

SIGAR

Special Inspector General for Afghanistan Reconstruction

SIGAR 21-12 Financial Audit

U.S. Department of the Air Force's Support for the Afghan Air Force's C-130H Airlift Capability: Audit of Costs Incurred by AAR Government Services Inc.

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



JANUARY
2021

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On June 5, 2017, the U.S. Department of the Air Force's Life Cycle Management Center awarded AAR Supply Chain Inc. (AAR) a task order in support of the Afghan Air Force's C-130H airlift operational capabilities. The objectives of the task order were to support and sustain up to four C-130H aircraft in Kabul, Afghanistan, and provide on-call support at other locations in Afghanistan. The task order included \$12,425,998 in cost-reimbursable items and \$10,847,508 in firm-fixed-price line items for a total of \$23,273,506. The task order was modified three times, with no change to total funding or the period of performance, which began on July 30, 2017, and ended on July 29, 2018. On January 8, 2019, the task order recognized a change in AAR's name from AAR Supply Chain Inc. to AAR Government Services Inc.

SIGAR's financial audit, performed by Crowe LLP (Crowe), reviewed \$5,689,922 in reimbursable costs within the period from July 30, 2017, through July 29, 2018. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in AAR's internal controls related to the task order; (2) identify and report on instances of material noncompliance with the terms of the task order and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether AAR has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of AAR's Special Purpose Financial Statement (SPFS). See Crowe'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 wherein Crowe did not comply, in all material respects, with U.S. generally accepted government auditing standards.

January 2021

U.S. Department of the Air Force's Support for the Afghan Air Force's C-130H Airlift Capability: Audit of Costs Incurred by AAR Government Services Inc.

SIGAR 21-12-FA

WHAT SIGAR FOUND

Crowe identified three material weaknesses in AAR's internal controls and three instances of noncompliance with the terms of the task order. For example, AAR did not reconcile property records with amounts charged to the task order. Additionally, AAR charged the U.S. Air Force for costs incurred outside the period of performance for the task order.

Because of the internal control issues and instances of noncompliance, Crowe identified \$6,184,524 in total questioned costs, consisting of \$5,977,702 in unsupported costs—costs not supported with adequate documentation or that do not have required prior approval—and \$206,822 in ineligible costs—costs prohibited by the agreement and applicable laws and regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Materials	\$206,822	\$0	\$206,822
Travel	\$0	\$11,927	\$11,927
Property	\$0	\$5,965,775	\$5,965,775*
Total Costs	\$206,822	\$5,977,702	\$6,184,524

*Questioned property costs are comprised of the costs of property used on a project during the period covered by the SPFS. They include reimbursable costs incurred to procure property under the task order and the cost of property transferred to AAR to use for the award.

Crowe identified one prior audit that was relevant to AAR's task order. It had three findings that could have a material effect on the SPFS and other financial data that are significant to this audit's objectives. Crowe conducted follow-up procedures and concluded that AAR addressed the three findings adequately.

Crowe issued a disclaimer of opinion on AAR's SPFS because of AAR's inability to provide sufficient, appropriate evidence to support a material amount of costs on the SPFS.

WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the responsible contract officer at the U.S. Department of the Air Force:

- 1. Determine the allowability of and recover, as appropriate, \$6,184,524 in questioned costs identified in the report.**
- 2. Advise AAR to address the report's three internal control findings.**
- 3. Advise AAR to address the report's three noncompliance findings.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

January 4, 2021

The Honorable Christopher C. Miller
Acting Secretary of Defense

The Honorable Barbara M. Barrett
Secretary of the Air Force

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

We contracted with Crowe LLP (Crowe) to audit the costs incurred by AAR Government Services Inc. (AAR) under a task order from the U.S. Department of the Air Force in support of the Afghan Air Force's C-130H airlift operational capabilities. The objectives of the task order were to support and sustain up to four C-130H aircraft in Kabul, Afghanistan, and provide on-call support at other locations in Afghanistan.¹ Crowe reviewed \$5,689,922 in reimbursable costs charged to the task order from July 30, 2017, through July 29, 2018. Our contract with Crowe 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 U.S. Department of the Air Force:

- 1. Determine the allowability of and recover, as appropriate, \$6,184,524 in questioned costs identified in the report.**
- 2. Advise AAR to address the report's three internal control findings.**
- 3. Advise AAR to address the report's three noncompliance findings.**

The results of Crowe's audit are discussed in detail in the attached report. We reviewed the 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 AAR's Special Purpose Financial Statement. We also express no opinion on the effectiveness of AAR's internal controls or compliance with the agreements, laws, and regulations. Crowe is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances in which Crowe did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-180)

¹ Task order no. FA8553-17-F-0016 is under contract no. FA8553-15-D-0001.



AAR Government Services Inc.

Afghanistan C-130H Contractor Logistics Support (CLS)

Special Purpose Financial Statement

Contract Number FA8553-15-D-0001, Task Order FA8553-17-F-0016

For the Period July 30, 2017 through July 29, 2018

(With Independent Auditor's Report Thereon)

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Transmittal Letter

October 16, 2020

To the Board of Directors of AAR Government Services Inc.
1100 N. Wood Dale Road
Wood Dale, IL 60191

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

We appreciate the opportunity to provide to you our report regarding the procedures completed during the course of our audit of AAR Government Services Inc.'s ("AAR") contract funded by the United States Department of Defense ("DOD"), United States Air Force ("USAF") on behalf of the Special Inspector General for Afghanistan Reconstruction ("SIGAR").

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

When preparing our report, we considered comments, feedback, and interpretations of AAR, the Office of the Special Inspector General for Afghanistan Reconstruction, and the DOD 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 AAR's contract.

Sincerely,

A handwritten signature in black ink, appearing to read "Bert Nuehring".

Bert Nuehring, CPA
Partner
Crowe LLP

Summary

Background

The Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) engaged Crowe LLP (“Crowe” or “we” or “our”) to conduct a financial audit of the United States Air Force (USAF) contract number FA8553-15-D-0001, Task Order (“TO”) FA8553-17-F-0016, which was awarded to AAR Supply Chain, Inc. (DBA: AAR Defense Systems & Logistics) (“AAR”) on June 5, 2017 in the amount of \$23,273,506. The period of performance for the TO was July 30, 2017 through July 29, 2018. On January 08, 2019, modification number ARZ999 was issued, recognizing the change in entity name from AAR Supply Chain, Inc. to AAR Government Services, Inc.

The FMS Tactical Airlift (C-130), Air Force Life Cycle Management Center (“AFLCMC/WLKCB”) awarded a task order including both cost reimbursable and firm fixed price funding line items to AAR. The task order’s cost reimbursable contract line item numbers (CLINs) included total funding of \$12,425,998, and the firm fixed price CLINs included total funding of \$10,847,508. The task order scope required AAR to support the North Atlantic Treaty Organization (NATO) and U.S. government efforts to develop and establish the Afghanistan Air Force (AAF) C-130H airlift operational capability. AAR provided all personnel, equipment, tools, materials, spares, supervision, and other non-personnel services. The purpose of the task order was to support and sustain up four C-130H aircrafts at the main operating base in Kabul, Afghanistan, and provide on-call support at forward operating locations. In addition, AAR provided training and mentoring to build AAF personnel maintenance support capability.

The base award was modified 11 times as identified below:

Modification No.	Date	Highlights
1	October 21, 2015	<ul style="list-style-type: none"> Revisions to the Performance Work Statement (PWS) and Attachment 1
2	April 15, 2016	<ul style="list-style-type: none"> Revisions to PWS Established Contract Line Item Number (CLIN) X013 for Warehouse Services Estimated Contract value increased by \$3,286,801
3	May 2, 2016	<ul style="list-style-type: none"> Notice to exercise Option Year 1 – extend term
4	June 27, 2016	<ul style="list-style-type: none"> Revisions to PWS Add Scheduled Government Furnished Property (GFP) attachment
5	November 3, 2016	<ul style="list-style-type: none"> Revisions to PWS Revisions to Scheduled GFP form CLIN Unit price updates
6	May 25, 2017	<ul style="list-style-type: none"> Exercise Option Period II
7	August 4, 2017	<ul style="list-style-type: none"> Revisions to PWS Revisions to AAR GFP
8	March 1, 2018	<ul style="list-style-type: none"> Increased contract ceiling by \$59,547,405 Incorporated CLINs X017 and X018 related to C-130 On the Job Training Revisions to PWS CLINs 2017 and 2018 – awarded and exercised Cost Accounting System Clauses incorporated
9	July 18, 2018	<ul style="list-style-type: none"> Exercise option to extend contract Revisions to AAR GFP

(Continued)

Modification No.	Date	Highlights
10	July 30, 2018	<ul style="list-style-type: none"> Changed CLIN 3013 to "Warehouse Services" Added CLINs 3017 and 3018 to Option Year III
11	July 16, 2019	<ul style="list-style-type: none"> Exercise option to extend term of contract Revisions to AAR GFP

The task order was modified three times, but no change was made to the period of performance.

