

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 21-34 Financial Audit

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.

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



MAY
2021

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On April 1, 2019, the Department of Defense's (DOD) Air Force Life Cycle Management Center (AFLCMC) awarded Sierra Nevada Corp. (SNC) a task order for \$53,998,440 to supply logistics and engineering support for the Afghan Air Force to operate and maintain its A-29 aircraft. The period of performance was from April 1, 2019, through September 30, 2019. The task order was modified three times, ultimately decreasing the contract value to \$50,507,052, with no change to the period of performance.

SIGAR's financial audit, performed by Castro & Company LLC (Castro), reviewed \$27,853,454 in reimbursable costs and fixed fees from April 1, 2019, through September 30, 2019. The objectives were to (1) identify and report on significant deficiencies or material weaknesses in SNC's internal controls related to the contracts; (2) identify and report on instances of material noncompliance with the terms of the contract and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether 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 Castro'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 audit work performed. Accordingly, SIGAR oversaw the audit and reviewed its results. Our review disclosed no instances where Castro did not comply, in all material respects, with U.S. generally accepted government auditing standards.

May 2021

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.

SIGAR 21-34-FA

WHAT SIGAR FOUND

Castro found one deficiency in SNC's internal controls and two instances of noncompliance with the terms of the task order.

The auditors said SNC did not have controls in place to make sure employees obtained prior authorization for project-related reservations and travel. For example, an employee received approval 11 days after travel, and another employee submitted and approved their own travel request, which SNC's travel policy does not allow. Castro noted these deficiencies, but did not question the costs because they were allowed by the contract.

The auditors also found that SNC was late providing two reports to AFLCMC by the deadlines specified in the contract. However, because there were no costs associated with this noncompliance, there are also no questioned costs.

Overall, Castro did not identify any questioned costs, which would have consisted of ineligible costs—costs prohibited by the agreement, applicable laws, or regulations—and unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Castro found one previous audit report with one finding that was material to the award, and concluded that the finding was not repeated in this task order.

Castro issued an unmodified opinion on SNC'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 contract officer at DOD/AFLCMC:

1. Advise SNC to address the report's one internal control finding.
2. Advise SNC to address the report's two noncompliance findings.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

May 17, 2021

The Honorable Lloyd Austin III
Secretary of Defense

John P. Roth
Acting Secretary of the Air Force

General Kenneth F. McKenzie Jr.
Commander, U.S. Central Command

We contracted with Castro & Company LLC (Castro) to audit the costs incurred by Sierra Nevada Corp. (SNC) under the Air Force Cycle Management Center (AFLCMC) task order to supply logistics and engineering support for the Afghan Air Force to operate and maintain its A-29 aircraft.¹ Castro's audit covered \$27,853,454 in reimbursable costs and fixed fees from April 1, 2019, through September 30, 2019. Our contract with Castro 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 contract officer at the Department of Defense/AFLCMC:

- 1. Advise SNC to address the report's one internal control finding.**
- 2. Advise SNC to address the report's two noncompliance findings.**

The results of Castro's audit are discussed in detail in the attached report. We reviewed Castro'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 SNC's Special Purpose Financial Statement. We also express no opinion on the effectiveness of SNC's internal control or compliance with the contract, laws, and regulations. Castro is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances in which Castro did not comply, in all material respects, with 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 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-191)

¹ Contract No. FA8637-18-D-6003; Task Order FA8637-19-F-0002



**Special Inspector General for Afghanistan Reconstruction
Financial Audit of Costs Incurred
By Sierra Nevada Corporation under
Contract No. FA8637-18-D-6003, Task Order FA8637-19-F-0002
For the period of April 1, 2019 through September 30, 2019**

October 22, 2020

**Special Inspector General for Afghanistan Reconstruction
Financial Audit of Costs Incurred
By Sierra Nevada Corporation under
Contract No. FA8637-18-D-6003, Task Order FA8637-19-F-0002
For the Period of April 1, 2019 through September 30, 2019**

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Transmittal Letter

January 28, 2021

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

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

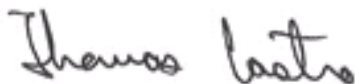
Castro & Company, LLC (Castro) hereby provides to you our final report, which reflects results from the procedures we completed during our financial audit of costs incurred of Sierra Nevada Corporation's (SNC) Special Purpose Financial Statement ("the Statement") for costs billed under the Department of Defense's (DoD) Air Force Life Cycle Management Center (AFLCMC) Contract No. FA8637-18-D-6003, Task Order FA8637-19-F-0002, for the period of April 1, 2019 to September 30, 2019 in support of the non-stop flight operations of the aircraft in both the United States and in Afghanistan.

