

Financial Statements, Independent  
Auditor's Report and Reports Required  
by *Government Auditing Standards*  
and Uniform Guidance

**BlueForge Alliance**

September 30, 2023

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Board of Directors  
BlueForge Alliance

**Report on the financial statements****Opinion**

We have audited the financial statements of BlueForge Alliance (a nonprofit organization) (the “Entity”), which comprise the statement of financial position as of September 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as of September 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for opinion**

We conducted our audit of the financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Entity and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of management for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Entity’s ability to continue as a going concern for one year after the date the financial statements are issued.

### **Auditor's responsibilities for the audit of the financial statements**

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

In performing an audit in accordance with US GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Entity's ability to continue as a going concern for a reasonable period of time.

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

### **Supplementary information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves,

and other additional procedures in accordance with US GAAS. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other reporting required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2024 on our consideration of the Entity'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 that report is solely 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 the effectiveness of the Entity's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Entity's internal control over financial reporting and compliance.

*Grant Thornton LLP*

Arlington, Virginia  
June 28, 2024

BlueForge Alliance

STATEMENT OF FINANCIAL POSITION

September 30, 2023

**ASSETS**

**Current assets**

Cash and cash equivalents	\$ 33,994,751
Accounts receivable	14,865,287
Prepaid expenses and other current assets	<u>173,074</u>

Total current assets 49,033,112

**Property and equipment, net**  
**Finance lease right-of-use asset**

92,457  
9,054

Total assets \$ 49,134,623

**LIABILITIES AND NET ASSETS**

**Current liabilities**

Accounts payable	\$ 16,066,986
Accrued expenses and other current liabilities	2,195,564
Contract liability	24,667,099
Current portion finance lease liability	<u>1,989</u>

Total current liabilities 42,931,638

Finance lease liability 7,171

Total liabilities 42,938,809

**Net assets**

Without donor restrictions	
Undesignated	<u>6,195,814</u>

Total net assets 6,195,814

Total liabilities and net assets \$ 49,134,623

The accompanying notes are an integral part of this financial statement.

**BlueForge Alliance**

**STATEMENT OF ACTIVITIES**

**Year ended September 30, 2023**

<b>Revenue</b>	\$ 112,400,961
<b>Expenses</b>	
Contract costs	103,539,720
General and administrative	<u>2,692,455</u>
	106,232,175
Income from operations	6,168,786
<b>Other income</b>	
Interest and dividend income	26,992
Other income	<u>36</u>
	<u>27,028</u>
<b>CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	6,195,814
<b>Net assets without donor restrictions, beginning of year</b>	<u>-</u>
<b>Net assets without donor restrictions, end of year</b>	<u><u>\$ 6,195,814</u></u>

The accompanying notes are an integral part of this financial statement.

BlueForge Alliance

STATEMENT OF FUNCTIONAL EXPENSES

September 30, 2023

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Total</u>
Salaries and wages	\$ 5,399,633	\$ 1,256,663	\$ 6,656,296
Payroll taxes	407,541	94,848	502,389
Employee benefits	1,087,935	253,197	1,341,132
Materials and supplies	402,419	-	402,419
Subcontract	90,131,583	-	90,131,583
Consultants and professional services	5,043,835	713,598	5,757,433
Travel	303,674	129,428	433,102
Office expenses	246,612	79,086	325,698
Occupancy	235,218	75,433	310,651
Insurance	82,130	26,339	108,469
Other	199,140	63,863	263,003
	<u>\$ 103,539,720</u>	<u>\$ 2,692,455</u>	<u>\$ 106,232,175</u>
Total expenses by function			

The accompanying notes are an integral part of this financial statement.

