

# SIGAR

Special Inspector General for  
Afghanistan Reconstruction

SIGAR 18-04 Financial Audit

## U.S. Army Contracting Command's Acquisition of Mobile Strike Force Vehicles for the Afghan National Army: Audit of Costs Incurred by Textron Inc. Marine & Land Systems

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



OCTOBER  
2017

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On January 21, 2011, the U.S. Army Contracting Command (ACC) awarded an \$84,961,000 contract to Textron Inc. Marine & Land Systems (Textron) to support pre-production efforts and the production of Mobile Strike Force Vehicles (MSFVs) for the Afghan National Defense and Security Forces. ACC modified the contract 60 times, which increased its value from \$84,961,000 to \$631,195,401 and extended the period of performance from January 31, 2012, to September 30, 2015. This financial audit focused on modifications P00021 and P00025, valued at \$30,512,355 and \$9,115,967, respectively. The purpose of these modifications was to exercise options requiring Textron to acquire MSFVs for the Afghan National Army.

SIGAR's financial audit, performed by Mayer Hoffman McCann (MHM), reviewed \$26,612,072 in expenditures that Textron charged to the contract for the period from May 23, 2012, through May 25, 2014. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in Textron's internal controls related to the contract; (2) identify and report on instances of material noncompliance with the terms of the contract and applicable laws and regulations, including any on potential fraud or abuse; (3) determine and report on whether Textron has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of Textron's Special Purpose Financial Statement (SPFS). See MHM's report for the precise audit objectives.

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

October 2017

### U.S. Army Contracting Command's Acquisition of Mobile Strike Force Vehicles for the Afghan National Army: Audit of Costs Incurred by Textron Inc. Marine & Land Systems

SIGAR 18-04-FA

### WHAT THE AUDIT FOUND

MHM did not identify any material weaknesses or significant deficiencies in Textron's internal controls, or any instances of noncompliance with the terms and conditions of the contract. Accordingly, MHM did not identify any questioned costs, which would have consisted of ineligible costs—costs prohibited by the agreement, applicable laws, or regulations—or unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Category	Ineligible	Unsupported	Total Questioned
Costs Incurred	\$0	\$0	\$0
<b>Totals</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

MHM identified two prior findings that could have a material effect on the SPFS pertaining to Textron's activities under the modifications. One finding was in the Defense Contract Audit Agency's *Testing of Paid Vouchers for Textron Systems Marine & Land Systems* (audit report no. 01241-2015W11015001), and the other finding was in one of Textron's month-end closing reviews. MHM tested additional transactions and determined that Textron had implemented adequate corrective actions to address these prior findings.

MHM issued a qualified opinion on the fairness of Textron's SPFS because Textron did not submit the required management representations indicating that it provided all relevant information upon which MHM would base its opinion.

### WHAT SIGAR RECOMMENDS

MHM did not report any findings related to the two modifications to the pre-production efforts and production of MSFVs contract. Therefore, SIGAR is not making any recommendations.



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

October 20, 2017

The Honorable Jim Mattis  
Secretary of Defense

The Honorable Robert M. Speer  
Acting Secretary of the Army

General Joseph L. Votel  
Commander, U.S. Central Command

General John W. Nicholson, Jr.  
Commander, U.S. Forces–Afghanistan and  
Commander, Resolute Support

We contracted with Mayer Hoffman McCann (MHM) to audit the costs incurred by Textron Inc. Marine & Land Systems (Textron) under two modifications to a U.S. Army Contracting Command (ACC) contract to support pre-production efforts and production of Mobile Strike Force Vehicles (MSFVs) for the Afghan National Defense and Security Forces.<sup>1</sup> MHM's audit reviewed \$26,612,072 in expenditures that Textron charged to the contract from May 23, 2012, through May 25, 2014. Our contract with MHM required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

MHM did not report any findings related to the two modifications to the pre-production efforts and production of MSFVs contract. Therefore, SIGAR is not making any recommendations.

