audit procedures to include the following:

Audit Objective 1 – Special Purpose Financial Statement (the Statement)

Transactions were selected both statistically and non-statistically from the general ledger detail supporting the Statement and were tested to determine if the transactions were recorded accurately and consistently with the terms and conditions of the task order; were incurred within the period covered by the Statement; were appropriately allocated to the task order; and were adequately supported.

Audit Objective 2 – Internal Controls

We obtained and reviewed SNC’s policies and procedures to gain an understanding of the system of internal control established by SNC during the period of performance. Additionally, we obtained questionnaire responses to obtain an understanding of the processes that were in place during the period of performance. We gained an understanding of internal controls identified by SNC and assessed the control risk for sampling and testing purposes.

Audit Objective 3 – Compliance

We reviewed the task orders issued by the U.S. Air Force to identify criteria against which to test the Statement. Using various sampling techniques, we selected transactions, procurement actions, materials, and reports for testing. Supporting documentation was provided by SNC and subsequently evaluated to assess SNC’s compliance with the task order and allowable costs per the Code of Federal Regulations (CFR) cost principles. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in accordance with the provisional billing rate letters issued by the Defense Contract Management Agency (DCMA).

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations

We received from SNC prior audit reports, reviews, and assessments pertinent to SNC’s activities under the Contract Task Order. We also performed independent research of publicly available information to identify and review reports. For prior audits that indicated a need for corrective action to be taken by SNC, we determined through inquiry, observation, and testing whether the necessary steps were taken to adequately address those findings and recommendations.

Summary of Results

We issued an unmodified opinion on SNC's Statement as it presented fairly, in all material respects, the revenues earned, costs incurred, and balances for the indicated period. We also reported on SNC's internal control and compliance with contract terms, laws, and regulations. No material weaknesses were identified during our testing. We noted two significant deficiencies and two instances of non-compliance. In situations in which control and compliance findings pertained to the same matter, the findings were consolidated within a single finding.

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

Because of the deficiencies in internal controls and the instances of noncompliance, we identified \$1,030 in total questioned costs, consisting entirely of unsupported costs and no ineligible costs. Ineligible costs are those that are explicitly questioned because they are unreasonable, prohibited by the audited contract or applicable laws and regulations, or that are unrelated to the award. Unsupported costs are those that are not supported with adequate documentation or did not have the required prior approvals or authorizations.

Prior Year Audit Findings

Additionally, we conducted procedures to determine whether adequate corrective action was taken in response to prior year audit findings and recommendations applicable to this audit. We obtained SIGAR Audit Report 21-34-FA, *U.S Air Force Support for Operation and Maintenance of A-29 Aircraft for the Afghan Air Force: Audit of Costs Incurred by Sierra Nevada Corp.*, covering the period of April 1, 2019, through September 30, 2019 related to Task Order FA8637-19-F-0002. The audit report contained three findings related to lack of adherence to SNC Travel Policies, Failure to Submit Contract Deliverables by Submission Date, and Incorrect Reporting Base Rate on Indirect Costs. We concluded that SNC took adequate corrective action on all three identified matters that could have a direct and material effect on the Statement or other financial data significant to the audit objectives. The specific results of the follow-up procedures and the status of the findings are noted within Section II: Summary Schedule of Prior Audit, Review, and Assessment Findings.

This summary is intended to present an overview of the results of the procedures completed for the purpose described herein and is not intended to be a representation of the audit results in their entirety.

Schedule of Findings and Questioned Costs

Finding		Classification	Ineligible	Unsupported	Total Questioned Costs
2022-01	Removed by auditor	Removed by auditor	\$0	\$0	\$0
2022-02	Lack of evidence of Afghan business tax document	Significant Deficiency Noncompliance	\$0	\$1,030	\$1,030
2022-03	Missing inventory cost/valuation	Significant Deficiency and Noncompliance	\$0	\$0	\$0
Total Questioned Costs			\$0	\$ 1,030	\$ 1,030

Summary of Management Comments

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

Finding 2022-01: Travel Costs Lacking Sufficient Supporting Documentation-

After review of documents provided by SNC and consideration of their response, this finding has been removed.