TO Modification No.	Date	Highlights
1	October 3, 2017	<ul style="list-style-type: none"> Administrative changes
2	July 2, 2018	<ul style="list-style-type: none"> Realignment of funds from CLIN 2007AA to CLIN 2011AA
3	July 25, 2018	<ul style="list-style-type: none"> Realignment of funds from CLIN 2007AA to CLIN 2011AA

The audit's scope includes activity within the period July 30, 2017 through July 29, 2018. Within the period under audit, AAR reported \$5,689,922 in costs incurred.

Work Performed

Crowe was engaged by SIGAR to conduct a financial audit of AAR's project.

Objectives Defined by SIGAR

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

Audit Objective 1 – Special Purpose Financial Statement

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

Audit Objective 2 – Internal Controls

Evaluate and obtain a sufficient understanding of AAR'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 AAR complied, in all material respects, with the task order's requirements 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 AAR has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the special purpose financial statement or other financial data significant to the audit objectives.

(Continued)

Scope

The scope of the audit covered the period July 30, 2017, through July 29, 2018. The audit was limited to those matters and procedures pertinent to the task order that have a direct and material effect on the Special Purpose Financial Statement (“SPFS”). The audit also included an evaluation of the presentation, content, and underlying records of the SPFS. Further, the audit included reviewing the financial records that support the SPFS to determine if there were material misstatements and if the SPFS was presented in the format required by SIGAR. In addition, the following areas were determined to be direct and material and, as a result, included within the audit program for detailed evaluation:

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

Methodology

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

For purposes of meeting Audit Objective 1 pertaining to the SPFS, transactions were selected from the financial records underlying the SPFS and tested to determine if the transactions were: (1) recorded properly in the project financial records; (2) incurred within the period covered by the SPFS and in alignment with specified cutoff dates; (3) appropriately allocated to the award if the cost benefited multiple objectives; and (4) adequately supported.

With regard to Audit Objective 2 regarding internal control, Crowe requested, and the auditee provided, copies of policies and procedures to provide Crowe with an understanding of the system of internal control established by AAR during the period of performance. Crowe 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. Crowe corroborated internal controls identified by the auditee and conducted testing of select key controls to understand if they were implemented as designed.

Audit Objective 3 requires tests be performed to obtain an understanding of the auditee’s compliance with requirements applicable to the task order. Crowe identified, through review and evaluation of the contract and task order executed by and between AAR and the United States Department of Defense (“DOD”), United States Air Force (“USAF”) on behalf of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”), the criteria against which to test the SPFS and supporting financial records and documentation. Using various sampling techniques, including but not limited to, audit sampling guidance for compliance audits provided by the American Institute of Certified Public Accountants (“AICPA”), Crowe selected expenditures, claims submitted to the Government for payment, procurements, and property and equipment for testing. Supporting documentation was provided by the auditee and subsequently evaluated to assess AAR’s compliance. Testing of indirect costs was limited to determining whether indirect costs were charged to the U.S. Government in accordance with the provisional billing rates authorized by the Defense Contract Audit Agency of the Department of Defense. We also performed procedures to determine if adjustments to billings that were based on preliminary or provisional rates were made, as required and applicable.

Regarding firm fixed price and fixed fee transactions, our procedures were limited to assessing whether the amounts charged to the task order agreed to authorized firm fixed price amounts and deliverables supported applicable amounts charged to the task order. This approach is consistent with the provisions of FAR 31 in which the actual cost experience is not subject to audit.

Regarding Audit Objective 4, Crowe inquired of AAR, USAF staff participating in the audit entrance

conference, and SIGAR to understand whether or not there were prior audits, reviews, or assessments that were pertinent to the audit scope. Crowe also conducted an independent search of publicly available information to identify audit and review reports. As a result of the aforementioned efforts, we identified one prior audit report, which contained findings and recommendations. We determined that three of the findings included within the aforementioned report could be direct and material to the SPFS or other financial objectives applicable to the audit. For findings determined to have a potential material effect on the SPFS, Crowe performed follow-up audit procedures which included, but were not limited to, testing specific transaction groups, reviewing modifications to internal procedures, and evaluating the status of the implementation of corrective actions regarding the finding or findings identified. The results of these procedures are noted in Section II. Summary of Results

Upon completion of Crowe's procedures, Crowe identified three findings which met one or more of the following criteria: (1) significant deficiencies in internal control; (2) material weaknesses in internal control; (3) noncompliance with rules, laws, regulations, or the terms and conditions of the contract; and/or (4) questioned costs resulted from identified instances of noncompliance.

Crowe issued a disclaimer of opinion on the SPFS due to AAR's inability to provide sufficient, appropriate audit evidence to support a material amount of costs recorded to various accounts on the SPFS. Crowe also noted that, had sufficient, appropriate audit evidence been provided by AAR, a qualified opinion would have been issued due to the SPFS's not being materially accurate.

Crowe also reported on both AAR's internal controls over financial reporting and compliance with the applicable laws, rules, regulations, and the terms and conditions of the contract. All three findings were classified as material weaknesses in internal control and instances of noncompliance. In situations in which internal control and compliance findings pertained to the same matter, the findings were consolidated within a single finding.

In response to identified instances of noncompliance, Crowe reported \$6,184,524 in questioned costs. The questioned costs include both costs incurred as reported on the SPFS as well as the cost of property used on the project during the period covered by the SPFS, whether procured under the task order or transferred to the award. 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 contract or applicable laws and regulations; or are unrelated to the award. \$206,822 in questioned costs is classified as ineligible, and the remaining balance of \$5,977,702 is classified as unsupported.

Crowe also requested copies of prior audits, reviews, and evaluations that could have a material effect on the special purpose financial statement or other financial data significant to the audit objectives. One report - SIGAR financial audit report 17-63 entitled "U.S. Air Force Logistical Support to the Afghan Air Force: Audit of Costs Incurred by AAR Supply Chain Inc." - was identified and assessed for purposes of determining whether there were findings and corrective actions requiring follow-up. There was a total of three findings subject to review. Crowe conducted procedures to determine whether adequate corrective action had been taken on prior findings. Crowe concluded that AAR had taken adequate corrective action on the three findings. **Section II: Summary Schedule of Prior Audit, Review and Assessment Findings** provides additional detail regarding the findings.

The following summary is intended to present an overview of the audit results and is not intended to be a representation of the audit's results in their entirety.

Schedule of Findings and Questioned Costs

Finding No.	Finding Name	Classification	Questioned Costs (USD)
2018-01	Material Misstatements in the Special Purpose Financial Statement ("SPFS") and Inadequate Controls over SPFS Preparation and Review	Material Weakness and Noncompliance	\$218,749
2018-02	Inadequate Support for Completeness of Property Records and Omitted Data Elements	Material Weakness and Noncompliance	\$5,965,775
2018-03	Lack of Documentation to Support Suspension and Debarment Procedures	Material Weakness and Noncompliance	None
Total Questioned Costs:			\$6,184,524

Summary of Management Comments

AAR disagreed with each of the three audit findings. The following contains a summary of management's responses:

1. General Response to the Reports on the SPFS, Internal Control, and Compliance: AAR objected to the audit results based on two assumptions made by management: 1) AAR's belief that the scope of Special Purpose Financial Statement ("SPFS") changed; and 2) AAR's assumption that "the basis of accounting for use in the SPFS [would] be total cost incurred and invoiced (billed) for the Task Order" was agreed upon during the entrance conference and that preparation on that basis rather than the basis presented in Note 2 to the Special Purpose Financial Statement would be acceptable.
2. Finding 2018-01: AAR agreed the \$206,822 of costs questioned were not incurred during the period covered by the SPFS. AAR disagreed, however, that the costs were not allocable to the award and were ineligible for reimbursement due to the long lead time between orders being placed and receipt of materials and supplies from vendors. AAR also disagreed that inadequate supporting documentation was provided for travel costs.
3. Finding 2018-02: AAR presented a disagreement which is primarily predicated upon two assertions made by management: 1) reconciliation of government property records to financial records is not a property management function or requirement found in FAR 52.245-1; 2) listing property records data elements in its procedure is not required and the FAR does not state what type of system or systems the contractor may use to keep property records; and 3) AAR's property management system was assessed in 2020 and a report was issued on April 15, 2020.
4. Finding 2018-03: AAR agreed with the component of the finding referencing AAR's not having obtained the required certifications from vendors and subcontractors pursuant to FAR 52.209-6. However, AAR disagreed with the component of the finding pertaining to AAR's not having provided copies of System for Award Management ("SAM") search results because FAR 52.209-6 does not require retention of the search results.