Within the pages that follow, we have provided a summary of the work performed, as well as the results, findings, and recommendations. In addition, we have incorporated the Independent Auditor's Report on the Special Purpose Financial Statement, Independent Auditor's Report on Internal Control, and Independent Auditor's Report on Compliance. We do not express an opinion on the summary or any information preceding our reports.

When preparing our report, we considered the comments, feedback, and interpretations of SNC, the Office of the Special Inspector General for Afghanistan Reconstruction, and AFLCMC, provided both in writing and orally throughout the audit planning and fieldwork phases. Management's final written responses have been incorporated into this report as an appendix.

Thank you for providing us the opportunity to work with you and to conduct the financial audit of costs incurred by SNC under the above referenced AFLCMC-funded project.

Sincerely,



Thomas Castro, CPA
Partner

**Special Inspector General for Afghanistan Reconstruction
 Financial Audit of Costs Incurred
 By Sierra Nevada Corporation under
 Contract No. FA8637-18-D-6003, Task Order FA8637-19-F-0002
 For the Period of April 1, 2019 through September 30, 2019**

Summary

Background

Sierra Nevada Corporation (SNC) is a for-profit corporation that provides engineering, national security, and defense services for both the United States (U.S.) Government and commercial customers. It began operating in 1963 and has 4,000 employees worldwide.

On April 1, 2019, the Department of Defense’s (DoD) Air Force Life Cycle Management Center (AFLCMC) awarded a cost-plus-fixed-fee and Fixed Price Incentive Firm follow-on task order contract to SNC to provide Contractor Logistics Support (CLS), Interim Contractor Support (ICS), Sustaining Engineering, and related equipment for A-29 Afghanistan aircraft in the latest configuration to enable the Afghan Air Force (AAF) to be self-sufficient in the Operations and Maintenance (O&M) tasks to support the A-29 fleet. Additionally, the award included cost-reimbursable CLINs for program travel. Contract No. FA8637-18-D-6003, Task Order FA8637-19-F-0002, had a total contract value of \$53,998,440, obligated amount of \$52,721,952, and a period of performance of April 1, 2019 through September 30, 2019. The task order was modified three times, decreasing the obligated amount to \$50,507,052. Modifications that resulted in funding changes and/or changes in scope are summarized below.

Modification No.	Highlights
P00001	<ul style="list-style-type: none"> • Decreased the incremental funding and obligation amount by \$4,028,028 for CLIN 0204. • The face value of the contract decreased by \$311,373. • CLIN 0500, FSR Support, was deleted from the task order.
PZ0004	<ul style="list-style-type: none"> • Increased the obligation amount by \$1,813,182 for CLIN 0204. • The face value of the contract decreased by \$2,214,900
P00005	<ul style="list-style-type: none"> • Reallocated funding on the contract to CLINs that had an overrun.
P00003 ¹	<ul style="list-style-type: none"> • Corrected an issue with the Long Line of Accounting (LLOA), effective on 10/21/2019.
P00002 ²	<ul style="list-style-type: none"> • Modification was not fully executed.

The audit’s scope included activity within the period of April 1, 2019 through September 30, 2019, inclusive of closeout procedures. Within the period under audit, SNC reported \$27,853,454 in total revenue, which consisted of \$24,264,524 in reimbursable costs and \$3,588,930 in fixed fee and cost of money under the task order.

Work Performed

Castro & Company, LLC (Castro) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a closeout audit of SNC’s Special Purpose

¹ This modification became effective after the period of performance of this audit.

² This modification was not fully executed but included for completeness.

Special Inspector General for Afghanistan Reconstruction
Financial Audit of Costs Incurred
By Sierra Nevada Corporation under
Contract No. FA8637-18-D-6003, Task Order FA8637-19-F-0002
For the Period of April 1, 2019 through September 30, 2019

Financial Statement (the Statement) for costs incurred under Contract No. FA8637-18-D-6003, Task Order FA8637-19-F-0002.

Objectives Defined by SIGAR

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

Audit Objective 1 – Special Purpose Financial Statement

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

Audit Objective 2 – Internal Controls

Evaluate and obtain a sufficient understanding of SNC’s internal control related to the task order; 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 terms and conditions of the contract and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the task order 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 Statement or other financial data significant to the audit objectives.