BlueForge Alliance

STATEMENT OF CASH FLOWS

Year ended September 30, 2023

**Cash flows from operating activities:**

Change in net assets	\$ 6,195,814
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:	
Depreciation and amortization	2,182
Changes in operating assets and liabilities:	
Accounts receivable	(14,865,287)
Prepaid expenses and other assets	(173,074)
Accounts payable	16,066,986
Contract liability	24,667,099
Accrued expenses and other liabilities	2,195,564
Non-cash lease expense	<u>(1,414)</u>
Net cash provided by operating activities	<u>34,087,870</u>

**Cash flows from investing activities:**

Purchase of property and equipment	<u>(94,639)</u>
Net cash used in investing activities	<u>(94,639)</u>

**Cash flows from financing activities:**

Payment on financing lease obligations	<u>1,520</u>
Net cash used in financing activities	<u>1,520</u>

**NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH** 33,994,751

**Cash, cash equivalents, and restricted cash, beginning of year** -

**Cash, cash equivalents, and restricted cash, end of year** \$ 33,994,751

**Supplemental disclosure of cash flow information:**

Cash paid during the year for:	
Interest	<u>\$ 234</u>

**Supplemental disclosure of non-cash investing and financing activity:**

Equipment financed through finance lease arrangement	<u>\$ 10,477</u>
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The accompanying notes are an integral part of this financial statement.

## BlueForge Alliance

### NOTES TO FINANCIAL STATEMENTS

September 30, 2023

#### NOTE 1 - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

##### **Organization**

BlueForge Alliance (“BFA”, the “Company”, “we”, “us”, “our”) is a nonprofit organization established September 21, 2022, under the laws of the State of Texas to serve as an unbiased, neutral program integrator across industry, academia, and government to advance national security objectives. BFA is exempt from federal and state income taxes under section 501(c)(3) of the Internal Revenue Code (“IRC”) and state statutes, respectively, with the exception of unrelated business income. BFA is headquartered in Bryan, Texas.

BFA was formed to help galvanize and revitalize the U.S. defense industrial base, with particular attention to the submarine industrial base, supporting the United States (“U.S.”) Department of Defense (“DoD”) and the U.S. Navy (“Navy”). Our primary mission is to mobilize all necessary resources to grow the capability, capacity, and resiliency of the submarine industrial base to achieve the U.S. Navy’s “1 + 2” objective: to deliver one new Columbia-class and two Virginia-class next generation nuclear powered submarines on a cadence of every twelve months for the next decade and more, including cultivating the skilled workforce of over 100,000 needed to achieve this objective.

To help meet these demands of one of the nation’s most critical industry and national security priorities, we are able to leverage our 501(c)(3) status to lessen the burdens of the U.S. Navy and DoD to further the program goals of the U.S. Submarine Industrial Base. These specific activities include:

- a Developing independent metrics and assessment methodologies which are used by the Navy and the DoD to analyze national defense technology and assess the capabilities of suppliers that manufacture submarines for use by the Navy, including the parts and equipment used in Navy submarines;
- b Identifying suppliers for the Navy and DoD that are best capable of meeting the U.S. Submarine Industrial Base program requirements;
- c Training and supporting the development of a workforce which is capable of manufacturing national defense technologies and submarines in order to carry-out the program goals of the U.S. Submarine Industrial Base; and
- d Conducting scientific research to accomplish the foregoing activities, as wells as facilitate the development of new national defense technologies to be used by the Navy and the DoD in advancing the critical program objectives of the U.S. Submarine Industrial Base.

##### **Basis of Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

##### **Revenue Recognition**

BFA accounts for revenue recognition under Accounting Standards Codification (“ASC”) 606 (“ASC 606”). Our primary source of revenue is a federal cost-plus fixed fee contract, which is conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue, including fee earned where applicable, when we have incurred expenditures in compliance with specific contract provisions. We did not have any grants for the year ended September 30, 2023.

## BlueForge Alliance

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2023

The Company generates all of its revenue from a cost-plus-fee sub-contract agreement where the end customer is the Navy. A summary of the revenue by contract arrangement type follows. The Company's contract is subject to the Federal Acquisition Regulation and is competitively priced based on estimated costs of providing the contractual goods or services.