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

John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction  
(F-100)

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<sup>1</sup> ACC awarded contract number W56HZV-11-C-0114 to Textron. This financial audit focused on modifications P00021 and P00025. The purpose of these modifications was to exercise options requiring Textron to acquire MSFVs for the Afghan National Army.

**TEXTRON INC. MARINE & LAND SYSTEMS**

Financial Audit of Costs Incurred Under  
Contract No. W56HZV-11-C-0114  
Modifications P00021 and P00025  
Pre-Production Efforts and Production  
of the Medium Armored Security Vehicles (MASV)  
in Support of the Afghanistan Security Forces

For the Period May 23, 2012 through May 25, 2014

# TEXTRON INC. MARINE & LAND SYSTEMS

Financial Audit of Costs Incurred Under Contract No. W56HZV-11-C-0114  
Modifications P00021 and P00025  
Pre-Production Efforts and Production of the MASV  
in Support of the Afghanistan Security Forces

For the Period May 23, 2012 through May 25, 2014

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**Mayer Hoffman McCann P.C.**  
**An Independent CPA Firm**

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October 9, 2017

Enclosed is the final report on the financial audit of costs incurred by Textron, Inc. Marine and Systems ("Textron") under Contract Number W56HZV-11-C-0114 for Pre-Production Efforts and Production of the Medium Armored Security Vehicles (MASV) in Support of the Afghanistan Security Forces. The audit covers the period May 23, 2012 through May 25, 2014.

Included within the final report is a summary of the work performed, 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 from Textron, the Special Inspector General for Afghanistan Reconstruction and the United States Army Contracting Command. Since there were no findings included in the report, management of Textron has elected to not prepare a response to the report.

Sincerely,

Mayer Hoffman McCann P.C.

A handwritten signature in blue ink, appearing to read "Marcus D. Davis", is written over a horizontal line.

Marcus D. Davis, CPA  
Shareholder

## **TEXTRON INC. MARINE & LAND SYSTEMS**

Financial Audit of Costs Incurred Under Contract No. W56HZV-11-C-0114  
Modifications P00021 and P00025  
Pre-Production Efforts and Production of the MASV  
in Support of the Afghanistan Security Forces

For the Period May 23, 2012 through May 25, 2014

### **Background**

On January 21, 2011, the United States Army Contracting Command ("ACC") entered into Contract Number W56HZV-11-C-0114 (the "Contract") with Textron Inc. Marine & Land Systems ("Textron") for pre-production efforts and production of the Medium Armored Security Vehicles ("MASV") in support of the Afghanistan Security Forces with a Contract ceiling amount of \$84,961,000 and an obligated amount of \$42,472,004. The original period of performance was from January 21, 2011 through January 31, 2012. The Contract has been modified 60 times through September 23, 2015, increasing the Contract ceiling amount to \$631,195,401, obligating \$549,728,196 and extending the period of performance through September 30, 2015.

This financial audit focuses solely on Modifications P00021 and P00025 (the "Modifications"). The purpose of Modifications P00021 and P00025 were to exercise available options under the Contract. According to the Contract, Textron was required to provide MASV and Mobile Strike Force Vehicles (MSFV) for the Afghan National Army ("ANA"). MASV include nine armored vehicle configurations designed specifically for ANA roles and missions, and are derived from the combat-proven M1117 Armored Security Vehicle ("ASV") and ASV Armored Personnel Carrier (APC). In addition to ASV and APC configurations, other mission variants include: command and control, ambulance, engineering, maintenance, mortar and reconnaissance vehicles. In support of the vehicles, Textron was required to provide new equipment training and field service representative support, primarily in Afghanistan. The vehicles were contracted through the U.S. Army Foreign Military Sales (FMS) process.