Finding 2022-02: Missing Afghanistan Business Tax Withholding Documentation. SNC agreed that they should have been withholding tax on Afghan vendors. SNC disagreed with the finding and recommendations, noting that the failure to withhold and remit taxes - is not an indicator of an internal control weakness; did not result in harm to the U.S. government or questioned costs.

Finding 2022-03: Missing Inventory Cost/Valuation. SNC disagreed with the finding and recommendations. SNC contends that Williams Adley misclassified consumable items as inventory. As such, SNC argues there is no deficiency in internal control.

Our conclusion and response to management comments is detailed in Appendix B of this report.

References to Appendices

The auditor's reports are supplemented by two appendices: Appendix A, which contains management's response to the audit findings; and Appendix B, which contains the auditor's conclusion.

References to Appendices

The auditor's reports are supplemented by two appendices: Appendix A, which contains management's response to the audit findings; and Appendix B, which contains the auditor's conclusion.

Independent Auditor's Report on the Special Purpose Financial Statement

Board of Directors of Sierra Nevada Corporation
444 Salomon Circle
Sparks, Nevada 89434

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

In our audit of Sierra Nevada Corporation's (SNC) Special Purpose Financial Statement with respect to the United States Air Force (USAF) Contract No. FA300219DA003, Task Orders FA300220F0029 and FA300221F0028, for the period January 1, 2020, through June 30, 2022, we found:

- SNC's Statement as of and for the period of January 1, 2020, through June 30, 2022, is presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- no material weaknesses¹ in internal control over financial reporting based on the limited procedures we performed; and
- two instances of noncompliance for the period of January 1, 2020, through June 30, 2022, with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements, (2) our report on internal control over financial reporting; and (3) our report on compliance with laws, regulations, contracts, and grant agreements.

Report on the Special Purpose Financial Statement

Opinion

We have audited SNC's Special Purpose Financial Statement (the Statement) for the USAF contract No. FA300219DA003, Task Orders FA300220F0029 and FA300221F0028 for the period January 1, 2020 through June 30, 2022 and the related notes to the Statement.

¹ A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A 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.

In our opinion, the accompanying Statement presents fairly, in all material respects, SNC's incurred costs for the period January 1, 2020 through June 30, 2022, in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the U.S. and the U.S. generally accepted government auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of SNC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

SNC management is responsible for the preparation and fair presentation of the financial statement in accordance with the requirements provided by Special Inspector General for Afghanistan Reconstruction (SIGAR) and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of the financial statements conducted in accordance with U.S. generally accepted government auditing standards will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the Statement.

In performing an audit in accordance with U.S. generally accepted government auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the Statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the Statement in order to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to our audit of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of SNC's internal control over financial reporting. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the Statement.
- Perform other procedures we consider necessary in the circumstances.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Internal Control over Financial Report

In connection with our audit of SNC's Statement, we considered SNC's internal control over financial reporting, consistent with our auditor's responsibilities discussed below.

Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described below and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies² or to express an opinion on the effectiveness of SNC's internal control over financial reporting. Given these limitations, during our audit, we identified deficiencies in SNC's internal control over financial reporting that we consider to be significant deficiencies, which can be found in Section I, Findings 2022-02 and 2022-03.

Basis for Results of Our Consideration of Internal Control over Financial Reporting

We performed our procedures related to SNC's internal control over financial reporting in accordance with U.S. generally accepted government auditing standards.

