

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 20-09 Financial Audit

Department of the Army's UH-60A Enhanced Phase Maintenance Inspection Program in Afghanistan: Audit of Costs Incurred by Science and Engineering Services LLC

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



NOVEMBER
2019

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On June 28, 2017, the Army Contracting Command awarded Science and Engineering Services LLC (SES) a 14-month, \$12 million, cost-plus-fixed-fee delivery order under an existing indefinite-delivery/indefinite-quantity contract. Under the delivery order, SES was required to provide supplies and maintenance support to the Enhanced Phase Maintenance Inspection program in Afghanistan, which aims to enhance the Afghan military's aviation transport capacity. SES was required to provide program management, inspections, repairs, component installations, paint, testing, and materials needed for the program. Through nine modifications, the delivery order was increased to \$20,031,998 and the period of performance was extended to November 30, 2019.

SIGAR's financial audit, performed by CohnReznick LLP, reviewed \$13,954,053 in costs that SES incurred for the period of June 28, 2017, through November 30, 2018. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in SES's internal controls related to the delivery order; (2) identify and report on instances of material noncompliance with the terms of the delivery order and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether SES took corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of SES's Special Purpose Financial Statement (SPFS). See CohnReznick's report for the precise audit objectives.

In contracting with an independent audit firm and drawing from the results of the audit, SIGAR is required by auditing standards to review the audit work performed. Accordingly, SIGAR oversaw the audit and reviewed its results. Our review disclosed no instances wherein CohnReznick did not comply, in all material respects, with U.S. generally accepted government auditing standards.

November 2019

Department of the Army's UH-60A Enhanced Phase Maintenance Inspection Program in Afghanistan: Audit of Costs Incurred by Science and Engineering Services Audit LLC

SIGAR 20-09-FA

WHAT SIGAR FOUND

CohnReznick identified two deficiencies in SES's internal controls, one of which is significant, and two instances of noncompliance with the terms of the delivery order, applicable laws, and regulations. For example, CohnReznick found that SES charged this delivery order for the shipping costs associated with a different delivery order.

Because of the internal control deficiencies and instances of noncompliance, CohnReznick identified \$304 in total questioned costs, consisting entirely of ineligible costs—costs prohibited by the cooperative agreement, applicable laws, or regulations. CohnReznick did not identify any unsupported costs—costs not supported with adequate documentation or that did not have the required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
Direct Costs	████	\$0	████
Indirect Costs	████	\$0	████
Total Costs	\$304	\$0	\$304

CohnReznick did not identify any findings from prior audits that could have a material impact on the SPFS.

CohnReznick issued an unmodified opinion on SES's SPFS, noting that it presents fairly, in all material respects, revenues received and costs incurred for the period audited.

WHAT SIGAR RECOMMENDS

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

- 1. Determine the allowableness of and recover, as appropriate, \$304 in questioned costs identified in the report.**
- 2. Advise SES to address the report's two internal control findings.**
- 3. Advise SES to address the report's two noncompliance findings.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

November 19, 2019

The Honorable Dr. Mark T. Esper
Secretary of Defense

The Honorable Ryan D. McCarthy
Secretary of the Army

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

We contracted with CohnReznick LLC to audit the costs incurred by Science and Engineering Services LLC (SES) under an Army Contracting Command delivery order to provide supplies and services for the UH-60A Enhanced Phase Maintenance Inspection program, which aims to enhance the Afghan military's aviation transport capacity.¹ CohnReznick's audit covered \$13,954,053 in costs that SES incurred for the period of June 28, 2017, through November 30, 2018. Our contract with CohnReznick required that the audit be performed in accordance with generally accepted government audit 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, \$304 in questioned costs identified in the report.**
- 2. Advise SES to address the report's two internal control findings.**
- 3. Advise SES to address the report's two noncompliance findings.**

The results of CohnReznick's audit are discussed in detail in the attached report. We reviewed CohnReznick's report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on SES's Special Purpose Financial Statement. We also express no opinion on the effectiveness of SES's internal control or compliance with the agreement, laws, and regulations. CohnReznick is responsible for the attached auditor's report and conclusions expressed in it. However, our review disclosed no instances where CohnReznick did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

We will be following up with your command to obtain information on the corrective actions taken in response to our recommendations.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-154)

¹ The contract number is WZ58RGZ-13-D-0048/0089.