Scope

The scope of our audit covers SNC’s costs incurred under Contract No. FA8637-18-D-6003, Task Order FA8637-19-F-0002, for the period of April 1, 2019 to September 30, 2019. Within the period under audit, SNC reported \$27,853,454 in total revenue, which consisted of \$24,264,524 in reimbursable costs and \$3,588,930 in fixed fee earned under the task order. The audit was limited to those matters and procedures pertinent to the task order that have a direct and material effect on

Special Inspector General for Afghanistan Reconstruction
Financial Audit of Costs Incurred
By Sierra Nevada Corporation under
Contract No. FA8637-18-D-6003, Task Order FA8637-19-F-0002
For the Period of April 1, 2019 through September 30, 2019

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:

- Budget Management;
- Cash Management;
- Disbursements (payroll and non-payroll transactions);
- Financial Reporting;
- Procurement; and
- Inventory Closeout.

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 U.S. Government Accountability Office (GAO) (2011 Revision). To meet the abovementioned objectives, we designed our audit procedures to include the following:

Audit Objective 1 – Special Purpose Financial Statement

Transactions were selected from the general ledger detail supporting the Statement and were tested to determine if the transactions were recorded accurately and consistent 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

Castro 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, Castro conducted interviews with management to obtain an understanding of the processes that were in place during the period of performance. The system of internal control is intended to provide reasonable assurance of achieving reliable financial reporting and compliance with applicable laws and regulations. Castro confirmed internal controls identified by SNC and performed testing over certain key controls to understand if they were implemented as designed.

Audit Objective 3 – Compliance

Castro reviewed the task order issued by AFLCMC to identify criteria against which to test the Statement. Using various sampling techniques, Castro selected transactions, vouchers for payment submitted to AFLCMC, procurements, government property, and reports for testing. Supporting documentation was provided by SNC and evaluated to assess SNC’s compliance. Testing of

Special Inspector General for Afghanistan Reconstruction
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By Sierra Nevada Corporation under
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For the Period of April 1, 2019 through September 30, 2019

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). Additionally, we performed closeout audit procedures, included, but not limited to, assessing whether cash receipts exceeded revenue earned, final physical inventories were performed, and government property was properly disposed of in accordance with the Government's directives. However, Castro's procedures did not include establishment of final indirect cost rates.

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations

Castro inquired of SNC, SIGAR, and AFLCMC representatives regarding prior audits, reviews, or assessments that were pertinent to the audit scope. Castro also conducted an independent search of publicly available information to identify audit and review reports. As a result, one prior report was obtained and reviewed. The audit report contained findings related to ineligible and unsupported costs. Castro performed procedures to determine if adequate corrective actions were taken by SNC. The results of our procedures are noted in Section II.

Summary of Results

Upon completion of Castro's procedures, an unmodified opinion was issued on the Statement, as there were no questioned costs identified as a result of the audit. We also reported on SNC's internal control and compliance with contract terms, laws and regulations. Our audit procedures identified one deficiency related to internal controls, see Independent Auditor's Report on Internal Control on page 13. In addition, two instances of noncompliance were identified, see the Independent Auditor's Report on Compliance on page 15.

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

Castro reviewed one prior year audit report which contained one significant internal control deficiency related to \$440,000 of overtime costs. Castro performed procedures to determine if adequate corrective actions were taken by SNC. The results of our procedures are noted in Section II.

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

**Special Inspector General for Afghanistan Reconstruction
 Financial Audit of Costs Incurred
 By Sierra Nevada Corporation under
 Contract No. FA8637-18-D-6003, Task Order FA8637-19-F-0002
 For the Period of April 1, 2019 through September 30, 2019**

Finding No.	Finding Name	Classification	Questioned Costs (USD)
2020-01	Lack of Adherence to SNC Travel Policies	Internal Control Deficiency	\$ 0
2020-02	Failure to Submit Contract Deliverables by Submission Date	Noncompliance	\$ 0
2020-03	Incorrect Reporting Base Rate on Indirect Costs	Noncompliance	\$ 0
Total Questioned Costs:			\$ 0

Summary of Management Comments

SNC’s management agreed with Findings 2020-01, 2020-02, and 2020-03. See **Appendix A** to this report for their response.

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 response.

Independent Auditor's Report on the Special Purpose Financial Statement

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

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

Report on the Special Purpose Financial Statement

We have audited the Special Purpose Financial Statement (the Statement) of Sierra Nevada Corporation (SNC) and the related notes to the Statement, with respect to the Department of Defense's (DoD) Air Force Life Cycle Management Center (AFLCMC) Contract No. FA8637-18-D-6003, Task Order FA8637-19-F-0002, for the period of April 1, 2019 through September 30, 2019.