References to Appendices

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

INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

To the Board of Directors of AAR Government Services Inc.
1100 N. Wood Dale Road
Wood Dale, IL 60191

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 were engaged to audit the Special Purpose Financial Statement ("the Statement") of AAR Government Services Inc. ("AAR"), and related notes to the Statement, with respect to the Afghanistan C-130H Contractor Logistics Support (CLS) funded by United States Air Force (USAF) Contract Number FA8553-15-D-0001, Task Order FA8553-17-F-0016, for the period July 30, 2017 through July 29, 2018.

Management's Responsibility for the Special Purpose Financial Statement

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

Auditor's Responsibility

Our responsibility is to express an opinion on the Special Purpose Financial Statement based on conducting the audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

We were not provided with sufficient, appropriate audit evidence to determine that \$218,749 in reported direct and indirect costs incurred on the Statement as well as \$5,965,775 in government property noted in AAR's property records are accurately recorded, presented, and allocable to the task order under audit. As a result, \$6,184,524 in costs are in question. The \$6,184,524 amount is material to the Statement and impacts multiple accounts on the Statement.

Of the \$6,184,524 referenced above, \$206,822 reflects identified material misstatements impacting the materials account on the Statement. These items would have resulted in a qualified opinion had the scope limitation noted above been resolved.

(Continued)

Disclaimer of Opinion on the Special Purpose Financial Statement

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Statement.

Basis of Presentation and Accounting

We draw attention to Notes 1, 2, 4, 5, and 6 to the Statement, which describe the basis of presentation and accounting. The Statement was prepared by AAR in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction and presents those amounts as permitted under the terms of Contract Number FA8553-15-D-001, Task Order FA8553-17-F-0016, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the contract and task order referred to above.

Restriction on Use

This report is intended for the information of AAR, the United States Air Force Life Cycle Management Center, 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.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued reports dated September 25, 2020, on our consideration of AAR's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering AAR's internal control over financial reporting and compliance.

Crowe LLP
Crowe LLP

Washington, D.C.
September 25, 2020

AAR Government Services, Inc.
Special Purpose Financial Statement
Contract No. FA855315D0001, Task Order No. FA855317F0016
For the Period July 30, 2017 through July 29, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
<u>Questioned Costs</u>					
Revenues					
Contract No. FA855315D0001, Task Order No. FA855317F0016	\$ 23,273,506	\$ 15,926,089			4
Total Revenue	23,273,506	15,926,089			
Costs Incurred					
CLIN No. 2007AA, <i>Materials</i>	9,811,707	4,439,991	\$ 206,822		5 A
CLIN No. 2007AA, <i>Materials</i> - Applied Indirect Costs	-	662,992			
CLIN No. 2007AB, <i>Materials</i> - <i>Transportation Cost</i>	1,000,000	373,277			
CLIN No. 2007AB, <i>Materials</i> - <i>Transportation Cost</i> - Applied Indirect Costs	-	21,744			
CLIN No. 2011AA, <i>Over & Above Materials</i>	1,438,293	74,706			
CLIN No. 2011AA, <i>Over & Above Materials</i> - Applied Indirect Costs	-	12,144			
CLIN No. 2011AB, <i>Over & Above Materials</i> - <i>Transportation Costs</i>	20,000	416			
CLIN No. 2011AB, <i>Over & Above Materials</i> - <i>Transportation Costs</i> - Applied Indirect Costs	-	68			
CLIN No. 2014, <i>Travel</i>	155,998	92,604		\$ 11,927	A
CLIN No. 2014, <i>Travel</i> - Applied Indirect Costs	-	11,980			
Total Costs Incurred	12,425,998	5,689,922		5,965,775	B
Firm Fixed Price	10,847,508	10,236,167			
Total Costs Incurred Plus Firm Fixed Price	\$ 23,273,506	15,926,089			
 Balance / Total		\$ -	\$ 206,822	\$ 5,977,702	6

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

AAR Government Services Inc.
Notes to the Special Purpose Financial Statement
Afghanistan C-130H Contractor Logistics Support (CLS)
Contract Number FA8553-15-D-0001, Task Order FA8553-17-F-0016
For the Period July 30, 2017 through July 29, 2018

Note 1. Basis of Presentation

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under United States Air Force (USAF) Task Order Number FA855317F0016 for the C-130H Contractor Logistic Support for the AAF for the period July 30, 2017 through July 29, 2018. The task order was issued under contract number FA855315D0001. Because the Statement presents only a selected portion of the operations of AAR Government Services, Inc. ("AAR"), it is not intended to and does not present the financial position, changes in net assets, or cash flows of AAR. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal Contract. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Basis of Accounting

Revenues and expenditures reported on the Statement are reported consistent with AAR's established cost accounting practices and in accordance with AAR CASB Disclosure Statement. Materials received, but not yet vouchered and invoiced to AAR's ledger prior to 7/29/2018 have been included on the accrual basis of accounting. Indirect rates are applied in accordance with AAR's cost accounting periods, utilizing the indirect rates from AAR's submitted 2018 and 2019 Incurred Cost Submissions. Expenditures are recognized following the cost principles contained in Federal Acquisition Regulation ("FAR") Part 31 – *Contracts with Commercial Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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 Contractor is entitled to receive from the Air Force Life Cycle Management Center for allowable, eligible costs incurred under the task order during the period of performance.

Note 5. Costs Incurred by Budget Category

The budget categories presented, and associated amounts reflect the budget line items presented within the final, approved task order budget adopted as a component of the Modification 3 to the contract dated July 25, 2018.

Note 6. Balance

The balance presented on the Statement represents the difference between revenues earned and costs incurred such that an amount greater than \$0 would reflect that revenues have been earned that exceed the costs incurred or charged to the task order and an amount less than \$0 would indicate that costs have been incurred, but are pending additional evaluation before a final determination of allowability and amount of revenue earned may be made.

(Continued)

AAR Government Services Inc.
Notes to the Special Purpose Financial Statement
Afghanistan C-130H Contractor Logistics Support (CLS)
Contract Number FA8553-15-D-0001, Task Order FA8553-17-F-0016
For the Period July 30, 2017 through July 29, 2018

Note 7. Currency

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

Note 8. Program Status

The C-130H Contractor Logistic Support for the AAF remains active. The period of performance for Option Year 2 concluded on July 29, 2018 as noted in modification number 03 dated July 25, 2018. In accordance with guidance from SIGAR and the Auditor, AAR has not included expenses obligated under the task order year, but not received and incurred as an expense by AAR until after July 29, 2018.

Note 9. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the July 30, 2017, through July 29, 2018, period covered by the Statement. Management has performed their analysis through September 25, 2020.

(Continued)

AAR Government Services Inc.
Notes to the Questioned Costs Presented on the Special Purpose Financial Statement
Afghanistan C-130H Contractor Logistics Support (CLS)
Contract Number FA8553-15-D-0001, Task Order FA8553-17-F-0016
For the Period from July 30, 2017 through July 29, 2018

- A. Finding 2018-01 identified \$218,749 in questioned costs due to AAR's having included \$206,822 in costs not incurred during the audit period on the Special Purpose Financial Statement ("SPFS") and not having provided adequate supporting documentation to demonstrate that \$11,927 in costs were allowable and allocable to the task order.

- B. Finding 2018-02 questioned \$5,965,775 due to AAR's inability to provide a reconciliation of their Property Book inventory to the financial records.

Notes to the Questioned Costs are prepared by the auditor for purposes of this report. Management takes no responsibility for the notes to the questioned costs.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Board of Directors of AAR Government Services Inc.
1100 N. Wood Dale Road
Wood Dale, IL 60191

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

We were engaged to audit, 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, the Special Purpose Financial Statement ("the Statement") of AAR Government Services Inc. ("AAR"), and related notes to the Statement, with respect to the Afghanistan C-130H Contractor Logistics Support (CLS) funded by United States Air Force (USAF) Contract Number FA8553-15-D-0001, Task Order FA8553-17-F-0016, for the period from July 30, 2017 through July 29, 2018. We have issued our report thereon dated September 25, 2020, within which we disclaimed an opinion because of an inability to obtain sufficient, appropriate audit evidence that costs incurred were allocable to the Statement and accurately presented.

Internal Control over Financial Reporting

AAR'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 task order; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of presentation and accounting described in Notes 1, 2, 4, 5, and 6 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 connection with our engagement to audit the Statement for the period July 30, 2017 through July 29, 2018, we considered AAR's internal controls to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of AAR's internal control. Accordingly, we do not express an opinion on the effectiveness of AAR's internal control.

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

(Continued)

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2018-01, 2018-02, and 2018-03, that we consider to be material weaknesses.

AAR Government Services Inc.'s Response to the Findings

AAR's response to the findings identified in our audit are described in Appendix A of this report. AAR's response to the findings 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 AAR, the United States Air Force Life Cycle Management Center, 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.