Modification P00021 was awarded on May 23, 2012 with a ceiling amount of \$30,512,355 and an obligated amount of \$14,951,054. Modification P00025 was awarded on July 26, 2012 with a ceiling amount of \$9,115,967 and an obligated amount of \$4,466,824. Modification PZ00029 amended Modifications P00021 and P00025 by obligating an additional \$4,145,670 for Modification P00021 and \$4,649,060 for Modification P00025. This brought the total obligated amounts for P00021 to \$19,096,723 and for P00025 to \$9,115,883. The ceiling amounts for Modifications P00021 and P00025 remained unchanged.

According to background information provided by SIGAR in Appendix I to its Request for Proposal for audit services under Solicitation 16-233-SOL-00642, Textron manufactures and supports armored combat vehicles and marine craft. The Company offers its customers fielding, training, maintenance, and logistics support services throughout each product's life cycle. Textron is in service with the United States military, international militaries, special operational forces, police forces, and civilian entities worldwide. In addition to its Marine & Land Systems business unit, the Company is comprised of eight other business units: Advanced Information Solutions, Electronic Systems, Geospatial Solutions, Lycoming Engines, Support Solutions, TRU Simulation + Training, Unmanned Systems and Weapon and Sensor Systems.

## **TEXTRON INC. MARINE & LAND SYSTEMS**

Financial Audit of Costs Incurred Under Contract No. W56HZV-11-C-0114  
Modifications P00021 and P00025  
Pre-Production Efforts and Production of the MASV  
in Support of the Afghanistan Security Forces

For the Period May 23, 2012 through May 25, 2014

### **Work Performed**

Mayer Hoffman McCann P.C. ("MHM") was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") to conduct a financial audit of Textron's Special Purpose Financial Statement ("SPFS") for the period May 23, 2012 through May 25, 2014. Total costs incurred by Textron and subject to audit during this period were \$26,612,072.

### **Objectives, Scope, and Methodology**

#### **Objectives Defined by SIGAR**

The objectives of the audit include the following:

- *Special Purpose Financial Statement (SPFS)* – Express an opinion on whether Textron's SPFS for the Contract presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government, and balance for the period audited in conformity with the terms of the Contract and generally accepted accounting principles or other comprehensive basis of accounting.
- *Internal Controls* – Evaluate and obtain a sufficient understanding of Textron's internal controls related to the Contract; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether Textron complied, in all material respects, with the Contract requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred.
- *Corrective Action on Prior Findings and Recommendations* – Determine and report on whether Textron has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the SPFS or other financial data significant to the audit objectives.

### **Scope**

The scope of this audit included the cost reimbursement and cost plus fixed fee Contract Line Item Numbers (CLINs) within the Modifications in the total amount of \$28,212,606. This amount is the budgeted ceiling for cost reimbursement, not the actual amount incurred and reimbursed. Our testing of the general and administrative ("G&A"), engineering, manufacturing and materials overhead rates was limited to verifying that the overhead rates were calculated using the rates submitted to the Defense Contract Audit Agency ("DCAA").



## **TEXTRON INC. MARINE & LAND SYSTEMS**

Financial Audit of Costs Incurred Under Contract No. W56HZV-11-C-0114  
Modifications P00021 and P00025  
Pre-Production Efforts and Production of the MASV  
in Support of the Afghanistan Security Forces

For the Period May 23, 2012 through May 25, 2014

### **Methodology**

In order to accomplish the objectives of this audit, we designed our audit procedures to include the following:

#### **Entrance Conference**

An entrance conference was held via conference call on February 16, 2017. Participants included representatives of MHM, Textron, SIGAR and the ACC.