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of the Statement in accordance with the requirements provided 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 Statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

significant accounting estimates made by management, as well as evaluating the overall presentation of the Statement.

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

Unmodified Opinion

In our opinion, the Statement referred to above presents fairly, in all material respects, the revenues earned, 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 2, of the Statement, which describes the basis of accounting. As described in Note 2 to the Statement, the Statement is prepared by SNC on the basis of the requirements provide by SIGAR, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not unmodified with respect to this matter.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 22, 2020, on our consideration of SNC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the result 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 SNC's internal control over financial reporting and compliance.

Restriction on Use

Our report is intended solely for the information and use of SNC, AFLCMC, 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.



Alexandria, VA
October 22, 2020

Sierra Nevada Corporation
Special Purpose Financial Statement³
Contract No. FA8637-18-D-6003, Task Order FA8637-19-F-0002
April 1, 2019 to September 30, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>		<u>Total</u>	<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>		
<i>Revenues</i>						
FA8637-18-D-6003, Task Order FA8637-19-F-0002	██████████	██████████	-	-	-	
Total Revenue	\$ ██████████	\$ ██████████	\$ -	\$ -	\$ -	4
<i>Costs Incurred</i>						
Direct Labor – Eng.	██████████	██████████				
Direct Labor – TS	██████████	██████████				
Direct Labor – FS	██████████	██████████				
Allowance Pay	██████████	██████████				
ODC	██████████	██████████	-	-	-	
Travel	██████████	██████████	-	-	-	
Product Material	██████████	██████████	-	-	-	
Subcontracts	██████████	██████████	-	-	-	
Overhead ⁴	██████████	██████████				9
G&A ⁴	██████████	██████████				9
Fringe ⁴	██████████	██████████				9
MRUB	██████████	██████████				
Total Costs Incurred	\$ ██████████	\$ ██████████	\$ -	\$ -	\$ -	
<i>COM</i>						
Fixed Fee	██████████	██████████				11
Incentive Fee	-	-				12
Total Costs COM & Fee	\$ 47,078,279	\$ 27,853,454	\$ -	\$ -	\$ -	
Outstanding Fund Balance	\$ -	\$ -				

³ The accompanying note to the Special Purpose Financial Statement are an integral part of this Statement.

⁴ The revised Statement provided by SNC is reported with the correct Overhead, G&A, and Fringe amounts. See Section I, Finding 2020-03: Incorrect Reporting Base Rate on Indirect Costs (Noncompliance).

Sierra Nevada Corporation
Notes to the Special Purpose Financial Statement⁵
Contract No. FA8637-18-D-6003, Task Order FA8637-19-F-0002
April 1, 2019 to September 30, 2019

Note 1. Basis of Presentation

The accompanying Special Purpose Financial Statement (the Statement) includes costs incurred to provide a presentation of costs incurred on Contract No. FA8637-18-D-6003 Task Order FA8637-19-F-002 to provide Contractor Logistics Support (CLS), Interim Contractor Support (ICS), Sustaining Engineering, and related equipment for A-29 Afghanistan aircraft in the latest configuration to enable the Afghan Air Force (AAF) to be self-sufficient in the Operations and Maintenance (O&M) tasks to support the A-29 fleet during the period of performance, April 1, 2019 through September 30, 2019. Because the Statement presents only a selected portion of the operations of SNC, it is not intended to and does not present the financial position, changes in financial position, cash flows of SNC, nor the subsequent events incurred on the program. The information in the Statement is presented in accordance with the requirements specified by the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) and is specific to Contract No. FA8637-18-D-6003 Task Order FA8637-19-F-002, in adherence to the accounting principles generally accepted in the United States of America.

Note 2. Basis of Accounting

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

Note 3. Foreign Currency Conversion Method

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

Note 4. Revenues

Revenues on the Statement represent the amount of funds to which SNC is entitled to recognize as revenue for allowable, eligible costs incurred under the contract and fixed fees earned, during the period of performance. Revenue is recorded in SNC's General Ledger in Accordance with Generally Accepted Accounting Principles (GAAP), under ASC 606. For purposes of this Statement, revenue is also reported in accordance with GAAP.

⁵ The Notes to the Special Purpose Financial Statement are the responsibility of SNC.