Financial Audit of Costs Incurred by
Science and Engineering Services, LLC under the
Utility Helicopter Program Office (UHPO) UH-60A Enhanced Phase
Maintenance Inspection (PMI) Program Afghanistan
Contract No. WZ58RGZ-13-D-0048/0089
For the period from June 28, 2017 through November 30, 2018

Performed by

CohnReznick 
ADVISORY • ASSURANCE • TAX

COHN REZNICK
ACCOUNTING • TAX • ADVISORY

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TRANSMITTAL LETTER

September 4, 2019

Arnold Lee, CFO
Science and Engineering Services, LLC
6992 Columbia Gateway Drive
Columbia, MD, 21046

Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR)
2530 Crystal Drive
Arlington, VA 22202

We appreciate the opportunity to provide to you our report regarding the procedures that we have completed during the course of our financial audit of the costs incurred by Science and Engineering Services, LLC (SES) on the Department of Defense's (DOD) Utility Helicopter Program Office (UHPO) UH-60A Enhanced Phase Maintenance Inspection (PMI) Program Afghanistan, Contract No. W58RGZ-13-D-0048/0089, for the period June 28, 2017 through November 30, 2018.

Within the pages that follow, we provide a summary of the work performed. Following the summary, we have incorporated the following reports:

- Independent Auditor's Report on the Special Purpose Financial Statement;
- Independent Auditor's Report on Internal Control; and
- Independent Auditor's Report on Compliance.

When preparing our report, we considered comments, feedback and interpretations of SES, SIGAR and DOD throughout the planning, fieldwork and reporting phases of the audit. SES management has prepared responses to the findings identified during the audit and those responses have been included as part of this report. The responses have not been audited and we express no opinion on them.

Thank you for providing us with the opportunity to work with you and to conduct the financial audit of SES' costs incurred under the UHPO PMI Program Afghanistan.

Sincerely,



Timothy Bender, CPA, Partner
CohnReznick LLP
Bethesda, Maryland

**Science and Engineering Services, LLC - UHPO PMI Program Afghanistan
Financial Audit of the Special Purpose Financial Statement
For the Period from June 28, 2017 through November 30, 2018**

SUMMARY

Background

Science and Engineering Services, LLC (SES) is a small business founded in 1988 and headquartered in Huntsville, Alabama. The company's research and development facility is located in Columbia, MD. SES' mission is to provide the best value products and services to its customers, through innovation, efficiency and quality. SES provides system modification, integration, and training for rotary wing, fixed wing, and unmanned aircraft. The company also supports military ground systems.

On June 28, 2017, the Department of Defense (DOD) awarded a cost-plus-fixed-fee delivery order, Contract No. W58RGZ-13-D-0048/0089, to SES for the implementation of the Utility Helicopter Program Office (UHPO) UH-60A Enhanced Phase Maintenance Inspection (PMI) Program Afghanistan (Contract).

The primary objective of the above-mentioned contract is to perform maintenance and repairs of UH-60 Aircraft by completing the following procedures:

- Conduct an initial aircraft assessment/inspection;
- Harvest parts;
- Perform controlled exchange of components;
- Transport aircraft; and/or induct the aircraft into the Enhanced Phase Maintenance Inspection (E-PMI) Program, which includes:
 - Stripping paint;
 - PMI I and II;
 - Cleaning airframes and components;
 - Priming and painting;
 - Applying/integrating Modification Work Orders (MWO);
 - Ensuring all required safety and maintenance messages have been complied with;
 - Storing parts;
 - Shipping parts;
 - Conducting scheduled and unscheduled maintenance;
 - Preparing for Government acceptance test flights; and
 - Delivering and transporting of twenty-one (21) H-60 aircraft.

The contract was made in the original amount of \$12,001,819, with a period of performance of one year and two months, from June 28, 2017 through August 31, 2018. The contract has been modified nine (9) times, increasing the total contract amount to \$20,031,998 and extending the period of performance through November 30, 2019. The total contract amount as of November 30, 2018, was \$20,177,038. Modifications that resulted in funding changes, adjustments to the period of performance, and/or changes in scope are summarized below:

**Science and Engineering Services, LLC - UHPO PMI Program Afghanistan
 Financial Audit of the Special Purpose Financial Statement
 For the Period from June 28, 2017 through November 30, 2018**