During our planning phase, we performed the following:

- Obtained an understanding of Textron;
- Reviewed the Contract and all modifications to date;
- Reviewed sections of the Federal Acquisition Regulation ("FAR") and the Defense Acquisition Regulation System ("DFARS") as applicable to the Contract;
- Performed a financial reconciliation; and
- Selected samples based on our approved sampling techniques. According to the approved Audit Plan, we used the detailed accounting records that were reconciled to the financial reports, and based upon the risk assessment and materiality included as part of the approved Audit Plan, we performed data mining to assess individual expenditure accounts and transactions that were considered to be high, medium or low risk for inclusion in our test of transactions. None of the populations were homogeneous in nature, thus statistical sampling was not used. All samples were selected on a judgmental basis. Our sampling methodology for judgmental samples was as follows:
  - For accounts that appear to contain unallowable and restricted items according to the terms of the Contract, Modifications, FAR and any other applicable regulations, we tested 100% of the transactions.
  - For high risk cost categories, we sampled individual transactions that were greater than \$130,500, not to exceed 50% of the total amount expended for each cost category.
  - For medium risk cost categories, we sampled individual transactions that were greater than \$261,000, not to exceed 20% of the total amount expended for each cost category.
  - For low risk cost categories, we sampled transactions that were greater than \$261,000, not to exceed 10% of the total amount expended for each cost category, not to exceed 50 transactions in total for all accounts comprising low risk categories.

## **TEXTRON INC. MARINE & LAND SYSTEMS**

Financial Audit of Costs Incurred Under Contract No. W56HZV-11-C-0114  
Modifications P00021 and P00025  
Pre-Production Efforts and Production of the MASV  
in Support of the Afghanistan Security Forces

For the Period May 23, 2012 through May 25, 2014

### Internal Control Related to the SPFS

We reviewed Textron's internal controls related to the SPFS. The system of internal control is intended to provide reasonable assurance of achieving reliable financial reporting and compliance with applicable laws and regulations. We corroborated internal controls identified by Textron and conducted testing of select key controls to understand if they were implemented as designed and operating effectively.

### Compliance with Agreement Requirements and Applicable Laws and Regulations

We reviewed the Contract and modifications and documented all compliance requirements that could have a direct and material effect on the SPFS. We assessed inherent and control risk as to whether material noncompliance could occur. Based upon our risk assessment, we designed procedures to test a sample of transactions to ensure compliance with the Contract requirements and laws and regulations.

### Corrective Action on Prior Findings and Recommendations

We requested all reports from previous engagements, as well as searched publicly available information for other reports, in order to evaluate the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS. See the Review of Prior Findings and Recommendations subsection of this Summary for this analysis.

### Special Purpose Financial Statements

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Contract, modifications and general ledger;
- Traced receipt of funds to the accounting records; and
- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the Contract and reasonable. If the results of a judgmental sample indicated a material error rate, our audit team consulted with our Audit Manager and Project Director as to whether the sample size should be expanded. If it appeared that based upon the results of the judgmental sample, an entire account was deemed not allowable, we did not expand our testing, but instead questioned the entire account.

### Exit Conference

An exit conference was held on July 12, 2017 via conference call. Participants included representatives from MHM, Textron, SIGAR and the ACC. During the exit conference, we discussed the preliminary results of the audit and established a timeline for providing any final documentation for consideration and reporting.

## **TEXTRON INC. MARINE & LAND SYSTEMS**

Financial Audit of Costs Incurred Under Contract No. W56HZV-11-C-0114  
Modifications P00021 and P00025  
Pre-Production Efforts and Production of the MASV  
in Support of the Afghanistan Security Forces

For the Period May 23, 2012 through May 25, 2014

### **Summary of Results**

Our audit of the costs incurred by Textron under the Modifications of the Contract with the ACC identified the following audit results.

### **Auditor's Opinion on SPFS**

We issued a qualified opinion on the fairness of the presentation of the SPFS. This opinion was a result of Textron not providing required management representations indicating that it has provided us with all relevant information, among other matters, upon which we would base our opinion. In the absence of such representations, the scope of our work was limited to enable us to express an unmodified opinion on the Special Purpose Financial Statement. A summary of findings and questioned costs is as follows:

### **Summary of Findings and Questioned Costs**

There were no findings or questioned costs identified as a result of the audit.