Crowe LLP
Crowe LLP

Washington, D.C.
September 25, 2020

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the Board of Directors of AAR Government Services Inc.
1100 N. Wood Dale Road
Wood Dale, IL 60191

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

We were engaged to audit, 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, the Special Purpose Financial Statement ("the Statement") of AAR Government Services Inc. ("AAR"), and related notes to the Statement, with respect to the Afghanistan C-130H Contractor Logistics Support (CLS) funded by United States Air Force (USAF) Contract Number FA8553-15-D-0001, Task Order FA8553-17-F-0016, for the period from July 30, 2017 through July 29, 2018. We have issued our report thereon dated September 25, 2020, within which we disclaimed an opinion because of an inability to obtain sufficient, appropriate audit evidence that costs incurred were allocable to the Statement and accurately presented.

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 AAR.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2018-01, 2018-02, and 2018-03.

AAR Government Services Inc.'s Response to the Findings

AAR's response to the findings identified in our audit are found in Appendix A of this report. AAR's response to the findings was not subjected 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

(Continued)

communication is not suitable for any other purpose.

Restriction on Use

This report is intended for the information of AAR, the United States Air Force Life Cycle Management Center, 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.

Crowe LLP
Crowe LLP

Washington, D.C.
September 25, 2020

AAR Government Services Inc.
Section I: Schedule of Findings and Questioned Costs
Afghanistan C-130H Contractor Logistics Support (CLS)
Contract Number FA8553-15-D-0001, Task Order FA8553-17-F-0016
For the Period July 30, 2017 through July 29, 2018

FINDING 2018-01: Material Misstatements in the Special Purpose Financial Statement (“SPFS”) and Inadequate Controls over SPFS Preparation and Review.

Material Weakness and Noncompliance

Condition: AAR developed and submitted multiple versions of the SPFS for audit. We have included, below, a summary of matters identified during our testing of the initial SPFS and the revised SPFS provided by AAR in response to identified misstatements noted by Crowe.

To test the initial SPFS, Crowe requested a financial report or general ledger detail to agree and/or reconcile to the original SPFS provided. AAR provided two reconciliations: one from each financial system used during the audit period. AAR utilized Lawson for its accounting records through July 31, 2017 and then switched to Costpoint.¹ Both reconciliations included unreconciled items and costs incurred during the audit period totaling \$3,779,274. The omissions were material to the SPFS and reflected a material departure from the basis of accounting disclosed in Note 2, in which AAR indicated the SPFS was prepared on the accrual basis.

AAR subsequently modified the SPFS and the basis of accounting disclosed in the Notes to the SPFS. The Basis of Accounting (Note 2) was revised to state

“Revenues and expenditures reported on the Statement are reported consistent with AAR’s established cost accounting practices and in accordance with AAR Government Services CASB Disclosure Statement. Materials received, but not yet vouchered and invoiced to AAR’s ledger prior to 7/29/2018 have been included on the accrual basis of accounting. Indirect rates are applied in accordance with AAR’s cost accounting periods, utilizing the indirect rates from AAR’s submitted 2018 and 2019 Incurred Cost Submissions. Expenditures are recognized following the cost principles contained in Federal Acquisition Regulation (“FAR”) Part 31 – *Contracts with Commercial Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.”

During testing of the revised SPFS, the following issues were identified:

- We sampled 48 materials invoices totaling \$4,965,975 and identified 5 invoices totaling \$206,822 (4.2%) included on the SPFS in error, as the materials were not received by the July 29, 2018, end of the task order period of performance. Therefore, the costs were not incurred during the period of performance. The \$206,822 in costs not incurred during the audit period or task order period of performance are, therefore, considered unallocable to the award and are in question.
- We sampled 9 travel invoices totaling \$16,056 to determine whether they were properly reported on the SPFS. AAR did not provide sufficient documentation to trace 7 sample items totaling \$11,927 into the SPFS. The \$11,927 is in question.
- AAR asserted within Note 3 to the SPFS that foreign currency translations were not applicable to this audit; however, during testing of freight costs included on the revised SPFS we identified 15 transactions totaling 50,460 AED (or \$13,737 USD). Accordingly, the disclosure made in Note 3 is in error. We did not identify questioned costs based on this matter and our testing results.
- AAR revised the method to record indirect costs on the SPFS from utilization of provisional billing rates to incurred cost submission rates; however, the manual calculations used to present indirect costs on the SPFS included errors and insufficient information was provided to recalculate the amounts presented using the bases of application approved by the U.S. Government. Total indirect costs recorded on the SPFS amount to \$708,928. Known errors due to the application of an incorrect rate was \$35,656 in underreported indirect costs. Whereas the indirect costs were underreported, the \$35,656 is not in question.

¹ Lawson and CostPoint are financial accounting and enterprise resource planning software systems utilized by AAR for financial management.

(Continued)

AAR Government Services Inc.
Section I: Schedule of Findings and Questioned Costs
Afghanistan C-130H Contractor Logistics Support (CLS)
Contract Number FA8553-15-D-0001, Task Order FA8553-17-F-0016
For the Period July 30, 2017 through July 29, 2018

Criteria: Pursuant to FAR 52.216-7, *Allowable Cost and Payment*, as applicable to AAR per Part II, Section I of the Indefinite Delivery Contract FA8553-15-D-0001, states:

“(a) *Invoicing.*

- (1) The Government shall make payments to the Contractor when requested as work progresses, but (except for small business concerns) not more often than once every 2 weeks, in amounts determined to be allowable by the Contracting Officer in accordance with Federal Acquisition Regulation (FAR) Subpart 31.2...”

FAR 31.201-2(d), *Determining allowability*, states: “A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable the contract, and comply with applicable cost principles in [Subpart 31.2] and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.”

The task order states, “This order is for the period of 30 Jul (*sic*) 2017 to 29 Jul (*sic*) 2018.”

AAR’s Code of Conduct (Code) states “If you work on AAR’s financial disclosures, ensure they are full, fair, accurate and understandable. Follow all generally accepted accounting principles, as well as AAR’s policies, controls and procedures.” The Code also stated, “From time to time, the government may conduct an audit and examine AAR’s financial records and cost and pricing data... Cooperate with any such audit requests and provide government representatives with any documents they ask for in a timely manner.”

Additionally, SIGAR requires, for the purposes of this audit, the accurate presentation of revenues earned, costs incurred, and balance on the SPFS for the period under audit, inclusive of note disclosures. SIGAR is authorized to perform financial audits under the Inspector General Act of 1978, as amended.

Questioned costs: \$218,749 in questioned costs identified by the auditor during sample testing, including \$206,822 in ineligible costs and \$11,927 in unsupported costs.

Effect: Failure to exercise adequate oversight and review of the SPFS increases the likelihood that the SPFS could inadvertently mislead readers and result in their reliance on inaccurate or otherwise incomplete data and led to material errors on the SFPS. In addition, the Government may have over-reimbursed AAR \$218,749.

Due to the errors identified and the lack of sufficient documentation provided for manual adjustments, \$3,118,633 in balances presented on the SPFS for direct materials, direct travel, and direct freight costs may not be reliable.

Cause: AAR did not have written procedures in place for preparing and retaining documentation related to financial statements applicable to federally-funded awards. AAR also did not have procedures in place to ensure adequate oversight and review of the SPFS. AAR established and implemented financial management processes during the audit period.

Recommendation: We recommend AAR:

1. Either produce documentation demonstrating the \$218,749 in costs are allowable and allocable to the task order’s period of performance or reimburse the Government \$218,749;
2. Develop and document procedures for the preparation and review of financial statements applicable to federally-funded awards, including procedures for maintaining records to demonstrate that costs claimed have been incurred, are allocable the contract, and comply with applicable cost principles; and
3. Provide training to personnel responsible for preparing and reviewing financial statements on the accrual basis of accounting and requirements for allowability.

(Continued)

AAR Government Services Inc.
Section I: Schedule of Findings and Questioned Costs
Afghanistan C-130H Contractor Logistics Support (CLS)
Contract Number FA8553-15-D-0001, Task Order FA8553-17-F-0016
For the Period July 30, 2017 through July 29, 2018

FINDING 2018-02: Inadequate Support for Completeness of Property Records and Omitted Data Elements

Material Weakness and Noncompliance

Condition: AAR maintains its property records within a Property Book. Per review of the Property Book, AAR maintained an inventory with a reported value of \$5,965,775² consisting of 3,539 items in total inventory. During our government property procedures, we noted the following:

1. To assess the completeness of the property records - which is required in order for the records to be auditable - we requested a reconciliation of the inventory to AAR's financial records for the task order or other such documentation that would support completeness. AAR did not provide a reconciliation or other such documentation such that there is an unreconciled balance of \$5,965,775 between the property records and the award's financial records. This amount is in question.
2. AAR's property records did not include either a posting reference or date of transaction such that a determination regarding the correct identification of contractor-acquired property and government furnished property could not be made. Management identified government furnished property by entering acquisition cost amounts of "\$0" or "\$1" into the property records. Such denotations, in conjunction with the missing transaction dates, were insufficient to permit tracing to the financial records and concurrence with the accuracy and completeness of the property records.