Responsibilities of Management for Internal Control over Financial Reporting

SNC management is responsible for designing, implementing, and maintaining effective internal control over financial reporting relevant to the preparation and fair presentation of the Statement that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for Internal Control over Financial Reporting

In planning and performing our audit of SNC's Statement for the period January 1, 2020 through June 30, 2022, in accordance with U.S. generally accepted government auditing standards, we considered SNC's internal control relevant to the financial statement audit 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 SNC's internal control over financial reporting. Accordingly, we do not express an opinion on SNC's internal control over financial reporting. We are required to

² A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

report all deficiencies that are considered to be significant deficiencies or material weaknesses. We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

Intended Purpose of Report on Internal Control over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of SNC's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of SNC's internal control over financial reporting. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audit of SNC's Statement, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibilities discussed below.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed two instances of noncompliance for the period of January 1, 2020, through June 30, 2022, that are reportable under U.S. generally accepted government auditing standards, which can be found in Section I, Findings 2022-02, and 2022-03. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to SNC. Accordingly, we do not express such an opinion.

Basis for Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for Tests of Compliance section below.

Responsibilities of Management for Compliance with Laws, Regulations, Contracts, and Grant Agreements

SNC management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to SNC.

Auditor's Responsibilities for Tests of Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to SNC that have a direct effect on the determination of material amounts and disclosures in SNC's Statement and to perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to SNC. We caution that noncompliance may occur and not be detected by these tests.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, 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 U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Restriction on Use

Our report is intended solely for the information of SNC, the USAF, and SIGAR, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

SNC Comments

In commenting on a draft of this report, the complete text of SNC's response is reprinted in Appendix A.

Williams, Adley & Company - DC, LLP

Washington, DC
April 11, 2023

Sierra Nevada Corporation
Special Purpose Financial Statement³
FA3002219DA003; Task Orders FA300220F0029 and FA300221F0028; Flexibly Priced CLINs
For the period from January 1, 2020 to June 30, 2022

	<u>Budget</u>	<u>Actual⁴</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Total Questioned Costs</u>	<u>Notes</u>
<i>Revenues</i>						
Contract	\$ 3,409,569	\$ 1,395,028	\$ -	\$ -	\$ -	3, 4
Total Revenue	\$ 3,409,569	\$ 1,395,028	\$ -	\$ -	\$ -	
<i>Costs Incurred^{5 6}</i>						
Materials	██████████	██████████		██████████	██████████	5
Travel	██████████	██████████		██████████	██████████	5
Other Direct Cost		██████████				5
Overhead	██████████	██████████				5
General & Administrative	██████████	██████████		██████████	██████████	5
Cost Of Money	██████████	██████████				5
Total Costs Incurred	\$ 3,409,569	\$ 1,387,208	\$ -	\$ 1,030	\$ 1,030	
Total Costs	\$ 3,409,569	\$ 1,387,208	\$ -	\$ 1,030	\$ 1,030	
Outstanding Balance⁷		<u><u>\$ 7,820</u></u>				6

³ The accompanying Notes to the Special Purpose Financial Statement and Notes presented on the Special Purpose Financial Statement are an integral part of this Statement.

⁴ Actual is defined as Modified Actual Costs Incurred from January 1, 2020 through June 30, 2022.

⁵ Budget Costs Incurred include any associated Indirect Costs of Overhead and G&A.

⁶ Actual Costs Incurred include Indirect Costs of Overhead and G&A at the current Provisional Billing Rates issued by DCMA.

⁷ Outstanding balance represents the difference between actual revenue and costs incurred.

Sierra Nevada Corporation
Notes to the Special Purpose Financial Statement
FA3002219DA003; Task Orders FA300220F0029 and FA300221F0028;
Flexibly Priced CLINs
For the period from January 1, 2020 through June 30, 2022

Note 1. Basis of Presentation

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred by Sierra Nevada Corporation (SNC) under Contract Number FA3002219DA003, on Task Orders FA300220F0029 and FA300221F0028, for the flexibly priced Contract Line Item Numbers (CLINs) for the U. S. Air Force for the period January 1, 2020 through June 30, 2022. Because the Statement presents only a selected portion of the operations of the company and is related to flexible priced tasks, it is not intended to and does not present the financial position, changes in net assets, or cash flows of SNC. 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 Federal Contract FA3002219DA003, on Task Orders FA300220F0029 and FA300221F0028, for the flexibly priced CLINs. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2. Basis of Accounting

Expenditures reported on the Statement are reported on a modified accrual basis of accounting. Such expenditures are recognized following the cost principles referenced in the clauses of the aforementioned contract and SNC's disclosed cost accounting standard practices, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Revenues

Revenues on the Statement represent the amount of funds to which SNC is entitled to receive from the U.S. Air Force for allowable, eligible costs incurred under the contract during the period of performance. Due to the fact that these CLINS are cost reimbursable, there are no fees included in the Statement.