Note 5. Revenue Recognition

Revenue is recorded in SNC's General Ledger in Accordance with Generally Accepted Accounting Principles (GAAP), under ASC 606. For purposes of this Statement, revenue is also reported in accordance with GAAP. Revenue noted in the “Budget” and “Actual” is detailed in the footnotes on the Statement.

Note 6. Costs Incurred by Cost Elements

The cost elements presented, and associated amounts, reflect the inception to date actuals incurred in the General Ledger on the FA8637-18-D-6003/FA8637-19-F-002 through September 30, 2019.

Note 7. Balance

The difference between the “Budget or Funded” Revenue and “Actual” Revenue column represents accrued costs and fee not yet billed, plus future costs Budgeted/Funded not yet incurred or billed as of September 30, 2019.

Note 8. Currency

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

Note 9. Indirect Costs

For purposes of this Statement, indirect costs are applied to Contract No. FA8637-18-D-6003/FA8637-19-F-0002 with Provisional Billing Rates available as of 09/30/19 (i.e. under PBR Letter dated 01/30/19).

Expense Pool	Rate
Fringe	
Overhead - Eng	
Overhead - TS	
Overhead - FS	
Overhead - Integration	
General and Administrative(G&A)	
Eng OH COM	
TS OH COM	
Integration OH COM	
G&A COM	

Note 10. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the April 1, 2019 to September 30, 2019, period covered by the Statement. Management has performed their analysis through October 22, 2020 the date through which the Schedule was available to be issued. SNC concluded that no subsequent events have occurred that would require recognition or disclosure in the Schedule.

Note 11. Cost of Money

COM is calculated/applied the same as the other indirect rates (with PBRs).

Note 12. Fixed Fee

The sum of cost (directs plus indirect applied PBRs) and fee equals revenue as of September 30, 2019 recorded on FA8637-18-D-6003/FA8637-19-F-0002.

Independent Auditor's Report on Internal Control

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

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

We have audited the Special Purpose Financial Statement (the Statement) and related notes to the Statement, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, by Sierra Nevada Corporation (SNC), under the Department of Defense (DoD)'s Air Force Life Cycle Management Center (AFLCMC) Contract No. FA8637-18-D-6003, Task Order FA8637-19-F-0002 for the period of April 1, 2019 through September 30, 2019. We have issued our report thereon dated October 22, 2020.

Internal Control over Financial Reporting

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

In planning and performing our audit of the Statement for the period of April 1, 2019 through September 30, 2019, we considered SNC's internal controls to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the Statement, but not for the purpose of expressing an opinion on the effectiveness of SNC's internal control. Accordingly, we do not express an opinion on the effectiveness of SNC's internal control.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the SNC Statement will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet

important enough to merit attention by those charged with governance. 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.

Our consideration of internal control was for the limited purpose described in the second paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies. We did note one internal control deficiency as defined above and described in Finding 2020-01 in the attached Schedule of Findings and Questioned Costs.

SNC's Response to Findings

SNC's response to the findings identified in our audit are described in Appendix A to our report. SNC's response was not subject to the auditing procedures applied in the audit of the Statement and, accordingly, we express no opinion on it.

Purpose of this Report

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

Restriction on Use

This report is intended for the information of SNC, AFLCMC, and SIGAR. 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.

A handwritten signature in black ink that reads "Castro & Company, LLC". The signature is written in a cursive, slightly slanted style.

Alexandria, VA
October 22, 2020

Independent Auditor's Report on Compliance

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

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

We have audited the Special Purpose Financial Statement (the Statement) and related notes to the Statement, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, by Sierra Nevada Corporation (SNC), under the Department of Defense (DoD)'s Air Force Life Cycle Management Center (AFLCMC) Contract No. FA8637-18-D-6003, Task Order FA8637-19-F-0002 for the period of April 1, 2019 through September 30, 2019. We have issued our report thereon dated October 22, 2020.

Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the task order is the responsibility of the management of SNC.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. These instances of noncompliance are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2020-02 and 2020-03.

SNC's Response to the Findings

SNC's response to the findings identified in our audit are described in Appendix A to our report. SNC's response was not subject to the auditing procedures applied in the audit of the Statement and, accordingly, we express no opinion on it.

Purpose of this Report

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

Restriction on Use

This report is intended for the information of SNC, AFLCMC, and SIGAR. 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.