The Company accounts for a contract when the parties have approved the contract and are committed to perform on it, the rights of each party and the payment terms are identified, the contract has commercial substance, and it is probable that we will collect substantially all of the consideration.

At contract inception, the Company determines whether the goods or services to be provided are to be accounted for as a single performance obligation or as multiple performance obligations. This evaluation requires professional judgement and may impact the timing and pattern of revenue recognition. The Company's contract calls for multiple promises that are highly integrated and, as such, we account for it as having a single performance obligation.

The Company generally recognizes revenue over time throughout the performance period as the customer simultaneously receives and consumes the benefits provided. This continuous transfer of control for U.S. government contracts is supported by the unilateral right of our customer to terminate the contract for convenience without having to provide justification for its decision. For our cost-type contract, the Company applies the right-to-invoice practical expedient in which revenue is recognized in direct proportion to the present right to consideration for progress towards the complete satisfaction of the performance obligation.

Contract modifications are reviewed to determine whether they should be accounted for as part of the original performance obligation or as a separate contract. When a contract modification changes the scope or price and the additional performance obligations are at their standalone selling price, the original contract is terminated and the Company accounts for the change prospectively when the new goods or services to be transferred are distinct from those already provided. When the contract modification includes goods or services that are not distinct from those already provided, the Company records a cumulative adjustment to revenue based on a remeasurement of progress towards the complete satisfaction of the not yet fully delivered performance obligation.

Based on the critical nature of the Company's contractual performance obligations, the Company may proceed with work based on customer direction prior to the completion and signing of formal contract documents. The Company has a formal review process for approving any such work that considers previous experiences with the customer, communications with the customer regarding funding status, and the Company's knowledge of available funding for the contract or program.

BFA bills federal governments in conformity with government contract schedules.

#### **Contract Assets**

Contract assets include unbilled receivables typically resulting from revenue recognized on long-term contracts when the amount of revenue recognized exceeds the amounts billable. It also includes contract retainages until the Company has met the contract-stipulated requirements for payment. Contract assets are reported in a net position on a contract-by-contract basis each period. On a contract-by-contract basis, amounts do not exceed their net realizable value. The Company did not have any contract assets as of September 30, 2023.

#### **Contract Liabilities**

Periodically, we receive funds in advance of expenditures incurred under the contracts. Such amounts are recorded as contract liabilities and are recognized as the services or goods are transferred to the customers. Contract liabilities are reported in a net position on a contract-by-contract basis each period.

## BlueForge Alliance

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2023

As of September 30, 2023, deferred revenue was \$24,667,099.

#### ***Accounts Receivable and Allowance for Credit Losses***

The Company's accounts receivables are due from a U.S. federal government agency. Accounts receivable includes costs and fees incurred through September 30, 2023 under a cost-reimbursable contract but not billed until October 2023.

The Company establishes allowances for credit losses in accounts receivable and contract assets. To measure expected credit losses, management considers historical collectability based on past due status as well as market conditions and forecasts of future economic conditions to inform potential adjustments to historical loss data. In addition, the Company records allowance for credit losses for specific receivables that are deemed to have a higher risk profile than the rest of the respective pool of receivables. The adequacy of these allowances is assessed regularly through consideration of factors on a collective basis where similar characteristics exist and on an individual basis.

The Company did not record an allowance for credit losses as of September 30, 2023, as the Company does not believe there to be significant credit risk on accounts receivable.

All contract costs billed to the U.S. government are subject to audit by the Defense Contract Audit Agency ("DCAA") (see Note 7, Commitments and Contingencies).

#### ***Cash and Cash Equivalents***

We consider all cash and highly liquid financial instruments with original maturities of three months or less to be cash and cash equivalents. BFA places its cash with a high credit quality institution. Accounts are insured by the Federal Deposit Insurance Corporation ("FDIC"). Cash deposits may exceed the FDIC insurable limit of \$250,000 at times throughout the year. BFA has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

#### ***Property and Equipment***

Property and equipment is recorded at cost and depreciated or amortized using the straight-line method over the estimated useful lives of the assets acquired, or the life of the respective lease. Our policy is to capitalize property and equipment purchases greater than \$5,000 with a useful life greater than one year. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities.

Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed as incurred.

Long-lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset group may not be fully recoverable in accordance with ASC 360, *Property, Plant and Equipment* (ASC 360). These events or changes in circumstances may include a significant deterioration of operating results, changes in business plans, or changes in anticipated future cash flows. If an indicator is present, the Company evaluates recoverability by a comparison of the carrying amount of the assets to future undiscounted cash flows expected to be generated by the assets. If the assets are impaired, the impairment recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets. No impairment of long-lived assets were recognized during the fiscal year ended September 30, 2023.

## BlueForge Alliance

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2023

#### ***Accrued Expenses and Other Liabilities***

Accrued expenses and other liabilities includes investment income earned on cash held in an interest-bearing account for funds that were advanced to us on the contract (see Revenue and Support, below). As of September 30, 2023, the amount earned and payable to the federal government was approximately \$470,880, which is recorded in accrued expenses and other liabilities on the statement of financial position.

#### ***Functional Allocation of Expenses***

Program costs consist of expenses incurred related to the federal contract. The costs of providing this program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Expenses directly attributable to the contract are reported as expenses of that functional area while indirect costs that benefit multiple functional areas have been allocated among the various functional areas based on a variety of factors including salaries and headcount.

#### ***Net Assets***

Net assets represent the excess of accumulated contract cost reimbursements, fees and other income over total costs and expenses. BFA's net assets are without donor restrictions.

#### ***Income Taxes***

BlueForge Alliance follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

BlueForge Alliance is exempt from federal income tax under Internal Revenue Code (the "Code") Section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. BlueForge Alliance has processes presently in place to ensure the maintenance of its tax-exempt status, to identify and report unrelated income, to determine its filing and tax obligations in jurisdictions for which it has nexus, and to identify and evaluate other matters that may be considered tax positions. BlueForge Alliance has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

#### ***Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

#### ***Fair Value of Financial Instruments***

Financial Accounting Standards Board ("FASB") ASC 820, *Fair Value Measurements*, provides the framework for measuring fair value and expands disclosures about fair value measurements.

In accordance with ASC 820, BFA classifies its assets and liabilities into Level 1 (securities valued using quoted prices from active markets for identical assets), Level 2 (securities not traded on an active market for which observable market inputs are readily available) and Level 3 (securities valued based on significant unobservable inputs).

**BlueForge Alliance**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**September 30, 2023**

All fair value investments held by BFA for the fiscal year ended September 30, 2023 were Level 1 investments.

**NOTE 2 - LIQUIDITY AND AVAILABILITY**

BFA regularly monitors the liquidity required to meet its operating needs and contractual commitments while also attempting to maximize the long-term value of its available funds. The Company has multiple sources of liquidity at its disposal, including cash and cash equivalents and accounts receivable.

BFA does not receive significant contributions or gifts with restrictions.

As of September 30, 2023, the following financial assets could be readily available within one year of the statement of financial position date to meet general expenditures.

Cash and cash equivalents	\$ 33,994,751
Accounts receivable	<u>14,865,287</u>
	<u>\$ 48,860,038</u>

**NOTE 3 - PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at September 30, 2023:

Depreciable:	
Equipment	\$ 23,806
Computer equipment and software	<u>70,833</u>
	94,639
Less: accumulated depreciation	<u>(2,182)</u>
Total property and equipment, net	<u>\$ 92,457</u>

Computer equipment and software represents capitalized software for the acquisition of a new accounting system, which was still in process of implementation as of September 30, 2023 and has not yet been placed in service.

The Company recorded depreciation expense totaling \$2,182 for the year ended September 30, 2023, which is recorded as a general and administrative expense on the statement of activities.

**NOTE 4 - LEASES**

We lease certain office facilities and equipment at various terms under long-term non-cancelable operating lease and finance lease agreements. The leases expire at various dates through 2028. We include in the determination of the right-of-use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised. No operating leases were identified during the fiscal year ended September 30, 2023.