Note 4. Revenue Recognition

SNC recognizes revenue in accordance with generally accepted accounting principles under Accounting Standards Codification 606 as established by the Financial Accounting Standards Board.

Sierra Nevada Corporation
Notes to the Special Purpose Financial Statement
FA3002219DA003; Task Orders FA300220F0029 and FA300221F0028;
Flexibly Priced CLINs
For the period from January 1, 2020 through June 30, 2022

Note 7. Currency

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

Note 8. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to June 30, 2022. This analysis was performed through November 29, 2022. Subsequent to June 30, 2022, SNC paid \$158,000 to a leasing agent for an armored vehicle that was stolen in August of 2021. The amount paid was the difference between the insured amount and the assessed value of the vehicle.

Sierra Nevada Corporation, Inc.
Notes to the Questioned Costs Presented on the Special Purpose Financial Statement
Contract No. FA300219DA003, Task Orders FA300220F0029 and FA300221F0028
For the period from January 1, 2020, to June 30, 2022

- A. Finding 2022-01: Removed by auditor
- B. Finding 2022-02: Questioned \$1,030 representing [REDACTED] or 2% Afghan tax that should have been withheld from payment for subcontractor invoices, plus [REDACTED] indirect costs. The Afghan business tax documents were not obtained and/or retained by SNC.
- C. Finding 2022-03: List of inventory items provided to the auditors do not have cost or valuation associated with those items. No approval documentation for the disposal or otherwise of those inventory items have been provided.

**Special Inspector General for Afghanistan Reconstruction
Financial Audit of Costs Incurred
by Sierra Nevada Corporation under
Contract No. FA300219DA003, Task Orders
FA300220F0029 and FA300221F0028
For the Period of January 1, 2020, through June 30, 2022**

Section I – Schedule of Findings and Questioned Costs

Finding 2022-01: Travel Costs Lacking Sufficient Supporting Documentation

After review of documents provided by SNC and consideration of their response, this finding has been removed.

Special Inspector General for Afghanistan Reconstruction
Financial Audit of Costs Incurred
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Contract No. FA300219DA003, Task Orders
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Finding 2022-02: Missing Afghanistan Business Tax Withholding Documentation

Nature of Finding: Significant Deficiency, Questioned Cost and Noncompliance

Condition: We reviewed eight of 22 records representing \$60,460 out of a total of \$70,587 for payments made to subcontractors. We noted SNC did not withhold or remit business taxes on five of the transactions tested. These transactions were with Afghan contractors, subject to the Afghanistan Income Tax Law. The remaining three transactions tested were with US contractors who are not subject to the Afghan income tax law. The five transactions missing tax withholding documentation totaled \$38,636. The estimated tax related to these transactions is [REDACTED] which was not paid to the Afghan tax authority. Since SNC did not remit or indicate it has plans to remit the taxes, we are questioning the [REDACTED] and associated indirect costs of [REDACTED], for a total of \$1,030.

Criteria:

Article 72 of the Afghanistan Income Tax Law of 2009, states:

“...legal and natural persons who provide supplies, materials, services and construction under contract are subject to tax withholding from the gross amount payable to the contractor. [Further] government agencies, municipalities, state entities, private sector businesses and organizations, and other persons are required to withhold from any legal or natural persons who provide supplies, materials, services, and construction under contract.”

Federal Acquisition Regulation (FAR) Part 52.229-13(b), *Taxes – Foreign Contracts in Afghanistan, Tax exemption*

(1) “The Agreement exempts the United States Government, and its contractors and subcontractors (other than those that are Afghan legal entities or residents), from paying any tax or similar charge assessed by the Government of Afghanistan on activities associated with this contract within Afghanistan if the activities are on behalf of or in support of U.S. Forces...”