<u>Modification No.</u>	<u>Effective Date</u>	<u>Significance</u>
1	12/19/2017	Increased the total contract amount by \$189,541 to \$12,191,360
2	1/29/2018	Increased the total contract amount by \$4,391,917 to \$16,583,277
3	3/1/2018	Increased the total contract amount by \$3,593,761 to \$20,177,038
6	7/30/2018	Extend the period of performance from August 31, 2018 to November 30, 2018
8	11/15/2018	Extend the period of performance from November 30, 2018 to November 30, 2019
9	3/13/2019	Decreased the total contract amount by \$(145,040) to \$20,031,998

Work Performed

CohnReznick was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of SES’ Special Purpose Financial Statement (“SPFS”) for costs incurred under the UHPO PMI Program Afghanistan for the period June 28, 2017 through November 30, 2018. During this period, SES reported costs incurred totaling [REDACTED] and fixed fee totaling [REDACTED], for total costs incurred plus fixed fee of \$13,954,053.

Audit Objectives Defined by SIGAR

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

Audit Objective 1 – SPFS

Express an opinion on whether SES’ SPFS for the contract presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government, and balances for the period audited in conformity with the terms of the contract and generally accepted accounting principles or other comprehensive basis of accounting.

Audit Objective 2 – Internal Control

Evaluate and obtain a sufficient understanding of SES’ internal control related to the contract; assess control risk; and identify and report on significant deficiencies, including material internal control weaknesses.

**Science and Engineering Services, LLC - UHPO PMI Program Afghanistan
Financial Audit of the Special Purpose Financial Statement
For the Period from June 28, 2017 through November 30, 2018**

Audit Objective 3 – Compliance

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

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations

Determine and report on whether SES 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.

Audit Scope

The scope of the audit covers SES' costs under Contract No. W58RGZ-13-D-0048/0089, for the period from June 28, 2017 through November 30, 2018. We examined the SPFS and the underlying financial records to verify that the amounts reported in the SPFS, including recalculations of the fixed fee, were adequately supported, allowable, and in compliance with contract terms and conditions and applicable laws and regulations. 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:

- Budget Management;
- Cash Management;
- Disbursements;
- Financial Reporting; and
- Procurement and Inventory Management.

Testing of indirect costs was limited to determining whether, for the vouchers submitted for reimbursement to the government, the correct rates were used and applied against the correct base for the amounts calculated in accordance with approved indirect cost rates.

The audit scope includes our consideration of SES' internal control over financial reporting and compliance with certain provisions of laws and regulations, contracts, and other matters as they relate to the SPFS.

We performed a review of SES' corrective action on prior audit findings and recommendations. The results of these evaluations were incorporated into our risk assessment procedures and were considered when determining the nature, extent, and timing of audit procedures.

Methodology

To meet the audit objectives, CohnReznick completed a series of risk assessments, walkthroughs, analytics and substantive test procedures to audit the SPFS and test internal control and compliance with applicable laws and regulations.

**Science and Engineering Services, LLC - UHPO PMI Program Afghanistan
Financial Audit of the Special Purpose Financial Statement
For the Period from June 28, 2017 through November 30, 2018**

Audit Objective 1 – SPFS:

Transactions were selected from the financial records underlying the SPFS and tested to determine if the transactions were recorded properly in accordance with the terms of the contract and applicable parts of the Federal Acquisition Regulation (FAR) and Defense Federal Acquisition Regulation Supplement (DFARS). Costs were sampled in accordance with *Government Auditing Standards* (GAS) issued by the Comptroller General of the United States, using a combination of monetary unit and judgmental sampling approaches based on the outcome of risk assessments conducted during the planning phase of the audit.

Audit Objective 2 – Internal Control:

CohnReznick requested copies of SES' policies and procedures and reviewed those to gain an understanding of the internal control environment as designed. CohnReznick also made inquiries of SES management and conducted interviews with various finance and accounting personnel at SES to gain additional information about the design and operation of internal control over financial reporting. CohnReznick performed tests of controls on a sample basis to determine whether controls were operating as designed.

Audit Objective 3 – Compliance:

CohnReznick obtained a copy of SES' contract (W58RGZ-13-D-0048/0089) and all modifications thereto from SES. We reviewed those contract documents to gain an understanding of the included compliance requirements. CohnReznick also evaluated the requirements of FAR and DFARS, the criteria against which the SPFS was tested for compliance requirements. CohnReznick performed tests of compliance in conjunction with our substantive and control tests described in Audit Objectives 1 and 2 above, to determine whether significant compliance requirements of the contract, laws, and regulations were being met.