Criteria: FAR 52.245-1(f)(1)(iii) *Records of Government Property* states: "The Contractor shall create and maintain records of all Government property accountable to the contract, including Government-furnished and Contractor-acquired property. (A) Property records shall enable a complete, current, auditable record of all transactions and shall, unless otherwise approved by the Property Administrator, contain the following:

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

² Reflects the sum of the acquisition costs reported in the Property Book.

AAR Government Services Inc.
Section I: Schedule of Findings and Questioned Costs
Afghanistan C-130H Contractor Logistics Support (CLS)
Contract Number FA8553-15-D-0001, Task Order FA8553-17-F-0016
For the Period July 30, 2017 through July 29, 2018

(9) Posting reference and date of transaction.

(10) Date placed in service (if required in accordance with the terms and conditions of the contract)..."

Section 7.0, "Records and Reports," of AAR's *Contract Government Property Plan CGPP-001* states:

AAR will create and maintain records of all GFP and AAR-acquired property accountable to the Contract. Property records will enable a complete, current, auditable record of all transactions. AAR shall ensure records for each accountable item of government property are generated and maintained IAW FAR 52.245-1 and per specific requirements stipulated in contract terms and conditions and per program concept of operations. In the case of supply chain management contracts, this may include records of material transactions IAW MILSTRAP requirements (OLM 4000.25-2).

FAR 52.215-2, "Audit and Records—Negotiation," as incorporated into the base contract governing the task order states, in part:

(b) *Examination of costs.* If this is a cost-reimbursement, incentive, time-and-materials, labor-hour, or price redeterminable contract, or any combination of these, the Contractor shall maintain and the Contracting Officer, or an authorized representative of the Contracting Officer, shall have the right to examine and audit all records and other evidence sufficient to reflect properly all costs claimed to have been incurred or anticipated to be incurred directly or indirectly in performance of this contract. This right of examination shall include inspection at all reasonable times of the Contractor's plants, or parts of them, engaged in performing the contract.

(f) *Availability.* The Contractor shall make available at its office at all reasonable times the records, materials, and other evidence described in paragraphs (a), (b), (c), (d), and (e) of this clause, for examination, audit, or reproduction, until 3 years after final payment under this contract

Questioned costs: \$5,965,775

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

Cause: AAR's property management procedures do not require inclusion of the transaction date and posting reference for each property item and also omits detail regarding the prescribed method to document and ensure completeness of property records.

Recommendation: We recommend AAR:

1. Revise its property management procedures to require property records to include all required data elements per FAR 52.245-1 and to specify the mechanism(s) that ensure and document completeness of property records at the task order level;
2. Complete a reconciliation from the property records to the task order's financial records and records documenting receipt of government furnished property to ensure the property records are complete, and provide the reconciliation to the funding agency or otherwise reimburse the Government \$5,965,775; and
3. Provide training to financial and property management personnel regarding the revised property management procedures.

(Continued)

AAR Government Services Inc.
Section I: Schedule of Findings and Questioned Costs
Afghanistan C-130H Contractor Logistics Support (CLS)
Contract Number FA8553-15-D-0001, Task Order FA8553-17-F-0016
For the Period July 30, 2017 through July 29, 2018

FINDING 2018-03: Lack of Documentation to Support Suspension and Debarment Procedures

Material Weakness and Noncompliance

Condition: We tested 60 procurements, which included 21 purchase orders and/or subcontracts (totaling \$4,070,695) over \$35,000. During the testing of these 21 items, we noted the following:

- 5 of 21 (24%) purchase orders, totaling \$450,486, were required to have a written certification from the subcontractors regarding their suspended or debarred status at the time of award as per FAR 52.209-6, but no written certification was obtained. AAR utilized the inclusion of the clause “52.209-6, Protecting the Government’s Interest When Subcontracting with Contractors Debarred, Suspended, or Proposed for Debarment (Oct 2015) (subcontracts > 35,000, other than subcontractors providing a commercially available off-the-shelf item)” within its purchase order terms and conditions, but did not obtain the written certification required by the regulation. During the audit period, AAR revised its processes and began obtaining the required certifications. We reviewed the System for Award Management (“SAM”) and noted that none of the five vendors were suspended or debarred such that no costs are in question.
- For 16 of 21 (76.19%) purchase orders (totaling \$2,411,791) exceeding \$35,000, AAR did not provide evidence of a SAM search having been performed and documented prior to making an award. We reviewed SAM and noted that none of the 16 vendors were suspended or debarred such that no costs are in question.

Criteria: Per FAR 52.209-6, *Protecting the Government’s Interest When Subcontracting With Contractors Debarred, Suspended, or Proposed for Debarment*, “...(c)The Contractor shall require each proposed subcontractor whose subcontract will exceed \$35,000, other than a subcontractor providing a commercially available off-the-shelf item, to disclose to the Contractor, in writing, whether as of the time of award of the subcontract, the subcontractor, or its principals, is or is not debarred, suspended, or proposed for debarment by the Federal Government.”

In addition, AAR’s Federal Procurement Policies and Procedures Manual No. PM – 036 (Debarment, Suspension or Proposed for Debarment) states “Pursuant to FAR 52.209-6(c), the Subcontracts Administrator/Buyer shall require each proposed subcontractor whose subcontract will exceed \$35,000.00, other than a subcontractor providing a commercially available off-the-shelf (COTS) item as defined in FAR 2.101, to disclose to AAR, in writing, whether as of the *time of award* of the subcontract or purchase order, the subcontractor, or its principals, is or is not debarred, suspended, or proposed for debarment by the U.S. Government.” AAR’s PM – 036 also states, “In addition to the time of award certification, the Subcontracts Administrator/Buyer shall verify the prospective subcontractor is not listed in the “Exclusion” section of SAM promptly before award of the subcontract or purchase order if the value exceeds \$35,000 and is not for commercially available off-the-shelf (COTS) items. The Subcontracts Administrator/Buyer shall retain a copy of the SAM Exclusion search result in the procurement file.” The applicability section of PM – 036 states “This policy and procedure is applicable to all subcontracts and purchase orders issued by AAR under U.S. Government contracts and higher-tier subcontracts for non-commercially available off-the-shelf items valued in excess of \$35,000.00.”

Questioned costs: None

Effect: The likelihood that AAR would unknowingly enter into an agreement with an excluded party and subsequently invoice the Government for ineligible costs was enhanced.

Cause: At the time the procurements were completed, AAR’s process was not designed in a manner that would ensure compliance with the provisions of the FAR by requiring the entity to expressly communicate its status

(Continued)

AAR Government Services Inc.
Section I: Schedule of Findings and Questioned Costs
Afghanistan C-130H Contractor Logistics Support (CLS)
Contract Number FA8553-15-D-0001, Task Order FA8553-17-F-0016
For the Period July 30, 2017 through July 29, 2018

through an affirmative certification process. In addition, the lack of compliance with policies related to maintaining SAM search documentation was due to inadequate training of staff.

Recommendation: We recommend AAR provide training to staff regarding the required certifications and retention of both certifications of suspension and debarment checks.

AAR Government Services Inc.
Section II: Summary Schedule of Prior Audit, Review and Assessment Findings
Afghanistan C-130H Contractor Logistics Support (CLS)
Contract Number FA8553-15-D-0001, Task Order FA8553-17-F-0016
For the Period July 30, 2017 through July 29, 2018

Crowe reviewed one prior audit report. The report contained findings and recommendations that may be direct and material to the Special Purpose Financial Statement or other financial information significant to the audit objectives. The reports containing findings follow:

- SIGAR 17-63 Financial Audit, August 2017, U.S. Air Force Logistical Support to the Afghan Air Force: Audit of Costs Incurred by AAR Supply Chain Inc.

We have summarized the results of our procedures below and on the following pages.

FINDING NO. 2017-1: AIRFARE IN EXCESS OF ALLOWABLE AMOUNT PER FEDERAL TRAVEL REGULATION

Report: SIGAR 17-63 Financial Audit, August 2017, U.S. Air Force Logistical Support to the Afghan Air Force: Audit of Costs Incurred by AAR Supply Chain Inc. for the period from July 15, 2015 through July 30, 2016, dated July 26, 2017.

Issue: AAR invoiced AFLCMC for airfare in excess of allowable amount per Federal Travel Regulation (FTR). \$432 in questioned costs were reported.

Status: AAR provided supporting documentation evidencing AFLCMC was credited for the costs in question. They also provided updated policy and procedural documentation to demonstrate corrective actions applied within the process. In addition, we conducted testing of allowable costs and did not identify any of travel costs in excess of amounts allowable per FTR. This matter is not repeated.

FINDING NO. 2017-2: LODGING IN EXCESS OF ALLOWABLE AMOUNT PER FTR

Report: SIGAR 17-63 Financial Audit, August 2017, U.S. Air Force Logistical Support to the Afghan Air Force: Audit of Costs Incurred by AAR Supply Chain Inc. for the period from July 15, 2015 through July 30, 2016, dated July 26, 2017.