Castro & Company, LLC

Alexandria, VA
October 22, 2020

Special Inspector General for Afghanistan Reconstruction
Financial Audit of Costs Incurred
By Sierra Nevada Corporation under
Contract No. FA8637-18-D-6003, Task Order FA8637-19-F-0002
For the Period of April 1, 2019 through September 30, 2019

Section I: Schedule of Findings and Questioned Costs

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

Condition: During our review of SNC travel transactions documentation, we reviewed transaction detail and support for 91 samples, totaling \$566,181 from a sample population of 1,689 transactions valuing \$1,057,689. We noted the following control deficiencies:

- Two (2) instances were identified 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. One employee received approval one day after travel.
- One (1) instance was identified where SNC incurred a direct travel expense in the amount of \$5,531 that was submitted and approved by the same employee.

Criteria:

General and Administrative Procedures (G&A-PRCD)-101, *Business Class*, states:

“Travel reservations must not be completed by a travel agent until all approvals are obtained; therefore, travelers are advised to communicate with appropriate approvers to facilitate their Travel Request (TR(s)). Once the TR has been approved, SNC’s Travel Management Company (TMC) tickets the travel and emails the official trip/itinerary/invoice to the traveler.”

G&A-PRCD-081, *Segregation of Duties (SOD)*, states:

“Management is responsible for maintaining a proper separation of duties within their department. When management performs their regular decision-making duties, they will take into consideration any potential SOD issues that could arise and contemplate the impact it can have on the company.”

Questioned Costs: None. Although we noted deficiencies in SNC’s internal controls, the costs were allowed by the contract. Therefore, no questioned costs were noted.

Cause: SNC did not have adequate controls in place to ensure compliance with its travel and segregation of duties policies.

Effect: Lack of adequate controls over travel expenses allowed SNC employees to travel without obtaining proper approval. Furthermore, the absence of segregation of duties could result in unallowable travel being reported within the Special Purpose Financial Statement (the Statement) and charged to the government.

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Recommendations: We recommend that SNC:

1. Revise procedures to include the travel approval process over immediate travel related expenses, require SNC personnel review travel approvals prior to submission to the TMC, and provide training to ensure proper approval of travel expenses prior to travel occurring.
2. Implement adequate controls within Concur Travel and Expense Management System (Concur) model related to segregation of duties to ensure the approver is unable to approve self-travel and verify costs claimed are allowable and in accordance with regulations.

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

Condition: During our review of 48 SNC reporting deliverable(s) documentation, we noted the following 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 the Hobbs Meter obsolescence, requiring a draft deliverable 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.
- SNC's deliverable CDRL C004, *System Safety Program Plan (SSPP)*, was not submitted timely. SNC's contract was awarded on April 1, 2019 resulting in the initial plan being required to be submitted by July 30, 2019. Instead, SNC submitted the initial plan on July 31, 2019, one day late.

Criteria:

CDRL For the A-29 Afghanistan Program Performance Work Statement (PWS) For Follow On Contract, Contract FA8637-19-F-00002, PWS 7.11.2.b, states:

“Extension of CDRL reporting timelines may be granted by the United States Government (USG) on a case-by-case basis upon written request by the Contractor.”

CDRL For the A-29 Afghanistan Program Performance Work Statement (PWS) For Follow On Contract, Contract FA8637-19-F-00002, PWS 6.7.5, *Spares Management*, states:

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“The Contractor shall notify the USG DMSMS obsolescence issues within thirty (30) calendar days of discovery.”

CDRL For the A-29 Afghanistan PWS For Follow On Contract, Contract FA8637-19-F-00002, CDRL Data Item No. A034, *DMSMS Implementation*, states:

“The Contractor shall submit the draft plan within 30 calendar days of discovery. The contractor shall submit the final 30 calendar days after receipt of Government draft comments (if applicable).”

CDRL For the A-29 Afghanistan PWS For Follow On Contract, Contract FA8637-19-F-00002, PWS 2.17.1.6, *Hazardous Material (HAZMAT) Plan*, states:

“The Contractor shall provide a complete System Safety Program Plan (SSPP) to assure compliance with all statutes and regulations.”

CDRL For the A-29 Afghanistan PWS For Follow On Contract, Contract FA8637-19-F-00002, PWS 2.17.2.2, *SSPP*, states:

“The SSPP shall describe all management and engineering tasks, methods, organizational make-up, and functional interrelationships required to implement a systematic comprehensive approach to hazard identification, hazard analysis and tracking, risk assessment, risk elimination/mitigation, and hazard communication/reporting.”