### **Internal Control Findings**

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we considered Textron's internal control over financial reporting and performed tests of those controls. The results of our tests disclosed no internal control findings related to this audit. See Independent Auditor's Report on Internal Control on page 14.

### **Compliance Findings**

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we tested Textron's compliance with certain provisions of the Contract and other laws and regulations, noncompliance with which could have a direct and material effect on the determination of the SPFS. The results of our tests disclosed no instances of noncompliance related to this audit. See Independent Auditor's Report on Compliance on page 16.

### **Review of Prior Findings and Recommendations**

We requested copies of prior engagements including audits, reviews and evaluations pertinent to Textron's activities under the Contract. We identified two findings from two prior engagements that could have a material effect on the SPFS. We tested transactions and determined that Textron has taken

## **TEXTRON INC. MARINE & LAND SYSTEMS**

Financial Audit of Costs Incurred Under Contract No. W56HZV-11-C-0114  
Modifications P00021 and P00025  
Pre-Production Efforts and Production of the MASV  
in Support of the Afghanistan Security Forces

For the Period May 23, 2012 through May 25, 2014

adequate corrective action to address the finding. See the Status of Prior Findings on page 18 for a detailed description of the prior findings and recommendations.

### **Summary of Textron Responses to Findings**

There were no findings identified as a result of this audit. Therefore, Textron's responses were not required.



**Mayer Hoffman McCann P.C.**

**An Independent CPA Firm**

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## **INDEPENDENT AUDITOR'S REPORT ON SPECIAL PURPOSE FINANCIAL STATEMENT**

Board of Directors  
Textron Inc. Marine & Land Systems  
1010 Gause Boulevard  
Slidell, Louisiana 70458

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

### **Report on the Special Purpose Financial Statement**

We have audited the accompanying Special Purpose Financial Statement of Textron Inc. Marine & Land Systems ("Textron") under Contract Number W56HZV-11-C-0114, Modifications P00021 and P00025 ("Contract Modifications"), with the United States Army Contracting Command ("ACC") for pre-production efforts and production of the Medium Armored Security Vehicles ("MASV") and Mobile Strike Force Vehicles ("MSFV") for the Afghan National Army ("ANA") for the period May 23, 2012 and May 25, 2014, and the related notes to the Special Purpose Financial Statement.

### ***Management's Responsibility for the Special Purpose Financial Statement***

Management is responsible for the preparation and fair presentation of the Special Purpose Financial Statement in accordance with the methods of preparation described in Note 2; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements (including the Special Purpose Financial Statement) that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Special Purpose Financial Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Special Purpose Financial Statement, whether due to fraud or error. In making those risk assessments,

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the auditor considers internal control relevant to the entity's preparation and fair presentation of the Special Purpose Financial Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Special Purpose Financial Statement.

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

### ***Basis for Qualified Opinion***

Management of Textron refused to provide us with certain representations that we requested to represent that it has responsibility for the presentation of the Special Purpose Financial Statement and that it has provided us with all relevant information, among other matters, upon which we would base our opinion.

### ***Opinion***

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received and costs incurred by Textron under the Contract Modifications for the period May 23, 2012 through May 25, 2014 in accordance with the basis of accounting described in Note 2.

### ***Restriction on Use***

This report is intended for the information of Textron, ACC, and the Special Inspector General for Afghanistan Reconstruction ("SIGAR"), and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 9, 2017 on our consideration of Textron's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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

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reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Textron's internal control over financial reporting and compliance.

A handwritten signature in blue ink, reading "Mayer Hoffmann, P.C.".