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations:

CohnReznick inquired of SES management regarding all audits, reviews or other examinations, whether internal or external, that related directly to the program or were relevant to policies, procedures, and/or systems used by the program. CohnReznick considered the completeness of the list of reports provided by SES management based on industry expertise and experience with similar contractors. We also inquired of SIGAR as to whether there were any prior audits of SES. Reports identified through these procedures were reviewed to identify prior findings and recommendations made and none were identified.

Summary of Audit Results

Upon completion of the audit procedures, CohnReznick identified two findings and questioned the related costs totaling \$304, which are presented in Table 1 below, because they met one or more of the following criteria: (1) deficiencies in internal control; (2) noncompliance with rules, laws, regulations, or the terms and conditions of the contract; and/or (3) questioned costs resulted from identified instances of noncompliance.

**Science and Engineering Services, LLC - UHPO PMI Program Afghanistan
 Financial Audit of the Special Purpose Financial Statement
 For the Period from June 28, 2017 through November 30, 2018**

Table 1: Summary of Findings and Related Questioned Costs

Finding Number	Audit Area	Matter	Unsupported Cost	Ineligible Cost	G&A Burden	Questioned Costs
0309367-2036-18-1	ODC	Misclassified Costs	\$ -	\$ -	\$ -	\$ -
0309367-2036-18-2	ODC	Out of Scope Costs	-	■	■	304
		Total	\$ -	\$ ■	\$ ■	\$ 304

Audit Objective 1 – SPFS:

CohnReznick issued an unmodified opinion on the SPFS. As discussed in the sections that follow, no material weaknesses in internal control or compliance were identified. The amount of costs questioned as a result of audit procedures is not material to the SPFS. We believe we have obtained sufficient and appropriate evidence to support our opinion on the SPFS.

Audit Objective 2 – Internal Control:

CohnReznick evaluated SES’ internal control over financial reporting and identified two findings. One finding (Finding 2018-1) is considered a significant deficiency and relates to cost misclassifications. The second finding (Finding 2018-2) is considered a deficiency and relates to costs outside the contract scope of work.

Audit Objective 3 – Compliance:

CohnReznick evaluated SES’ compliance with applicable contractual obligations, laws and regulations and identified two instances of noncompliance. The two identified instances of noncompliance relate to the identified internal control findings described in Audit Objective 2 – Internal Control above.

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations:

As a result of procedures performed, two prior audit reports were identified. Those two reports are the most recent financial statement and indirect cost rate audits, issued April 27, 2019 and November 5, 2018, respectively.

The financial statement audit reported on the balance sheet as of December 31, 2018, and the related Statements of Income, Member’s Equity and Cash Flows for the year then ended, and the related notes to the financial statements. The report from Aronson issued an unmodified opinion and included no findings or recommendations.

The Defense Contract Management Agency (DCMA) issued the *Indirect Cost Rate Agreement with Science and Engineering Services, LLC. for Fiscal Years Ended 31 December 2014 and 31 December 2015*, which included no findings or recommendations.

**Science and Engineering Services, LLC - UHPO PMI Program Afghanistan
Financial Audit of the Special Purpose Financial Statement
For the Period from June 28, 2017 through November 30, 2018**

Summary of Management Comments

Finding 2018-1 – Incorrect Cost Classifications

Management took no exception to this finding and scheduled additional training classes for accounting and finance personnel that covers proper classification of ODCs and reinforces the importance of the Company's accountability for proper cost classification. This training will continue to be run on an annual basis.

Finding 2018-2 – Costs Outside of Scope

Management took no exception to this finding. Upon identification of the costs, and prior to the issuance of this report, SES returned all questioned costs to the Government via Pay.Gov.

Summary of the Auditor's Response to Management Comments

SES took no exceptions to the findings as presented within this report. CohnReznick received a copy of the training material to be taught to accounting and finance personnel in response to Finding 2018-1 and noted that it covered multiple topics surrounding classification of costs within and between direct and indirect accounts, and expense vs. asset classifications.

We also received supporting documentation (pay confirmations) from SES management that confirm that SES has repaid a total of \$304 to the Government, as claimed in management's response and as recommended by Finding 2018-2 below.