(2) “The Contractor shall exclude any Afghan taxes, customs, duties, fees, or similar charges from the contract price, other than those charged to Afghan legal entities or residents”

(3) “The Agreement does not exempt Afghan employees of Government contractors and subcontractors from Afghan tax laws....”

Federal Acquisition Regulation (FAR) Part 52.229-13(c), *Taxes – Foreign Contracts in Afghanistan, Subcontracts*

**Special Inspector General for Afghanistan Reconstruction
Financial Audit of Costs Incurred
by Sierra Nevada Corporation under
Contract No. FA300219DA003, Task Orders
FA300220F0029 and FA300221F0028
For the Period of January 1, 2020, through June 30, 2022**

“The Contractor shall include the substance of this clause...in all subcontracts including subcontracts for commercial products or commercial services.”

Cause: SNC lacked knowledge of certain Afghan tax laws. They were not aware that the payments to the Afghan contractors were subject to deduction of Afghan tax under Article 72 of the Afghanistan Income Tax Law of 2009. As such, SNC neither withheld taxes from payments to those contractors subject to withholdings nor remitted the taxes to the Afghan government.

Effect: SNC overpaid the Afghan vendors for \$1,030 that should have been remitted to the Afghan government. Because of the current relationship with the Afghan government, the amount will not be remitted. As such, the overpayment needs to be returned to the USAF. Additionally, when contractors violate local laws, it impacts the U.S. Government’s ability to work with foreign governments.

**Special Inspector General for Afghanistan Reconstruction
 Financial Audit of Costs Incurred
 by Sierra Nevada Corporation under
 Contract No. FA300219DA003, Task Orders
 FA300220F0029 and FA300221F0028
 For the Period of January 1, 2020, through June 30, 2022**

Questioned Costs: The total questioned cost for matter noted is \$1,030, as shown below.

Task Order No.	Transaction Type	Total Direct Questioned Costs	Total Indirect Questioned Costs	Total Questioned Costs
Task Order FA300221F0028	Materials	\$ [REDACTED]	\$ [REDACTED]	\$ 1,030
Total Questioned Costs		\$ [REDACTED]	\$ [REDACTED]	\$ 1,030

Recommendation: We recommend that SNC:

1. Provide supporting documentation demonstrating the withholding and remittance of Afghan tax for the five transactions in question or reimburse USAF \$1,030.
2. Provide additional guidance to management on identifying and ensuring country tax requirements/regulations are appropriately accounted for.

**Special Inspector General for Afghanistan Reconstruction
Financial Audit of Costs Incurred
by Sierra Nevada Corporation under
Contract No. FA300219DA003, Task Orders
FA300220F0029 and FA300221F0028
For the Period of January 1, 2020, through June 30, 2022**

Finding 2022-03: Missing Inventory Cost/Valuation

Nature of Finding: Significant Deficiency and Non-Compliance

Condition: SNC provided Williams Adley with an incomplete inventory file. The file contained a mixture of items required by FAR to be tracked as inventory such as IT items (eight computers, one projector, three printers, four televisions, and miscellaneous items such as cables, stands, etc.), and items not required to be tracked such as lower cost items like supplies and training manuals. However, the file was missing the associated costs, current valuation, and disposition status of all the items in the file. Additionally, SNC did not provide evidence that an inventory disposal schedule (Form SF1428) was submitted as required by FAR. The inventory items have been expensed as incurred costs and we tested the procurement transactions. As such, this is a compliance and internal control issue with no questioned costs.

Criteria:

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

“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.”