Irvine, California  
October 9, 2017

# **TEXTRON INC. MARINE & LAND SYSTEMS**

Financial Audit of Costs Incurred Under Contract No. W56HZV-11-C-0114  
Modifications P00021 and P00025  
Training and Logistics Support with the ANA MSFV

## Special Purpose Financial Statement

For the Period May 23, 2012 through May 25, 2014

	Budget	Actual	Questioned Costs			Notes
			Ineligible	Unsupported	Total	
Revenues:						
W56HZV-11-C-0114	\$ 28,212,606	\$ 26,612,072	\$ -	\$ -	\$ -	(3)
Total revenues	<u>28,212,606</u>	<u>26,612,072</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						
Modification P00021:						
Deprocessing	2,183,211	1,878,553	-	-	-	(4)
Management	1,736,086	1,568,514	-	-	-	(4)
Training	7,728,181	7,678,341	-	-	-	(4)
Other direct costs	1,735,731	1,735,731	-	-	-	(4)
Leased vehicles	3,290,669	3,290,669	-	-	-	(4)
Interpreters	819,833	812,932	-	-	-	(4)
Modification P00025:						
Training	7,557,100	7,448,738	-	-	-	(4)
Interpreters	806,145	236,936	-	-	-	(4)
Fixed fee	<u>2,355,650</u>	<u>1,961,658</u>	<u>-</u>	<u>-</u>	<u>-</u>	(5)
Total costs incurred	<u>28,212,606</u>	<u>26,612,072</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	(6)

See Notes to Special Purpose Financial Statement



## TEXTRON INC. MARINE & LAND SYSTEMS

Financial Audit of Costs Incurred Under Contract No. W56HZV-11-C-0114  
Modifications P00021 and P00025  
Pre-Production Efforts and Production of the MASV  
in Support of the Afghanistan Security Forces

Notes to Special Purpose Financial Statement<sup>1</sup>

For the Period May 23, 2012 through May 25, 2014

### (1) **Background**

On January 21, 2011, the United States Army Contracting Command ("ACC") entered into Contract Number W56-HZV-11-C-0114 (the "Contract") with Textron Inc. Marine & Land Systems ("Textron") for pre-production efforts and production of the Medium Armored Security Vehicles ("MASVs") in support of the Afghanistan Security Forces with a Contract ceiling amount of \$84,961,000 and an obligated amount of \$42,472,004. The original period of performance was from January 21, 2011 through January 31, 2012. The Contract has been modified 60 times through September 23, 2015, increasing the Contract ceiling amount to \$631,195,401, obligating \$549,728,196 and extending the period of performance through September 30, 2015.

This Special Purpose Financial Statement relates solely to Modifications P00021 and P00025 (the "Modifications"). The purpose of Modifications P00021 and P00025 were to exercise available options under the Contract. According to the Contract, Textron was required to provide MASVs and Mobile Strike Force Vehicles (MSFVs) for the Afghan National Army ("ANA"). MASVs include nine armored vehicle configurations designed specifically for ANA roles and missions, and are derived from the combat-proven M1117 Armored Security Vehicle ("ASV") and ASV Armored Personnel Carrier (APC). In addition to ASV and APC configurations, other mission variants include: command and control, ambulance, engineering, maintenance, mortar and reconnaissance vehicles. In support of the vehicles, Textron was required to provide new equipment training and field service representative support, primarily in Afghanistan. The vehicles were contracted through the U.S. Army Foreign Military Sales (FMS) process.

Modification P00021 was awarded on May 23, 2012 with a ceiling amount of \$30,512,355 and an obligated amount of \$14,951,054. Modification P00025 was awarded on July 26, 2012 with a ceiling amount of \$9,115,967 and an obligated amount of \$4,466,824. Modification PZ00029 amended Modifications P00021 and P00025 by obligating an additional \$4,145,670 for Modification P00021 and \$4,649,060 for Modification P00025. This brought the total obligated amounts for P00021 to \$19,096,723 and for P00025 to \$9,115,883. The ceiling amounts for Modifications P00021 and P00025 remained unchanged.

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<sup>1</sup> The Notes to the Special Purpose Financial Statement are the responsibility of Textron.