CDRL For the A-29 Afghanistan PWS For Follow On Contract, Contract FA8637-19-F-00002, CDRL Data Item No. C004, *SSPP*, states:

“The Contractor shall deliver the initial plan for approval NLT 120 days after contract award. The Contractor shall submit the final due 30 days after receipt of Government comments. The contractor shall submit submitted updates until aircraft Preconditioned Air Unites (PCA).”

Questioned Costs: None. SNC was late providing two deliverables to AFLCMC; however, there was no cost associated with this noncompliance.

Cause: SNC’s management stated that the DMSMS Plan included new requirements which resulted in the delayed deliverable for CDRL A034. Additionally, SNC was conducting internal reviews on the CDRL which resulted in the delivery of the CDRL one day past the due date.

Effect: SNC’s failure to submit the deliverable within the due date resulted in noncompliance with the contractual requirements. Delays in providing deliverables to AFLCMC, and information contained therein, could result in increased charges to the U.S. Government.

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Recommendation: We recommend SNC implement a process to ensure deliverables are provided on time in accordance with the contract requirements.

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

Condition: During our review of SNC indirect cost rate allocation we noted the Statement prepared by SNC did not report indirect costs based on the Provisional Billing 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 (PSR) to report the indirect expenses on the Statement. This matter was discussed with SNC and an updated Statement was provided on October 12, 2020 using the DCMA approved PBR. The revised Statement is included within this report.

Criteria:

FAR 52.216-26, *Payments of Allowable Costs Before Definitization*, states:

“(d) Allowable costs. For the purpose of determining allowable costs, the term "costs" includes-... (vi) Properly allocable and allowable indirect costs as shown on the records maintained by the Contractor for purposes of obtaining reimbursement under Government contracts.

FAR 42.704, *Billing Rates*, states:

“(a) The contracting officer (or cognizant Federal agency official) or auditor responsible under 42.705 for establishing the final indirect cost rates also shall be responsible for determining the billing rates.

(b) The contracting officer (or cognizant Federal agency official) or auditor shall establish billing rates on the basis of information resulting from recent review, previous rate audits or experience, or similar reliable data or experience of other contracting activities. In establishing billing rates, the contracting officer (or cognizant Federal agency official) or auditor should ensure that the billing rates are as close as possible to the final indirect cost rates anticipated for the contractor’s fiscal period, as adjusted for any unallowable costs. When the contracting officer (or cognizant Federal agency official) or auditor determines that the dollar value of contracts requiring use of billing rates does not warrant submission of a detailed billing rate proposal, the billing rates may be established by making appropriate adjustments from the prior year’s indirect cost experience to eliminate unallowable and nonrecurring costs and to reflect new or changed conditions.

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(c) Once established, billing rates may be prospectively or retroactively revised by mutual agreement of the contracting officer (or cognizant Federal agency official) or auditor and the contractor at either party's request, to prevent substantial overpayment or underpayment. When agreement cannot be reached, the billing rates may be unilaterally determined by the contracting officer (or cognizant Federal agency official).

(d) The elements of indirect cost and the base or bases used in computing billing rates shall not be construed as determinative of the indirect costs to be distributed or of the bases of distribution to be used in the final settlement.

(e) When the contractor provides to the cognizant contracting officer the certified final indirect cost rate proposal in accordance with 42.705-1(b) or 42.705-2(b), the contractor and the Government may mutually agree to revise billing rates to reflect the proposed indirect cost rates, as approved by the Government to reflect historically disallowed amounts from prior years' audits, until the proposal has been audited and settled. The historical decrement will be determined by either the cognizant contracting officer (42.705-1(b)) or the cognizant auditor (42.705-2(b))."

Questioned Costs: None. Although incorrect rates used in the compilation of the statement could mislead readers of the Statement, there were no questioned costs related to the error.

Cause: The Statement was not reviewed prior to submission to ensure indirect expenses reported were accurate with the DCMA set PBR. SNC did not have formal policies and procedures regarding the preparation of the Statement for Department of Defense contracts. For indirect expenses, SNC reported the actual rates on the Statement instead of the PBRs that would have applied during the period under audit.

Effect: The original Statement provided was prepared using the incorrect rates and therefore the reported amounts for Overhead, G&A and Fringe were incorrect. A revised Statement had to be provided using the correct PBRs after we brought up the error to SNC. Errors in the Statement, inclusive of the notes, increase the likelihood that users of the Statement, including the U.S. Government, will rely on inaccurate information and/or make decisions without being fully informed.