**BlueForge Alliance**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**September 30, 2023**

The weighted-average discount rate is based on the discount rate implicit in the lease. We have elected the option to use the risk-free rate determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable. We have applied the risk-free rate option to the building and office equipment classes of assets.

We have elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on a straight-line basis.

We have elected the practical expedient to separate lease and non-lease components for building and office equipment leases that have a net present value less than \$5,000. We classify, by item, a capitalization threshold of \$5,000 as per company policy.

Total right-of-use assets and lease liabilities on September 30, 2023 is as follows:

Lease assets - classification in statement of financial position:	
Finance right-of-use assets - property and equipment	\$ <u>9,054</u>
Total leased right-of-use assets	\$ <u><u>9,054</u></u>
Lease liabilities - classification in statement of financial position:	
Finance right-of-use assets - property and equipment	\$ <u>9,160</u>
Total lease liabilities	\$ <u><u>9,160</u></u>

Total lease costs for the year ended September 30, 2023 is as follows:

Finance lease cost:	
Interest expense	\$ 234
Amortization of right-of-use	\$ 1,393

The following table summarizes the supplemental cash flow information for the year ended September 30, 2023:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from finance leases	\$ 234
Financing cash flows from finance leases	\$ 1,393
Right-of-use assets obtained in exchange for lease liabilities:	
Finance leases	\$ 10,447

The following summarizes the weighted-average remaining lease term and weight-average discount rate:

	2023
Weighted-average remaining lease term in years:	
Finance leases	4.25
Weighted-average discount rate:	
Finance leases	3.61%

BlueForge Alliance

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2023

The future minimum lease payments under noncancelable finance leases with terms greater than one year are listed below as of September 30, 2023:

	<u>Finance</u>
2024	\$ 2,280
2025	2,280
2026	2,280
2027	2,280
2028	<u>760</u>
Total lease payments	9,880
Less interest	<u>(720)</u>
Present value of lease liabilities	<u>\$ 9,160</u>

**NOTE 5 - ACCRUED EXPENSES AND OTHER LIABILITIES**

Accrued expenses and other liabilities consist of the following at September 30, 2023:

Accrued compensated vacations	\$ 651,649
Accrued payables	913,027
Credit card charges payable	160,008
Interest income payable to government	<u>470,880</u>
	<u>\$ 2,195,564</u>

**NOTE 6 - EMPLOYEE BENEFITS**

BFA established a voluntary Safe Harbor defined contribution 401(k) plan that covers all employees who meet certain eligibility requirements. Employees may contribute a percentage of their compensation to the Plan. BFA's Safe Harbor matching contributions equal 100% of the employee deferral contributions not to exceed 6% of employee eligible compensation per payroll period. BFA's matching contributions for the fiscal year 2023 were approximately \$264,222 and is included in contract costs on the accompanying statement of activities.

**NOTE 7 - COMMITMENTS AND CONTINGENCIES**

***DCAA Audits***

Costs billed by BFA to the U.S. government pursuant to Department of Defense contracts are subject to audit by the DCAA. BFA's costs billed to the U.S. government through September 30, 2023 are in the process of being settled through indirect rate agreements with the Defense Contract Management Agency ("DCMA") or DCAA. Management does not believe any potential adjustment to subsequent periods would have a material effect on the accompanying financial statements. Accordingly, no provision for such adjustments has been made.

**BlueForge Alliance**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**September 30, 2023**

**NOTE 8 - SUBSEQUENT EVENTS**

We have evaluated subsequent events through June 28, 2024, the date the financial statements were available to be issued.

On November 2, 2023, to accommodate the significant growth of our organization, we elected to purchase the facility we were previously leasing in Bryan, TX, to continue serving as our headquarters. A new 501(c)(2) corporation, BlueForge Holdings, Inc., was created for the purpose of holding title to the land and office building, collecting the income from such real estate, and remitting the net income to BFA, which is the sole member of the corporation.