INDEPENDENT AUDITORS' REPORT ON THE SPECIAL PURPOSE FINANCIAL
STATEMENT

Arnold Lee, CFO
Science and Engineering Services, LLC
6992 Columbia Gateway Drive
Columbia, MD, 21046

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

Report on the Special Purpose Financial Statement

We have audited the Special Purpose Financial Statement (the "SPFS") of Science and Engineering Services, LLC ("SES") and the related notes to the SPFS, with respect to the Department of Defense's (DOD) Utility Helicopter Program Office (UHPO) UH-60A Enhanced Phase Maintenance Inspection (PMI) Program, Contract No. W58RGZ-13-D-0048/0089, for the period June 28, 2017 through November 30, 2018.

Management's Responsibility for the SPFS

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

Auditors' Responsibility

Our responsibility is to express an opinion on this SPFS 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 SPFS is free of material misstatement.

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

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

Opinion

In our opinion, the SPFS referred to above presents fairly, in all material respects, the revenues received, costs incurred, and balances for the indicated period in accordance with the terms of the agreements and in conformity with the basis of accounting described below.

Basis of Accounting

We draw attention to Note 1 to the SPFS, which describes the basis of accounting. As described in Note 1 to the SPFS, the SPFS is prepared by SES 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 September 4, 2019, on our consideration of SES' internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SES' internal control over financial reporting and compliance.

Restriction on Use

This report is intended solely for the information and use of SES, DOD, 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.

CohnReznick LLP

CohnReznick LLP
Bethesda, Maryland
September 4, 2019

Science and Engineering Services, LLC.
Special Purpose Financial Statement
June 28, 2017 through November 30, 2018

	Questioned Costs				
	Budget (6/28/2017 - 11/30/2018)	Actual (6/28/2017 - 11/30/2018)	Ineligible	Unsupported	Notes
Revenues	\$ 20,177,038	\$ 13,954,053	\$ -	\$ -	3
Total Revenue	\$ 20,177,038	\$ 13,954,053	\$ -	\$ -	
Costs Incurred					
Labor Costs	\$ 4,168,777	\$ 3,995,204	\$ -	\$ -	-
Subcontract	1,761,213	13,320	-	-	-
Temp Labor	2,187,909	1,998,036	-	-	-
Materials	3,907,555	1,769,304	-	-	-
Travel	2,615	2,752	-	-	-
ODC's	762,186	443,103	■	-	A
Indirect Costs	5,546,984	4,603,965	■	-	A
Total Costs Incurred	\$ 18,337,239	\$ 12,825,684	\$ 304	\$ -	
Fixed Fee	1,839,799	1,128,369	-	-	
Total Expenditures	\$ 20,177,038	\$ 13,954,053	\$ 304	\$ -	
Outstanding Balance	\$ -	\$ -			

The accompanying Notes to the SPFS are an integral part of the SPFS.

Science and Engineering Services, LLC.
Notes to the Special Purpose Financial Statement
June 28, 2017 through November 30, 2018

1. Background

Science and Engineering Services, LLC (SES) is a small business founded in 1988 and headquartered in Huntsville, Alabama. The company's research and development facility is located in Columbia, MD. SES' mission is to provide the best value products and services to its customers, through innovation, efficiency and quality. SES provides system modification, integration, and training for rotary wing, fixed wing, and unmanned aircraft. The company also supports military ground systems.

On June 28, 2017, Army Contracting Command – Redstone Arsenal awarded Delivery Order 0089 under IDIQ contract W58RGZ-13-D-0048 to Science and Engineering Services, LLC (SES) for the Utility Helicopter Program Office (UHPO) UH-60A Enhanced Phase Maintenance Inspection (PMI) Program.

The scope for this contract is to accept aircraft at the contractor's facility either by flight or via line-haul; conduct an initial aircraft assessment/inspection; harvest parts; perform controlled exchange of components; transport aircraft; and/or induct the aircraft into the Enhanced Phase Maintenance Inspection (E-PMI) Program which includes stripping paint; PMI I and II; clean airframe and components; prime and paint; apply/integrate Modification Work Orders (MWO); ensure all required safety and maintenance messages have been complied with; store parts; ship parts conduct scheduled and unscheduled maintenance; prepare for Government acceptance test flights; and the delivery and transportation of fourteen (14) H-60 aircraft. After induction, all work shall be conducted at the contractor's primary maintenance facility, not including items that are coordinated for repair by the Government.