Recommendations: We recommend that SNC:

1. Develop and document a procedure to ensure the indirect costs reported on the Statement are based on the approved indirect cost rate applicable to the contract period.
2. Incorporate procedures for the supervisory review of the Statement prior to submission. Evidence of the review and approval should be properly documented.

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

Castro & Company, LLC (Castro) obtained and reviewed an Audit of Costs Incurred by Sierra Nevada Corporation (SNC) related to the Department of Defense’s (DoD) Air Force Life Cycle management Center (AFLCMC) to provide the Afghan National Army Special Operations Forces (ANASOF) with Contractor Logistics Support (CLS) for the PC-12 Fixed Wing Aircraft covering the period from May 17, 2014 to March 16, 2015, which was performed by Mayer Hoffman McCann P.C. (MHM) who issued a qualified opinion due to SNC’s refusal to provide certain representations that were requested to represent that it had the responsibility for the presentation of the Special Purpose Financial Statement (“the Statement”) and that it had provided all relevant information, among other matters, upon which MHM would base the opinion. The audit report identified one significant internal control deficiency noted below:

Finding 2017-01: Classification Needed for SNC Written Overtime Policy

SNC included \$440,000 of overtime costs as part of its labor costs included on the Statement. In all 84 individual overtime transactions tested, the overtime was approved and documented through the timesheet approval process, which is an after the fact approval. SNC disagreed with the characterization of the finding and indicated that overtime is allowed per the contract and that prior approval was implied when the Supervisor/Manager approves the timesheet. There are no questioned costs related to this finding as all time was actually incurred.

During our assessment, the Timesheet and Labor Changing (EMPC-PRCD-002) policy was updated to state the following, “Salaried employees shall not code time to overtime pay types (“exempt overtime”) unless management and/or contractual allowability has been determined and authorized. When salaried overtime is approved special instructions for how to record the overtime will be provided by your Supervisor or Manager”. During the performance of our testing, we noted no issues related to incorrect charging of overtime. As a result, Castro determined that this was not a repeat finding under the contract for the period of April 1, 2019 through September 30, 2019.

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Appendix A – SNC’s Responses to the Findings



sncorp.com

January 21, 2021

Thomas Castro, Partner, CPA
Castro & Company, LLC
1635 King Street
Alexandria, VA 22314

Re: Sierra Nevada Corporation Audit Response

Dear Mr. Castro,

This letter represents Sierra Nevada Corporation’s (SNC) response to the October 22, 2020 Audit Report titled “Special Inspector General for Afghanistan Reconstruction Financial Audit of Cost Incurred under Contract No. FA8637-18-D-6003, Task Order FA8637-19-F-0002”. Seeing that there were “no questioned costs” resulting from the audit SNC wanted to take the opportunity to thank the Castro & Company auditors *involved in the audit* for their professional demeanor.

We concur with finding 2020-01 and will take action to ensure current travel policies are adhered to and necessary improvements are made to strengthen our controls. Additionally, we concur with finding 2020-02; SNC’s goal is to always meet contractually required deliverables on time without delay. Lastly, we concur with finding 2020-03 and will investigate the feasibility of having a procedure in place to accurately produce Special Purpose Financial Statements for SIGAR using approved provisional billing rates.

Respectfully,

Denny Weyhe
VP Compliance
Sierra Nevada Corporation

SNC Proprietary Information

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

**Special Inspector General for Afghanistan Reconstruction
Financial Audit of Costs Incurred
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Appendix B – Auditor’s Response

Castro has reviewed the response provided by SNC and noted that they have agreed with the findings of this report; therefore, no additional auditor’s response is deemed necessary.

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.

Obtaining Copies of SIGAR Reports and Testimonies

To obtain copies of SIGAR documents at no cost, go to SIGAR's Web site (www.sigar.mil). SIGAR posts all publicly released reports, testimonies, and correspondence on its Web site.

To Report Fraud, Waste, and Abuse in Afghanistan Reconstruction Programs

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

- Web: www.sigar.mil/fraud
- Email: sigar.pentagon.inv.mbx.hotline@mail.mil
- Phone Afghanistan: +93 (0) 700-10-7300
- Phone DSN Afghanistan: 318-237-3912 ext. 7303
- Phone International: +1-866-329-8893
- Phone DSN International: 312-664-0378
- U.S. fax: +1-703-601-4065

Public Affairs

Public Affairs Officer

- Phone: 703-545-5974
- Email: sigar.pentagon.ccr.mbx.public-affairs@mail.mil
- Mail: SIGAR Public Affairs
2530 Crystal Drive
Arlington, VA 22202