Issue: AAR invoiced AFLCMC for lodging in excess of allowable amount per Federal Travel Regulation (FTR). \$624 in questioned costs were reported.

Status: AAR provided supporting documentation evidencing AFLCMC was credited for the costs in question. They also provided updated policy and procedural documentation to demonstrate corrective actions applied within the process. In addition, we conducted testing of allowable costs and did not identify any of travel costs in excess of amounts allowable per FTR. This matter is not repeated.

AAR Government Services Inc.
Section II: Summary Schedule of Prior Audit, Review and Assessment Findings
Afghanistan C-130H Contractor Logistics Support (CLS)
Contract Number FA8553-15-D-0001, Task Order FA8553-17-F-0016
For the Period July 30, 2017 through July 29, 2018

FINDING NO. 2017-3: DENTAL EXPENSES CLAIMED AS TRAVEL COSTS

Report: SIGAR 17-63 Financial Audit, August 2017, U.S. Air Force Logistical Support to the Afghan Air Force: Audit of Costs Incurred by AAR Supply Chain Inc. for the period from July 15, 2015 through July 30, 2016, dated July 26, 2017.

Issue: AAR invoiced AFLCMC for dental expenses which was not related to the Contract. \$159 in questioned costs were reported.

Status: AAR provided supporting documentation evidencing AFLCMC was credited for the costs in question. They also provided updated policy and procedural documentation to demonstrate corrective actions applied within the process. In addition, we conducted testing of allowable costs and did not identify any instances in which unallowed costs were charged. This matter is not repeated.

**AAR Government Services Inc.
Appendix A: Views of Responsible Officials
Afghanistan C-130H Contractor Logistics Support (CLS)
Contract Number FA8553-15-D-0001, Task Order FA8553-17-F-0016
For the Period July 30, 2017 through July 29, 2018**

Appendix A: Views of Responsible Officials (“AAR Response”)

AAR Response #1: General response to Independent Auditor’s reports on the Special Purpose Financial Statements (“SPFS”), Internal Control, and Compliance:

AAR seeks to address various clarifications regarding the contents and presentation of the three (3) draft audit reports issued by Crowe preceding this Appendix A and submitted to AAR on September 2, 2020.

In the “Schedule of Findings and Questioned Costs” Crowe states that, “AAR developed and submitted multiple versions of the SPFS for audit”. While AAR acknowledges that multiple versions of the SPFS were submitted for audit, Crowe fails to address the timeline of events and underlying reasons for which Crowe directed AAR to update the SPFS based on Crowe’s decisions to modify the scope of the costs under audit subsequent to the completion of their fieldwork. The following audit timeline details the circumstances surrounding the multiple SPFS versions submitted:

October 17, 2019	Entrance conference: Crowe and AAR agree on scope of SPFS, including the basis of accounting for use in the SPFS to be total cost incurred and invoiced (billed) for the Task Order (“TO”). Crowe acknowledges this scope in Meeting Notes provided to AAR on 10/17/2019. Additional notes with Crowe handwritten comments were sent to AAR on April 15, 2020 confirming the same.
January 16, 2020	AAR provides original SPFS and accompanying notes to Crowe
January 20, 2020	AAR provides populations for expenditures and procurements to Crowe for testing. Populations tie to SPFS provided on 1/16/2020 and are clearly based on incurred and billed costs.
January 31, 2020	AAR provides reconciliation of SPFS to WAWF, demonstrating the basis was incurred and invoiced costs charged to the task order through the period of time in which the SPFS was prepared (September 2019). Transaction detail provided, included date by transaction, as well as invoices clearly dated after July 2018. Crowe had this information for 2 months and performed transactional testing, for which, AAR provided source documents (POs, Vendor Invoices, Payment Confirmations, etc) with dates clearly identified. It was only after completing transactional testing, Crowe misguidedly changed the scope of the audit.
February 26, 2020	Per request by Crowe, AAR explained the SPFS preparation methodology again, specifying that it was based on total cost incurred and invoiced, as agreed in the entrance conference. Excerpt from the explanation to Crowe: To prepare this SPFS, the Project Control Manager reviewed all invoices submitted by AAR on the C-130 Program, identified the invoices that had costs for the CLINs (2XXX) under review, and totaled by CLIN. Again, at this point in time, Crowe did not question that costs charged to the task order that were obligated during the 12 month task order period of performance, but not incurred until the materials were physically received by AAR, after the 12 month task order period of performance, were included.

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March 13, 2020	<p>Crowe provided draft findings to AAR based on original SPFS submission and requested an exit conference.</p> <ul style="list-style-type: none"> • Crowe’s draft findings did not identify any findings related to the transaction testing for allowability and allocability of cost incurred and invoiced • All 60 expenditures Crowe selected for testing were adequately traced to the General Ledger by AAR – however Crowe disagreed with the method of AAR tracing <p>Again, at this point in time, Crowe did not question that costs charged to the task order that were obligated during the 12 month task order period of performance, but not incurred until the materials were physically received by AAR, after the 12 month task order period of performance, were included.</p>
March 19, 2020	Meeting with AAR and Crowe – Crowe requests additional reconciliations for billed and unbilled costs.
April 10, 2020	AAR provides additional reconciliation to Crowe pursuant to March, 19 2020 request.
April 16, 2020	AAR reconciliation meeting with Crowe and SIGAR. AAR again described methodology of accounting, which is acknowledged and agreed to by SIGAR. However, Crowe initiates an SPFS scope change the following week (see April 21, 2020 timeline item)
April 21, 2020	AAR received a memo from Crowe instructing AAR to prepare a revised SPFS to reflect only cost incurred (not total incurred and invoiced) to the general ledger for SPFS period of July 30, 2017 to July 29, 2018
May 6, 2020	AAR received an email Crowe following a related conference call instructing AAR to prepare and additional revised SPFS to reflect only cost incurred and cost of items received (but not charged to contract) for SPFS period of July 30, 2017 to July 29, 2018

It is AAR’s position that the original SPFS reflecting an audit scope of total cost incurred and invoiced, as agreed upon by all parties on October 17, 2019, was an accurate representation of total TO period of performance costs subject to audit. This contract has a significant amount of long lead material purchases and repairs and AAR believes that inclusion of these materials on the SPFS, as included in the Original SPFS, is important to ultimately reflect the total amount of cost that will be incurred and billed to the government under the TO being audited. These long lead items were ordered and obligated during the TO period of performance and reflect allowable and allocable costs. As such these costs were included on the original SPFS, although not yet incurred because material was not received, to reflect the total amount of allowable and allocable TO costs that should have been subject to audit. AAR walked Crowe through this method of original SPFS preparation and no concerns were raised. Additionally, AAR demonstrated to the auditors that the original SPFS reconciled to the underlying accounting records, invoicing records, and Wide Area Workflow (WAWF). Based on the original SPFS, Crowe issued no findings related the allowability or allocability of costs as a result of their transaction testing, which included long lead material transaction incurred and billed after the TO period of performance. Crowe’s findings related to the original SPFS only disagreed with the method for which AAR traced the records to the accounting system.

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Crowe did not determine that the scope of the SPFS and related audit needed to be changed until after the completion of fieldwork, issuance of draft findings for the original SPFS, and scheduling of an audit exit conference. Additionally, once Crowe determined a scope change was required, they did not update their testing universe, sample populations, or audit procedures to be reflective of the revised SPFS scope. All transaction testing and related findings were based on the original SPFS data and not reflective of the revised SPFS' requested by Crowe, including the final SPFS for which Crowe's disclaimer of opinion is based on.

Crowe invested significant time and resources auditing the original SPFS and then later asked AAR to significantly modify. Rather than updating and reperforming their audit procedures to reflect the changes to the scope and revised SPFS, Crowe disclaimed an opinion on the revised SPFS due to the auditor's opinion of a lack of supporting documentation for their reconciliation.

Correction Requested to SPFS Included in Crowe's Audit Report

AAR requests Crowe to revise the language on the SPFS included on Page 9, to replace the words "Firm Fixed Price and Fixed Fee" to reflect only "Firm Fixed Price". Upon further review by AAR of Crowe's revised language the words "Fixed Fee" would imply a Cost-Plus-Fixed-Fee ("CPFF") contract or CLINs. This contract subject to audit is Cost Reimbursable only and does not allow for fee on materials and travel. The line item on the SPFS reflects only Firm Fixed Price

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AAR Response #2: Response to FINDING 2018-01:

Crowe Finding: We sampled 48 materials invoices totaling \$4,965,975 and identified 5 invoices totaling \$206,822 (4.2%) included on the SPFS in error, as the materials were not received by the July 29, 2018, end of the task order period of performance. Therefore, the costs were not incurred during the period of performance. The \$206,822 in costs not incurred during the audit period or task order period of performance are, therefore, considered unallocable to the award and are in question.