SUPPLEMENTAL INFORMATION

BlueForge Alliance

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended September 30, 2023

Federal Grantor Program Title	Direct Award or Pass-through Entity	Assistance Listing No.	Pass-through Entity Identifying Number	Expenditures	Amount Passed through to Subrecipients
<b>U.S. Department of Defense:</b>					
<b>Research and Development Cluster</b>					
Cost Assessment and Program Evaluation (CAPE) Submarine Industrial Base (SIB) Growtl	Pass-through from General Dynamics Electric Boat	12.RD	1000042855	\$ 106,016,918	\$ -
Total Research and Development Cluster				<u>106,016,918</u>	<u>-</u>
Total for U.S. Department of Defense				<u>106,016,918</u>	<u>-</u>
Total Federal Expenditures				<u>\$ 106,016,918</u>	<u>\$ -</u>

The accompanying notes to the Schedule of Expenditures of Federal Awards is an integral part of this schedule.

**BlueForge Alliance**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**September 30, 2023**

**NOTE A - BUSINESS AND ORGANIZATION**

BlueForge Alliance (“BFA”) is a nonprofit organization established September 21, 2022, under the laws of the State of Texas to serve as an unbiased, neutral program integrator across industry, academia, and government to advance national security objectives. BFA was formed to help galvanize and revitalize the U.S. defense industrial base, with particular attention to the submarine industrial base, supporting the United States (“U.S.”) Department of Defense (“DoD”) and the U.S. Navy (“Navy”).

**NOTE B - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of BFA and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of Title 2 U.S. *Code of Federal Regulations* (“CFR”) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

BFA generally operates under cost-type contracts with its federal sponsor and records costs as the effort is expended. Contract costs are recorded on the basis of direct costs, overhead and general and administrative expenses incurred. Indirect costs are allocated on the basis of direct labor cost incurred.

**NOTE C - RESEARCH AND DEVELOPMENT PROGRAM CLUSTER**

BFA has determined that its federal contract constitute a research and development program cluster. Accordingly, the accompanying schedule of expenditures of federal awards reflects its federal contract as a research and development program cluster.

**NOTE D - INDIRECT COST RATE**

BFA has elected not to use the 10% de minimis cost rate provided for in Subpart E, Section 200.414 of the Uniform Guidance.

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## **REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Board of Directors  
BlueForge Alliance

We have audited, 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 (*Government Auditing Standards*), the financial statements of BlueForge Alliance (the "Entity"), which comprise the statement of financial position as of September 30, 2023, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 28, 2024.

### **Report on internal control over financial reporting**

In planning and performing our audit of the financial statements, we considered the Entity's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the Entity'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.

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 or significant deficiencies may exist that were not identified.

### **Report on compliance and other matters**

As part of obtaining reasonable assurance about whether the Entity's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements,

noncompliance with which could have a direct and material effect on the financial statements. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Entity's internal control or 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 and compliance. Accordingly, this report is not suitable for any other purpose.

*Grant Thornton LLP*

Arlington, Virginia  
June 28, 2024

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## **REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors  
BlueForge Alliance

### **Report on compliance for each major federal program**

#### **Qualified opinion**

We have audited the compliance of BlueForge Alliance (the “Entity”) with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget’s *OMB Compliance Supplement* that could have a direct and material effect on each of the Entity’s major federal programs for the year ended September 30, 2023. The Entity’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

#### *Qualified opinion on Research and Development Cluster*

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion section of our report, the Entity complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Research and Development Cluster program for the year ended September 30, 2023.

#### **Basis for qualified opinion**

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (US GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Entity and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Entity’s compliance with the compliance requirements referred to above.

#### *Matter giving rise to qualified opinion on Research and Development Cluster*

As described in the accompanying schedule of findings and questioned costs, the Entity did not comply with requirements regarding the Research and Development

Cluster program as described in finding number 2023-001 for Procurement, Suspension and Debarment.