FAR 52.245-1(f)(1)(iii) *Records of Government Property* states:

“The Contractor shall create and maintain records of all Government property accountable to the contract, including Government-furnished and Contractor-acquired property. (A) Property records shall enable a complete, current, auditable record of all transactions and shall, unless otherwise approved by the Property Administrator, contain the following:

- (1) The name, part number and description, National Stock Number (if needed for additional item identification tracking and/or disposition), and other data elements as necessary and required in accordance with the terms and conditions of the contract.
- (2) Quantity received (or fabricated), issued, and balance-on-hand.
- (3) Unit acquisition cost.
- (4) Unique-item identifier or equivalent (if available and necessary for individual item tracking).
- (5) Unit of measure.
- (6) Accountable contract number or equivalent code designation.
- (7) Location.
- (8) Disposition.
- (9) Posting reference and date of transaction.

Special Inspector General for Afghanistan Reconstruction
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(10) Date placed in service (if required in accordance with the terms and conditions of the contract)..."

FAR 52.245-1(iv), *Physical inventory*, states:

"The Contractor shall periodically perform, record, and disclose physical inventory results. A final physical inventory shall be performed upon contract completion or termination..."

FAR 49.303-2, *Submission of inventory disposal schedules*, states:

"Subject to the terms of the termination clause, and whenever termination inventory is involved, the contractor shall submit complete inventory disposal schedules. The inventory disposal schedules shall be prepared on Standard Form 1428 Inventory Disposal Schedule."

Cause: SNC did not implement policies and procedures to maintain effective internal control over regularly reviewing, documenting, valuing, and reporting inventory items.

Effect: The lack of adequate record keeping for government furnished property and contractor acquired property increases the likelihood that property may be lost, improperly used, erroneously valued, or not maintained. In addition, to the extent the Government relies upon SNC's inventory and property records submitted by SNC for tracking and recording the value of government property held by contractors, the potential for errors in government records is increased.

Recommendation: We recommend that SNC:

1. Provide USAF with the complete inventory disposal schedules with values. The inventory disposal schedules shall be prepared on Standard Form 1428 Inventory Disposal Schedule for close out of the contract; or provide documentation from DOD that due to the nature of SNC's evacuation they are waiving this requirement.
2. Revise its property management procedures to require property records to include all required data elements per FAR 52.245-1 and to specify the mechanism(s) that ensure and document completeness of property records at the task order level.
3. Provide training to financial and property management personnel regarding the revised property management procedures.

Section II – Summary of Schedule of Prior Audit, Review, and Assessment Findings

We obtained SIGAR Audit Report 21-34-FA, *U.S. Air Force Support for Operation and Maintenance of A-29 Aircraft for the Afghan Air Force: Audit of Costs Incurred by Sierra Nevada Corp.*, covering the period of April 1, 2019, through September 30, 2019, related to Contract No. FA8637-18-D-6003; Task Order FA8637-19-F-002. The audit was performed by Castro & Company, LLC (Castro) and identified three findings with four recommendations that required corrective action. Based on our procedures, we concluded that SNC had taken corrective action to address all of the recommendations.

The audit report prepared by Castro & Company for the period April 1, 2019, through September 30, 2019, disclosed no questioned. During our fieldwork, we conducted follow-up procedures related to the findings and provided the current status of each finding as noted below:

Finding 2020-01: Lack of Adherence to SNC Travel Policies (Internal Control Deficiency – Deficiency)

Condition: The audit disclosed two instances where SNC employees purchased airfare for international travel via a travel agent and incurred travel expenses in the amount of \$11,453 without receiving travel authorization prior to incurring the travel costs. One employee received approval 11 days after travel. Once, an employee received approval one day after travel. Also, in one instance, SNC incurred a direct travel expense in the amount of \$5,531 that was submitted and approved by the same employee.

Current Status: During our sample testing related to travel disbursements, we reviewed costs related to airfare and we noted all authorizations were made timely, and prior to travel costs. Further travel costs were approved by someone other than the person who submitted the request. As these issues were not repeated under the contract for the period January 1, 2020, through June 30, 2022, we determined SNC adequately addressed this finding.