AAR agrees, in part, that the \$206,822 of costs related to materials invoices were not “incurred” during the SPFS period ending July 29, 2018, however AAR disagrees with the auditors finding that the \$206,822 is “unallocable to the award” and “ineligible” requiring reimbursement to the government per Crowe’s recommendation. These materials were appropriately ordered and obligated during the TO period of performance, and are therefore allowable and allocable to the contract, TO, and period of performance. However, because of the long lead nature of the materials, these materials were not received and subsequently incurred and billed until after July 29, 2018. As stated above, AAR believes inclusion of these costs on the original SPFS reflected the most accurate representation of total TO period of performance costs subject to audit. AAR notes there were not specific transactional testing findings related to the allowability and allocability of these material costs during Crowe’s audit of the original SPFS. These costs were only questioned due to the receipt date of the materials occurring after the TO period performance and audit period ending July 29, 2018.

AAR obligated these long lead material and repair items during the TO period of performance, however did not “incur” the costs on the books until the materials were received and inspected, consistent with the disclosed cost accounting practices in AAR’s Cost Accounting Standards Board (“CASB”) DS-1 disclosure statement (deemed adequate and compliant by AAR’s Administrative Contracting Officer (“ACO”)) and best practices in government contracting.

The auditor's revisions to the scope of the SPFS do not appear to be in the best interests of SIGAR and do not reflect the complete activity of the TO. These costs are still allowable and allocable costs of this TO award, as was reflected in AAR’s original SPFS.

Crowe Finding: We sampled 9 travel invoices totaling \$16,056 to determine whether they were properly reported on the SPFS. AAR did not provide sufficient documentation to trace 7 sample items totaling \$11,927 into the SPFS. The \$11,927 is in question.

AAR disagrees that the seven (7) sample items identified did not have sufficient supporting documentation. AAR provided supporting documentation to Crowe on April 10, 2020, including screenshots to trace each of the travel expenses and receipts (previously provided by AAR) from the SPFS to the G/L. AAR provided further clarification of this supporting documentation in email on April 14, 2020. Crowe acknowledged receipt of this supporting documentation as evidenced by an email response from [REDACTED] (Crowe) to [REDACTED] (AAR) on April 14, 2020 and stated:

“We might have what we need after looking at this further. We were confused by the first screenshot thinking you were trying to tie that into the GL summarized transactions but it looks like it is really the screenshot on the right. [REDACTED] is looking at it now and will let you know if we need more”

Crowe then further acknowledged that the supporting information provided was acceptable as evidenced by an email response to [REDACTED] above email from [REDACTED] (Crowe) to [REDACTED] on April 14, 2020 and stated:

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"It looks like we have the information needed – Thank you!"

Crowe never requested any additional information, support, or explanation or otherwise communicated with AAR as to the validity of the provided supporting documentation. Crowe subsequently questioned the travel costs in final report with no further communication with AAR.

Without further explanation from Crowe regarding their specific issues with the reconciliation and supporting documentation provided to them, AAR cannot agree to a finding of lack of supporting documentation when such documentation was adequately provided in a timely manner in support of the audit.

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AAR Response #3: Response to FINDING 2018-02:

Crowe Finding: To assess the completeness of the property records - which is required in order for the records to be auditable - we requested a reconciliation of the inventory to AAR's financial records for the task order or other such documentation that would support completeness. AAR did not provide a reconciliation or other such documentation such that there is an unreconciled balance of \$5,965,775 between the property records and the award's financial records. This amount is in question.

AAR's property records did not include either a posting reference or date of transaction such that a determination regarding the correct identification of contractor-acquired property and government furnished property could not be made. Management identified government furnished property by entering acquisition cost amounts of "\$0" or "\$1" into the property records. Such denotations, in conjunction with the missing transaction dates, were insufficient to permit tracing to the financial records and concurrence with the accuracy and completeness of the property records.

AAR disagrees with Crowe's finding that there is an unreconciled balance of \$5,965,775 between AAR's property records and the award's financial records. Reconciling Government property records to financial records is not a property management function or requirement found in FAR 52.245-1. Government property records list the acquisition cost which is obtained from the acquisition PO or from the documentation provided with GFP. This acquisition value remains with the property throughout its useful life until the contractor is relieved of stewardship responsibilities per FAR 52.245-1(f)(vii)(C). Providing the acquisition documentation for the samples selected should have been sufficient data for the auditor to determine if Government property was acquired compliantly on this contract.

AAR also disagrees that it is a FAR requirement to list the record data elements in the procedure; however, the following must be noted. The Contract Government Property Plan rolls up to the corporate Government Property Plan (GPP) which is a governing document, where in section 6.3 of the GPP it does list the data elements required in a property record, per FAR 52.245-1. AAR contends that all data elements are available in the property records. AAR keeps a Property Book listing that shows part number, description, quantity, acquisition cost, unique-item identifier (serial number/property tag), unit of measure, contract/PO number and location. Posting reference and date of transaction is kept in the TRAX data system, which examples were provided. The FAR does not state what type of system or systems the contractor must use to create and keep records only that the records they keep contain the required data found at FAR 52.245-1 (f)(iii)(A).

Further, AAR Government Services' Property Management System was assessed via Property Management System Analysis ("PMSA") by the Defense Contract Management Agency ("DCMA") in 2020 and a report was issued to AAR on April 15, 2020. The DCMA's Property Administrators assessment report concluded that:

"The contractor's property management system complies with the requirements of FAR 52.245-1(f)."

The Property Administrator Interim Supervisors review of the assessment stated:

"I have reviewed this report and find that it satisfactorily describes the scope, testing methods, techniques and findings of the PMSA and that the PMSA described herein was sufficient to determine whether the contractor's property management system complies with FAR 52.245-1 and other contractual provisions relating to Government property."

DCMA's PMSA was delivered to AAR's Administrative Contracting Officer ("ACO") who issued a final determination on April 22, 2020, which stated:

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“The purpose of this determination is to inform you that your property management system is acceptable and approved. This approval is made pursuant to the Defense Federal Acquisition Regulation Supplement (DFARS) 245.105(b), “Contractor’s Property Management System Compliance”, and based on the system criteria provided in FAR 52.245-1(f) as referenced in DFARS clause 252.245-7003 (c). The approved system is applicable to AAR Government Services (814N0)”

Based on the property management system requirements of FAR 52.245-1 and the ACO’s approval of AAR’s Property Management System, AAR disagrees with Crowes evaluation of AAR government property records and adverse findings related to completeness, adequate record keeping, and property management procedures.

AAR further disagrees with Crowe’s recommendation that AAR reimburse the government \$5,965,775. This finding has no basis in compliant government property management and accounting. The government requires highly trained and specialized teams to assess government property systems and, as indicated in the preceding paragraphs, these teams have independently assessed AAR’s AGS government property system to be compliant with the criteria of FAR 52.245-1(f).

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AAR Response #4: Response to FINDING 2018-03:

Crowe Finding: 5 of 21 (24%) purchase orders, totaling \$450,486, were required to have a written certification from the subcontractors regarding their suspended or debarred status at the time of award as per FAR 52.209-6, but no written certification was obtained. AAR utilized the inclusion of the clause “52.209-6, Protecting the Government’s Interest When Subcontracting with Contractors Debarred, Suspended, or Proposed for Debarment (Oct 2015) (subcontracts > 35,000, other than subcontractors providing a commercially available off-the-shelf item)” within its purchase order terms and conditions, but did not obtain the written certification required by the regulation. During the audit period, AAR revised its processes and began obtaining the required certifications. We reviewed the System for Award Management (“SAM”) and noted that none of the five vendors were suspended or debarred such that no costs are in question.

AAR agrees that signed certification could not be located for these 5 purchase orders. As stated by the auditor, our processes were revised during the audit period to properly obtain certifications and training was provided to impacted procurement professionals. Though AAR did not obtain signed certifications for the 5 samples noted, SAM checks would have been run for the vendors when the purchase order was issued, which would have prevented AAR from contracting with vendors that were suspended or debarred.

Crowe Finding: For 16 of 21 (76.19%) purchase orders (totaling \$2,411,791) exceeding \$35,000, AAR did not provide evidence of a SAM search having been performed and documented prior to making an award. We reviewed SAM and noted that none of the 16 vendors were suspended or debarred such that no costs are in question.

AAR disagrees with this finding. FAR 52.209-6 does not specifically require a contractor to retain a copy of the System for Award Management (SAM) Exclusions within the file. Rather, FAR 52.209-6(d) states: “A corporate officer or a designee of the Contractor shall notify the Contracting Officer, in writing, before entering into a subcontract with a party (other than a subcontractor providing a commercially available off-the-shelf item) that is debarred, suspended, or proposed for debarment (see FAR 9.404 for information on the System for Award Management (SAM) Exclusions).” Since there were no awards made to Subcontractors that were debarred, suspended or proposed for debarment, notification to the Contracting Officer was not required by FAR 52.209-6 and AAR adhered to its explicit contractual requirement.