The contract was in the amount of \$12,001,819 as a Cost-Plus Fixed Fee effort. The original awarded amount consisted of [REDACTED] in Cost Reimbursement and [REDACTED] in Fixed Fee. The contract base period of performance was for 14 Months from June 28, 2017 to August 31, 2018. This Delivery Order was modified 9 times to add additional aircraft, procure kits, extend the period of performance, realign funding, and add Firm Fixed Priced Contract Line Item Numbers (CLIN). As a result of these modifications, the current period of performance end date is November 30, 2019 with a value totaling:

Estimated Cost:	[REDACTED]
Fixed Fee:	[REDACTED]
CPFF Total:	\$19,837,025
FFP:	<u>\$ 194,972</u>
CPFF/FFP Total:	\$20,031,998

These Notes to the SPFS are an integral part of SPFS.

Science and Engineering Services, LLC.
Notes to the Special Purpose Financial Statement
June 28, 2017 through November 30, 2018

As of the end of the audited period (November 30th, 2018) the contract value was:

Estimated Cost:	██████████
Fixed Fee:	█ ██████████
CPFF Total:	\$ 20,168,235
FFP:	\$ 8,803
CPFF/FFP Total:	\$ 20,177,038

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Special Purpose Financial Statement (SPFS) includes costs incurred for the Logistic Support Facility (LSF) contract, Delivery Order 89 for the period June 28, 2017 through November 30, 2018 (and then extended to November 30, 2019). Because the SPFS presents only a selected portion of the operations of SES, it is not intended to and does not present the financial position, changes in financial position, or cash flows of SES.

Basis of Accounting

Expenditures reported on the SPFS are reported using the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Federal Acquisition Regulation (“FAR”) Part 31, which classifies certain expenditures as unallowable or being limited as to reimbursement.

Currency

All amounts presented are shown in U.S. dollars. For purposes of preparing the SPFS, conversions from local currency to U.S. dollars were not required.

3. Revenue

As of November 30, 2018, (the end of the audited period) SES had reported \$13,954,053 in revenue, of which ██████████ was fixed fee.

4. Cost Incurred

The cost categories included in the SPFS are those as identified below. The budget categories in the SPFS are taken from the approved contract budget. Below are the actual costs incurred by SES using its internal cost categories, excluding the fixed fee.

These Notes to the SPFS are an integral part of SPFS.

Science and Engineering Services, LLC.
Notes to the Special Purpose Financial Statement
June 28, 2017 through November 30, 2018

<u>Cost Category</u>	<u>Amount</u>
Labor	██████████
Subcontract	██████████
Temp Labor	██████████
Materials	██████████
Travel	██████████
ODC's	██████████
Indirect Costs	██████████
Total	\$12,825,684

5. Outstanding Fund Balance

The Outstanding Fund Balance presented on the SPFS represents the difference between revenues received and the costs incurred plus fixed fee. As of November 30, 2018, there was no outstanding funded cost balance under the delivery order.

6. Subsequent Events

SES has evaluated subsequent events through September 4, 2019.

These Notes to the SPFS are an integral part of SPFS.

**Science and Engineering Services, LLC - UHPO PMI Program Afghanistan
Financial Audit of the Special Purpose Financial Statement
For the Period from June 28, 2017 through November 30, 2018**

Auditors' Notes to Questioned Costs Presented on the Special Purpose Financial Statement

SIGAR requires that questioned costs be classified as either "ineligible" or "unsupported." SIGAR defines unsupported costs as those that "are not supported with adequate documentation or did not have required prior approvals or authorizations." Ineligible costs are those "that are explicitly questioned because they are unreasonable; prohibited by the audited Agreement or applicable laws and regulations; or are not award related."

The following alphabetic Auditors' Notes to Questioned Costs Presented on the SPFS were prepared by CohnReznick for informational purposes only and as such are not a part of the audited SPFS above. Management takes no responsibility for the Auditors' Notes to the Questioned Costs.

A. Ineligible Costs

SES recorded certain other direct costs that were incurred for the benefit of Delivery Order 0036 under accounts for Delivery Order 0089 of the contract. As such, those costs were not for the scope of work allowable per Delivery Order 0089 of the contract and have been questioned as ineligible costs. Total costs of \$304 were questioned related to this finding (Finding 2018-2). See the Schedule of Findings and Questioned Costs for more information.