## TEXTRON INC. MARINE & LAND SYSTEMS

Financial Audit of Costs Incurred Under Contract No. W56HZV-11-C-0114  
Modifications P00021 and P00025  
Pre-Production Efforts and Production of the MASV  
in Support of the Afghanistan Security Forces

Notes to Special Purpose Financial Statement

(Continued)

### (2) **Summary of Significant Accounting Policies**

#### **Basis of Presentation**

The accompanying Special Purpose Financial Statement ("SPFS") includes costs incurred under the Contract Modifications for the period May 23, 2012 through May 25, 2014. Because the SPFS presents only a selected portion of the operations of Textron, it is not intended to and does not present the financial position, changes in financial position, or cash flows of Textron. The information in the SPFS is presented in accordance with the requirements specified by the Special Inspector General for Afghanistan Reconstruction ("SIGAR"), accounting principles generally accepted in the United States of America, and is specific to the aforementioned Contract and Modifications.

#### **Basis of Accounting**

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

#### **Currency**

All amounts presented are shown in U.S. dollars, the reporting currency of Textron. Textron did not pay any amounts under the Contract Modifications in a foreign currency. Accordingly, no foreign conversion was required.

### (3) **Revenue**

As of May 25, 2014, Textron reported \$26,612,072 in revenue. This revenue equals the expenditures invoiced to the ACC for the period for the Period May 23, 2012 through May 25, 2014.

### (4) **Indirect Cost**

Textron's indirect cost rates for the period May 23, 2012 through May 25, 2014 as submitted to the DCAA were as follows. Indirect costs are not a separate cost category on the Special Purpose Financial Statement, but are included as a component of each of the cost categories.

## TEXTRON INC. MARINE & LAND SYSTEMS

Financial Audit of Costs Incurred Under Contract No. W56HZV-11-C-0114  
Modifications P00021 and P00025  
Pre-Production Efforts and Production of the MASV  
in Support of the Afghanistan Security Forces

Notes to Special Purpose Financial Statement

(Continued)

(4) **Indirect Cost (Continued)**

<u>Indirect Cost</u>	<u>Rates Submitted to DCAA</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
Engineering overhead	████████	████████	████████
Manufacturing overhead	████████	████████	████████
Materials overhead	██████	██████	██████
G&A	██████	██████	██████

(5) **Fixed Fee**

For the period May 23, 2012 through May 25, 2014, Textron's contracted fixed fee was \$2,355,650, or approximately 9% of total costs. The fixed fee is invoiced to the ACC based upon costs incurred during the period covered by the invoice, less a withholding of approximately 15% of the fixed fee.

(6) **Outstanding Fund Balance**

As of May 25, 2014, there was no outstanding fund balance under the Contract Modifications as the SPFS is prepared under the accrual basis of accounting described in Note 2.

(7) **Subsequent Events**

Textron has evaluated subsequent events through October 9, 2017, which is the date the SPFS was available to be issued. There were no subsequent events identified that would impact the SPFS as of this date.



**Mayer Hoffman McCann P.C.**

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF THE SPECIAL PURPOSE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Textron Inc. Marine & Land Systems  
1010 Gause Boulevard  
Slidell, Louisiana 70458

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

We have audited the accompanying Special Purpose Financial Statement of Textron Inc. Marine & Land Systems ("Textron") under Contract Number W56HZV-11-C-0114, Modifications P00021 and P00025 ("Contract Modifications"), with the United States Army Contracting Command ("ACC") for pre-production efforts and production of the Medium Armored Security Vehicles ("MASV") and Mobile Strike Force Vehicles ("MSFV") for the Afghan National Army ("ANA") for the period May 23, 2012 and May 25, 2014, and the related notes to the Special Purpose Financial Statement, and have issued our report thereon dated October 9, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the Special Purpose Financial Statement, we considered Textron's internal control over financial reporting (internal control) to determine the audit procedures that were appropriate in the circumstances for the purpose of expressing our opinion on the Special Purpose Financial Statement, but not for the purpose of expressing an opinion on the effectiveness of Textron's internal control. Accordingly, we do not express an opinion on the effectiveness of Textron'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *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.