Moreover, it is our position that the practice of retaining a copy of the pre-award SAM exclusions check is a best practice (as described in AAR policy); however, retention is not required by law, regulation, or the contract.

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Appendix B: Auditor's Rebuttal

Crowe LLP ("Crowe" or "we" or "us") has reviewed the management of AAR Government Services, Inc. ("AAR" or "the auditee") responses to the draft report audit findings provided to Crowe on September 25, 2020. In consideration of those views, Crowe has included the following rebuttal to certain matters presented by the auditee. Crowe incorporates a rebuttal in those instances where management disagrees with the facts presented within the condition, does not concur with Crowe's recommendation, or provides additional documentation for review. In those instances where management either agrees with the finding or does not disagree with the facts in the finding, as presented, no rebuttal is provided. Using this framework, Crowe has incorporated one rebuttal to management's comments, below.

Rebuttal to AAR Response #1

We have reviewed AAR's general comments which appear to be predicated upon two assumptions: 1) the scope of Special Purpose Financial Statement ("SPFS") changed; and 2) "the basis of accounting for use in the SPFS [would] be total cost incurred and invoiced (billed) for the Task Order." In response to these matters, we provide the following thoughts:

1. The scope of the audit of the SPFS is determined by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and was not changed at any point during the course of the audit engagement.
2. While Crowe's notes referenced by AAR within its rebuttal reflect what was heard by AAR during the entrance conference, Crowe did not advise AAR regarding its accounting approach at any point during the engagement. The basis of accounting utilized in the audit is based on AAR's disclosure in Note 2 to the SPFS. AAR included the following note disclosure regarding the basis of accounting within the SPFS and accompanying notes provided for audit on January 16, 2020:

Note 2. Basis of Accounting

Revenues and expenditures reported on the Statement are reported on the accrual basis of accounting. Expenditures are recognized following the cost principles contained in Federal Acquisition Regulation ("FAR") Part 31 – Contracts with Commercial Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement. (bold font and italics added by the auditor to assist the reader in identifying the information provided AAR relative to Crowe's rebuttal narrative).

Whereas management asserted within its note disclosure that the accrual basis of accounting was utilized, Crowe audited against this basis of accounting. AAR assembled the SPFS using a separate basis – one in which costs were recognized based on those incurred and invoiced. Such an assembly method represents an error by AAR which resulted in material misstatements on the face of the SPFS as well as within the note disclosures. This error does not represent a scope change, but rather a misstatement. AAR subsequently modified the basis of accounting to address its error.

In consideration of the above and AAR's having erred in its assembly of the SPFS based on its asserted basis of accounting, the response does not result in or otherwise warrant a change to the audit report. Rather, the comments further support the condition and cause noted in Finding 2018-01. No further comments or procedures are considered necessary with respect to the general response.

Rebuttal to AAR Response #2: Response to Finding 2018-01

AAR agreed the \$206,822 of costs questioned were not incurred during the period covered by the SPFS. AAR disagreed, however, that the costs were not allocable to the award and were ineligible for reimbursement due to the long lead time between orders being placed and receipt of materials and supplies from vendors. AAR

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also indicated that, whereas the company entered into an obligation (i.e., placed an order) for the items that are in question and they were ultimately received and invoiced to the Government, the costs remained allocable to the task order and considered reimbursable. We note the following:

1. Under the provisions of FAR 31 and FAR 52.216-7 as incorporated into AAR's base contract governing the task order, reimbursement is based on allowable costs having been incurred, paid, and recorded, not obligations made. Therefore, AAR's having entered into an obligation during the award period is not relevant to determinations of allocability.
2. The task order includes a period of performance for AAR of 12 months for cost reimbursement contract line item numbers (CLINs). Whereas the costs were not incurred and eligible to be recorded until after the end of the period of performance, based on the requirements specified in FAR 31, under the accrual basis of accounting, or the excerpt from AAR's Cost Accounting Standards Board Disclosure Statement³ (see below), the costs are not considered allocable or reimbursable to the task order under audit. No change to the report is considered necessary or appropriate for this item.

COST ACCOUNTING STANDARDS BOARD DISCLOSURE STATEMENT REQUIRED BY PUBLIC LAW 100-679		PART II - DIRECT COSTS
		NAME OF REPORTING UNIT
		AAR Defense Systems & Logistics (DSL) Federal Programs Segment
ITEM NO.	ITEM DESCRIPTION	
2.3.0	<p><u>Timing of Charging Direct Material.</u> (Mark the appropriate line(s) to indicate the point in time at which direct material are charged to Federal contracts or similar cost objectives, and if more than one line is marked, explain on a continuation sheet.)</p> <p>A. <input type="checkbox"/> When orders are placed B. <input checked="" type="checkbox"/> When both the material and invoice are received C. <input type="checkbox"/> When material is issued or released to a process, batch, or similar intermediate cost objective D. <input checked="" type="checkbox"/> When material is issued or released to a final cost objective E. <input type="checkbox"/> When invoices are paid Y. <input type="checkbox"/> Other(s) <u>1/</u> Z. <input type="checkbox"/> Not applicable</p>	

Regarding the \$11,927 in travel costs questioned due to inadequate supporting documentation, AAR disagreed due to AAR's presumption that Crowe's previous emails acknowledging receipt of information from AAR indicated the documentation was adequate. Regardless of Crowe's having acknowledged receipt of information from AAR, numerous meetings were held that discussed the audit findings in advance of the draft report. AAR failed to provide additional documentation in response to Crowe's inquiries. While management asserts "Crowe never requested any additional information, support, or explanation," the assertion does not appear to be fully accurate. Reference is made to Crowe's June 5th correspondence to AAR that included reference to outstanding questions pertaining to transaction support. AAR responded to the email with the following language:

³ AAR did not provide Crowe with the full disclosure statement. Rather, the enclosed screen shot it all that was made available.

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Some of these samples you can find using the amount, for example the first 2 are in tab 205-11127-252001-1 Travels. Others are part of larger amounts. For example, the \$2500.38 and \$3,179.59 are part of 7,286.15 in tab 206-11127-252001-1 Travels. (bold font and italics added by the auditor to assist the reader in identifying AAR's email language relative to Crowe's rebuttal narrative).

AAR did not provide additional documentation that ties the transaction support provided to the amounts recorded in the ledger supporting amounts charged to the task order. Accordingly, the exception stands, and the finding has not been modified.

Rebuttal to AAR Response #3: Response to Finding 2018-02

We have reviewed AAR's rebuttal, which is predicated upon two assertions made by management: 1) reconciliation of government property records to financial records is not a property management function or requirement found in FAR 52.245-1; 2) listing property records data elements in its procedure is not required and the FAR does not state what type of system or systems the contractor may use to keep property records; and 3) AAR's property management system was assessed in 2020 and a report was issued on April 15, 2020. We note the following in response:

1. Crowe has not asserted that FAR 52.245-1 requires a reconciliation. FAR 52.245-1 does, however, require that property records be complete and auditable. A reconciliation to financial records is one mechanism that may be used to demonstrate compliance with the requirement for complete and auditable records. Crowe requested AAR to provide a reconciliation or other supporting documentation to demonstrate completeness. AAR failed to provide such documentation, which results in a scope limitation and an unreconciled difference between the property records and the amounts charged to the task order. Therefore, no change to this component of the finding is appropriate or necessary, and the noncompliance conclusion remains in place.
2. FAR 52.245-1 presents the required data elements for inclusion in the property records. AAR provided the Property Book as its property records source, which did not include all data elements. AAR did not provide a complete and comprehensive listing of additional data from other sources to demonstrate the data elements are being maintained. Further, whereas AAR did not provide documentation supporting the completeness of its property records, a deficiency would continue to be reported as sufficient documentation to conclude all data elements were maintained for the complete population of property items associated with the task order would remain. No changes are considered necessary for this matter.
3. Whereas the property management system review completed by the Defense Contract Management Agency is not an audit, is not specific to the property records maintained on the task order under audit, and is completed with different objectives, the analysis report referenced by AAR is irrelevant to the audit conclusions contained within this report and does not mitigate AAR's failure to provide documentation supporting the completeness and auditability of property records maintained under the task order.

Based on the above, no changes are considered necessary to the finding.

Rebuttal to AAR Response #3

AAR agreed with the component of the finding referencing AAR's not having obtained the required certifications from vendors and subcontractors pursuant to FAR 52.209-6.

However, AAR disagreed with the component of the finding pertaining to AAR's not having provided copies of System for Award Management ("SAM") search results because FAR 52.209-6 does not require retention of the search results. Whereas this component of the finding is based on AAR's noncompliance with its internal policy

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requiring retention of search results and not a violation of FAR 52.209-6, management's disagreement is noted but is not considered valid. Accordingly, the finding remains unchanged.

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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.

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 publically released reports, testimonies, and correspondence on its Web site.

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

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