Finding 2020-02: Failure to Submit Contract Deliverables by Submission Date (Noncompliance)

Condition: The audit disclosed two instances where SNC did not obtain a written extension for deliverable deadline which resulted in noncompliance with contractual deliverable requirements. SNC's deliverable Contract Data Requirement List (CDRL) A034, *Diminishing Manufacturing Sources and Material Shortages (DMSMS) Implementation*, was not submitted timely. On August 16, 2019, SNC was notified of Hobbs Meter obsolescence, requiring a draft report to be submitted by September 15, 2019. SNC submitted the draft report on September 20, 2019, five days after the required due date, which resulted in noncompliance with the contractual requirement. In addition, SNC's deliverable CDRL C004, *System Safety Program Plan (SSPP)*, was not submitted timely.

SNC's contract was awarded on April, 2019 resulting in the requirement to submit an initial plan by July 30, 2019. Instead, SNC submitted the initial plan on July 31, 2019, one day late.

Current Status: During our testing of contract deliverables, it was noted SNC followed all deliverable requirements. As these specific issues were not repeated under the contract for the period January 1, 2020, through June 30, 2022, we determined that SNC adequately addressed this finding.

Finding 2020-03: Incorrect Reporting Base Rate on Indirect Costs (Noncompliance)

Condition: The audit disclosed Statement prepared by SNC did not report indirect costs based on the Provisional Billings Rates (PBR) approved by the Defense Contract Management Agency (DCMA) dated January 30, 2019. As required under the Federal Acquisition Regulation, DCMA sets the PBRs for Department of Defense Contracts to prevent overpayment to the contractor. Instead, SNC used the indirect rates based on the Project Status Report. This matter was discussed with SNC, and an updated Statement was provided on October 12, 2020, using the DCMA approved PBR.

Current Status: During compliance testing, and as noted above, SNC has continued to use the correct DCMA PBR's in its reporting. As this specific issue was corrected and not repeated through June 30, 2022, we determined that SNC adequately addressed this finding.

Appendix A – SNC’s Response to the Findings



sncorp.com

Subject: SNC Response to Financial Audit of the Special Purpose Financial Statement for Contract No. FA300219DA003 - Task Orders FA300220F0029 and FA300221F0028

Sierra Nevada Corporation takes exception to the three “Significant Deficiency in Internal Control” findings in the audit report. Each audit finding with our response is listed below.

1. \$374 of Travel Costs without Sufficient Supporting Documents as a Significant Deficiency

There is an obvious misunderstanding as the auditor believes the \$280 airfare burdened to \$374 represents an unsupported change fee paid by SNC (see attached Excel file). In fact the \$280 represents the “net” amount of a \$545 airfare which was then credited by \$264 for a prior cancelled flight (\$545 less \$264 = \$280). SNC notes that adequate support for the \$545 airfare was provided to the auditors.

Regardless, a questioned amount of \$280 (even when incorrectly questioned as it was here) on two task orders totaling almost \$2 Million dollars does not rise to the level of being significant. Given the misunderstanding by the auditor there can be no internal control weakness and the finding should be withdrawn.

2. \$1,030 for Lack of evidence of Afghan Business Tax Document

This amount represents [REDACTED] of business tax (burdened to \$1,030) that was due to the Afghan Government for the use of an “in country” vendor. SNC has historically utilized tax exemption certificates to exempt the income earned in Afghanistan for AITR purposes, and avoid withholding required under Article 72. We utilized an external service provider [REDACTED] for advice on Afghan tax matters. It currently appears that our external service provider was unaware of SNC’s use of an Afghan based vendor and therefore may have missed the 2% business tax withhold. It is also possible that the Afghan vendor collected and remitted the tax on their own account (similar to US sales tax withholding). If, however, the business tax was not remitted, it is SNC’s position that there was no harm to the US Government because the tax was due to the Afghan Government, a Government which no longer exists. Further, how can a tax that was not paid and therefore not expensed to the contract be a questioned cost on that contract - there is no cost to question. There is no internal control weakness and the finding should be withdrawn.