These Auditors' Notes to the SPFS are an integral part of SPFS.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL

Arnold Lee, CFO
Science and Engineering Services, LLC
6992 Columbia Gateway Drive
Columbia, MD, 21046

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

We have audited, the Special Purpose Financial Statement (“SPFS”) and related notes to the SPFS, 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 Science and Engineering Services, LLC (“SES”), under the Department of Defense’s (DOD) Utility Helicopter Program Office (“UHPO”) UH-60A Enhanced Phase Maintenance Inspection (“PMI”) Program, Contract No. W58RGZ-13-D-0048/0089, for the period June 28, 2017 through November 30, 2018. We have issued our report thereon dated September 4, 2019 with an unmodified opinion.

Internal Control over Financial Reporting

In planning and performing our audit of the SPFS, we considered SES’ internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the SPFS, but not for the purpose of expressing an opinion on the effectiveness of SES’ internal control. Accordingly, we do not express an opinion on the effectiveness of SES’ internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified one deficiency in internal control that we consider to be a significant deficiency (Finding 2018-1).

Purpose of this Report

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

Restriction on Use

This report is intended for the information of SES', DOD, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

CohnReznick LLP

CohnReznick LLP
Bethesda, Maryland
September 4, 2019

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

Arnold Lee, CFO
Science and Engineering Services, LLC
6992 Columbia Gateway Drive
Columbia, MD, 21046

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

We have audited, the Special Purpose Financial Statement (“SPFS”) and related notes to the SPFS, 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 Science and Engineering Services, LLC (“SES”), under the Department of Defense’s (DOD) Utility Helicopter Program Office (UHPO) UH-60A Enhanced Phase Maintenance Inspection (PMI) Program, Contract No. W58RGZ-13-D-0048/0089, for the period June 28, 2017 through November 30, 2018. We have issued our report thereon dated September 4, 2019 with an unmodified opinion.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SES’ SPFS is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, including potential fraud or abuse that may have occurred. However, providing an opinion on compliance with those provisions, including potential fraud or abuse that may have occurred, was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be under *Government Auditing Standards*. Nevertheless, consistent with our contract with SIGAR, we have reported two instances of noncompliance, which we do not deem material to the SPFS (Finding 2018-1 and 2018-2).

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 SES compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SES’ compliance. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

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

CohnReznick LLP

CohnReznick LLP
Bethesda, Maryland
September 4, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2018-1 – Incorrect Cost Classifications

Significant deficiency and noncompliance.

Condition:

SES did not comply with the contract terms requiring accurate billing of costs by Contract Line Item Number (CLIN) budget.

Two of the ten transactions sampled in the Other Direct Costs (ODC) category were improperly classified as ODC. The ten transactions sampled cover approximately 60% of the sampling population by dollar value. The transactions should have been classified in specific line items established by the contract. The first transaction related to consultant and temporary labor costs performed to maintain aircraft. The second transaction related to direct materials purchased and used for the replacement of the aircraft landing gear. These two transactions represent \$211,161 of total cost and \$13,493 of related indirect cost burden. The costs are not being questioned, as they directly contributed to the scope of work of the contract.

Criteria:

Federal Acquisition Regulation (FAR), 48 CFR § 31.201-2(a) states:

“A cost is allowable only when the cost complies with all of the following requirements:

...

(4) Terms of the contract.”

SES’ contract establishes specific CLIN to bill incurred costs against. Each CLIN has a specific not-to-exceed budget allowable. SES’ contract separates allowable costs for labor (e.g., program management, inspections, performing repairs, installing components, etc.) and materials (e.g., aircraft paint, material, etc.).

SES’ contract, no. W58RGZ-13-D-0048/0089, includes the following regulatory clauses:

“52.232-20 LIMITATION OF COST” which states:

“(a) The parties estimate that performance of this contract, exclusive of any fee, will not cost the Government more than (1) the estimated cost specified in the Schedule...” and

“(d) Except as required by other provisions of this contract, specifically citing and stated to be an exception to this clause – (1) The Government is not obligated to reimburse the Contractor for costs incurred in excess of (i) the estimated cost specified in the Schedule...”

“A-2. In accordance with the Statement of Work (SOW) entitled, ‘Utility Helicopter Program Office (UHPO) UH-60A Enhanced Phase Maintenance Inspection (PMI) Program Afghanistan,’ dated 26 June 2017 the following CLINs are hereby established...” This clause summarizes the CLINs and the not to exceed budgets per CLIN.