Board of Directors  
Textron Inc. Marine & Land Systems  
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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and the result of that testing, and not to provide an opinion on the effectiveness of the Textron'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.

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



Irvine, California  
October 9, 2017



**Mayer Hoffman McCann P.C.**

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**REPORT ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF THE SPECIAL PURPOSE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Textron, Inc. Marine & Land Systems  
1010 Gause Boulevard  
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Office of the Special Inspector General for Afghanistan Reconstruction  
2530 Crystal Drive  
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We have audited the accompanying Special Purpose Financial Statement of Textron Inc. Marine & Land Systems ("Textron") under Contract Number W56HZV-11-C-0114, Modifications P00021 and P00025 ("Contract Modifications"), with the United States Army Contracting Command ("ACC") for pre-production efforts and production of the Medium Armored Security Vehicles ("MASVs") and Mobile Strike Force Vehicles ("MSFVs") for the Afghan National Army ("ANA") for the period May 23, 2012 and May 25, 2014, and the related notes to the Special Purpose Financial Statement, and have issued our report thereon dated October 9, 2017.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Textron's Special Purpose Financial Statement is free from material misstatement, we tested Textron's compliance with certain provisions of laws, regulations, and the aforementioned Contract Modifications, 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. As we performed our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



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### **Purpose of this Report**

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

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



Irvine, California  
October 9, 2017

## **TEXTRON INC. MARINE & LAND SYSTEMS**

Financial Audit of Costs Incurred Under Contract No. W56HZV-11-C-0114  
Modifications P00021 and P00025  
Pre-Production Efforts and Production of the MASV  
in Support of the Afghanistan Security Forces

### **Status of Prior Findings**

For the Period May 23, 2012 through May 25, 2014

We requested copies of prior engagements including audits, reviews and evaluations pertinent to Textron's activities under the Contract. We reviewed the corrective actions taken to address findings and recommendations from prior engagements that could have a material effect on the SPFS. There were two prior engagements included in the scope of our audit. These engagements identified two findings with a potential material effect on the SPFS and/or control deficiencies effect on the Contract. Based on our review, adequate corrective action was implemented on these prior findings.

### **Defense Contract Audit Agency (DCAA) Audit Report No 01241-2015W11015001, Testing of Paid Vouchers for Textron Systems Marine & Land Systems**

There was one finding identified in DCAA's Audit Report No. 01241-2015W11015001. DCAA noted that the Textron combines direct and indirect costs into a single line item when requesting government reimbursement. During our review of reimbursement requests, we noted separate subitems identifying indirect costs and the applicable rate. As such, the corrective action has been adequately implemented.

### **Textron Audit Services Month-End Closing Review**

This internal audit report identified one recommendation for improvement. Textron Audit Services noted that Textron used Excel spreadsheets to adjust account balances prior to entering into its financial management system. During our review of the financial records, we noted no adjustments which were not reflected in Textron's accounting records. As such, the corrective action has been adequately implemented.



**TEXTRON INC. MARINE & LAND SYSTEMS**

Financial Audit of Costs Incurred Under Contract No. W56HZV-11-C-0114  
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Detailed Audit Findings

For the Period May 23, 2012 through May 25, 2014

There were no findings as a result of this audit.

## 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](http://www.sigar.mil)). SIGAR posts all publically released reports, testimonies, and correspondence on its Web site.

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

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

- Web: [www.sigar.mil/fraud](http://www.sigar.mil/fraud)
- Email: [sigar.pentagon.inv.mbx.hotline@mail.mil](mailto:sigar.pentagon.inv.mbx.hotline@mail.mil)
- Phone Afghanistan: +93 (0) 700-10-7300
- Phone DSN Afghanistan: 318-237-3912 ext. 7303
- Phone International: +1-866-329-8893
- Phone DSN International: 312-664-0378
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## Public Affairs

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