3. \$0 questioned for Missing Inventory cost / valuation

In this instance, there is no questioned cost and it is unclear to SNC why this appears as a significant internal control deficiency on the audit report. SNC previously advised that the so called “inventory” on CLINs 1009 & 2009 are not by definition inventory (raw materials / purchased parts, etc.) that were deliverable on the contract. Rather, all of the “items” on CLINs 1009 & 2009 were office supplies used to train the Afghan Air Force (AAF). The items are actually consumables (paper, toner, books, paper hole-punch, etc.). Therefore, there was no “inventory” to report; rather there were stockroom supplies that had been purchased and expensed to the program. These supplies are not inventoried assets that appear on a balance sheet. SNC’s position that there is no control weakness and the finding should be withdrawn.

SNC Proprietary Information

Corporate Headquarters
444 Salmon Circle | Sparks, Nevada 89434 | 775-331-0222

SNC Proprietary Information

Appendix B – Auditor’s Rebuttal

In consideration of the views presented by SNC Corporation management, we present the following rebuttal or clarification to certain matters. The responses below are intended to clarify factual errors and provide context, where appropriate, to assist the users of this report in their evaluation of the findings and recommendations included herein. In those instances where management’s response did not provide new information or support to modify the facts and circumstances of the findings, and where management agrees with the findings presented, we have not provided a response.

Finding 2022-01: Travel Costs Lacking Sufficient Supporting Documentation - Removed

After review of documents provided by SNC and consideration of their response, this finding has been removed.

Finding 2022-02: Missing Afghanistan Business Tax Withholding Documentation

SNC concurred they should have been withholding tax on Afghan vendors but did not concur that the failure to withhold and remit taxes is an indication of an internal control weakness that can result in harm to the U.S. government or questioned costs.

SNC should have known about and complied with the Afghanistan Income Tax Law as it pertained to Afghan vendors. SNC’s reliance on incorrect or incomplete advice from their legal advisor does not exempt them from the responsibility to understand and comply with Afghan tax laws. As such, their noncompliance with the established tax law is considered an internal control deficiency.

SNC makes a two-part argument that there should be no questioned costs. First, they speculate there is a possibility the vendor remitted the tax. Second, they argue there is no harm to the US government, since the withholding was supposed to be remitted to the Afghan government which no longer exists, and conclude the tax was not expensed to the government and therefore there are no costs to question.

Williams Adley disagrees with SNC’s arguments. Suggesting the vendor may have remitted the tax is a red herring as it is improbable vendors would operate outside of the system established by the Afghan tax law, which dictates contractors, not vendors, are responsible for withholding and remitting taxes. Furthermore, SNC offered no documentation supporting their conjecture. Regarding harm to the US government, SNC is correct in noting there is no place to remit the tax. However, SNC incorrectly alleges there is no harm to the U.S. government. We believe violation of local laws can impact the U.S. government’s ability to work with foreign governments. SNC mistakenly overpaid the Afghan vendors by the amount that should have been withheld for taxes. In turn, when the USAF reimbursed SNC for the payments made to Afghan vendors, they essentially overpaid SNC by the amount of tax that should have been withheld. Furthermore, we believe the violation of local laws impacts the U.S. government’s ability to work with foreign governments. We conclude that this finding and its recommendations must remain as stated in our audit report.

Finding 2022-03: Missing Inventory Cost/Valuation

SNC disagrees with this finding. SNC asserts the items on the inventory list were consumables – paper, toner, books, paper punches, etc. As such, SNC contends these items were purchased and expensed to the program and should not be considered as inventoried assets.

Williams Adley concurs the low-cost consumables mentioned in SNC’s response should not be considered as inventory. However, SNC’s response focuses on non-inventory items and fails to address the items Williams Adley delineated as inventory in the finding. The finding states SNC provided Williams Adley with a list of inventory items required by FAR 31.201-2(d) to be tracked which included items such as computers, projectors, printers, and televisions. At this time, SNC has not addressed the disposition of the inventoriable items or provided any documentation indicating that property records were kept in accordance with FAR 52.245-1. As such, the finding and its recommendations remain.

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