“252.232-7006 WIDE AREA WORK FLOW PAYMENT INSTRUCTIONS...(f)(4) Payment request and supporting documentation. The Contractor shall ensure a payment request includes appropriate contract line item and subline item descriptions of the work performed or supplies delivered, unit price/cost per unit, fee (if applicable), and all relevant back-up documentation, as defined in DFARS Appendix F, (e.g. timesheets) in support of each payment request.”

SES Purchasing and Subcontracting SOP 10-250-001 states that prepayments for materials purchases should be recorded in ODCs until the material is received and can be entered into inventory; at the time that the material is received, the cost should be reclassified from the ODC account to direct materials.

SES Quality Purchasing QP 7.4.1, Revision L, states that the Program Manager, or designee, must review program purchase requests for content including applicability, quantity, delivery date, and cost.

Questioned Costs:

None.

Cause:

SES incorrectly classified these costs as ODC when unusual circumstances arose, which were the vendor’s refusal to execute a subcontracting agreement. Controls requiring review and approval of costs and invoices by SES management, prior to submission to the U.S. Department of Defense, did not operate as designed to ensure that costs were properly classified within the general ledger accounts and billed under the proper CLIN.

Effect:

Misclassification of costs within the general ledger could result in unallowable or unallocable costs billed to each contract CLIN. In addition, misclassifications could result in amounts billed in excess of contract budgets.

Based on our review of contract billings, we did not identify overbillings due to misclassification of costs. We have not questioned any costs related to this control deficiency.

Recommendation:

1. We recommend that SES provide additional training to staff responsible for both the processing and the review of transactions, to ensure costs are properly classified within the accounting records.

Finding 2018-2 – Costs Outside of Scope

Deficiency and noncompliance.

Condition:

Shipping costs related to the delivery of goods for Delivery Order 0036, invoiced by the vendor on the June 2017 invoice, were incorrectly charged to Delivery Order 0089. The shipping costs are not allocable to this contract and are, therefore, ineligible for reimbursement. This affected one of the ten transactions sampled in the ODC category. The ten transactions sampled cover approximately 60% of the sampling population by dollar value.

Criteria:

FAR, 48 CFR § 31.201-4 states:

“A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a Government contract if it –

- (a) Is incurred specifically for the contract;
- (b) Benefits both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received; or
- (c) Is necessary to the overall operation of the business, although a direct relationship to any particular cost objective cannot be shown.”

Questioned Costs:

\$304 (■■■■ Total costs, ■■■■ Indirect G&A burden)

Cause:

Due to inadequate training, the invoice approver and processor failed to note that the shipping costs were related to costs incurred for a different Delivery Order.

Effect:

Ineligible costs were billed to and paid for by the Government.

Recommendations:

1. We recommend that SES provide additional training to those responsible for approving and processing invoices to ensure that costs are properly allocated to their respective contract/delivery order within the accounting records.
2. We recommend that SES reimburse the Government \$304 or otherwise provide documentation supporting that the costs charged were properly billable under a different Delivery Order.

**Science and Engineering Services, LLC - UHPO PMI Program Afghanistan
Financial Audit of the Special Purpose Financial Statement
For the Period from June 28, 2017 through November 30, 2018**

Science and Engineering Services, LLC Management Response



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26 AUGUST 2019

1. Company Response: The Company has scheduled additional training classes to cover proper classification of ODCs and reinforce accountability with regards to approval of classification of costs. The Company has completed the production of the material to be used for the training classes and has provided the training material to the independent auditor. Feedback from these classes will be maintained and provided upon request, and the Company will continue to refine and teach the material on an annual basis.
2. Company Response: Upon identification of the charged costs, the Company immediately returned all costs (\$304) via Pay.Gov. Supporting documentation has been given to the independent auditors.

**Science and Engineering Services, LLC - UHPO PMI Program Afghanistan
Financial Audit of the Special Purpose Financial Statement
For the Period from June 28, 2017 through November 30, 2018**

Auditors' Response to Science and Engineering, LLC's Management Response

We have reviewed management's response and note that SES agreed with both findings.

SES has provided evidence to show that it is implementing the recommendations made within this report. SES provided a copy of the training that is to be provided to accounting and finance personnel to address proper cost classifications and has also provided payment confirmations showing the refund of \$304 to the Government via Pay.Gov.

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SIGAR's Mission

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

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

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