Compliance with such requirements is necessary, in our opinion, for the Entity to comply with the requirements applicable to that program.

#### **Responsibilities of management for compliance**

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Entity's federal programs.

#### **Auditor's responsibilities for the audit of compliance**

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Entity's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Entity's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with US GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Entity's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

*Government Auditing Standards* requires the auditor to perform limited procedures on the Entity's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Entity's response was not subjected to the other auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the Entity's response.

### **Report on internal control over compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, we identified a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2023-001, that we consider to be a material weakness in the Entity's internal control over compliance.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

*Government Auditing Standards* requires the auditor to perform limited procedures on the Entity's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Entity's response was not subjected to the other auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the Entity's response.

The purpose of this Report on Internal Control Over Compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Arlington, Virginia  
June 28, 2024

**BlueForge Alliance**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**

**September 30, 2023**

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	_____	yes	_____	<u>X</u>	no
Significant deficiency(ies) identified?	_____	yes	_____	<u>X</u>	none reported
Noncompliance material to financial statements noted?	_____	yes	_____	<u>X</u>	no

**Federal Awards**

Internal control over the major program:

Material weakness(es) identified?	_____	<u>X</u>	yes	_____	no
Significant deficiency(ies) identified?	_____	yes	_____	<u>X</u>	none reported

Type of auditors' report issued on compliance for the major program: Qualified

Any audit findings disclosed that are required to be reported in accordance Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award?

	_____	<u>X</u>	yes	_____	no
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**Identification of the major programs:**

<u>Federal Grantor/Program or Cluster Title</u>	<u>Federal Assistance Listing Number</u>
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Research and Development Cluster	12.RD
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Dollar threshold used to distinguish between type A and type B programs: \$3,000,000

Auditee qualified as low-risk auditee?	_____	yes	_____	<u>X</u>	no
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**SECTION II - FINANCIAL STATEMENT FINDINGS**

None reported.

BlueForge Alliance

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

September 30, 2023

SECTION III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

**FINDING 2023-001 Internal Control over Compliance and Compliance with Procurement, Suspension and Debarment**

**Program:**

**Federal Agency: Department of Defense (U.S. Navy)**  
**Funding Year(s): 10/22/2022 – 9/30/2027**  
**Passthrough Entity: General Dynamics Electric Boat**  
**Federal Award: 1000042855**  
**AL Number: 12.RD**

**Criteria:**

The Federal Acquisition Regulation (FAR) 52.244-5 outlines the following regarding competition:

- (a) The Contractor shall select subcontractors (including suppliers) on a competitive basis to the maximum practical extent consistent with the objectives and requirements of the contract.
- (b) If the Contractor is an approved mentor under the Department of Defense Pilot Mentor-Protégé Program (Pub.L.101-510, section 831 as amended), the Contractor may award subcontracts under this contract on a noncompetitive basis to its protégés.

The FAR subpart 6.3 outlines policies and procedures, and identifies authorities, for contracting without providing for full and open competition:

- (a) 41 U.S.C.3304 and 10 U.S.C. 3204 each authorize, under certain conditions, contracting without providing for full and open competition. The Department of Defense, Coast Guard, and National Aeronautics and Space Administration are subject to “ 10 U.S.C. 3204. Other executive agencies are subject to 41 U.S.C.3304. Contracting without providing for full and open competition or full and open competition after exclusion of sources is a violation of statute, unless permitted by one of the exceptions in 6.302.
- (b) Each contract awarded without providing for full and open competition shall contain a reference to the specific authority under which it was so awarded. Contracting officers shall use the U.S. Code citation applicable to their agency. (See 6.302.)
- (c) Contracting without providing for full and open competition shall not be justified on the basis of-
  - (1) A lack of advance planning by the requiring activity; or
  - (2) Concerns related to the amount of funds available (*e.g.*, funds will expire) to the agency or activity for the acquisition of supplies or services.
- (d) When not providing for full and open competition, the contracting officer shall solicit offers from as many potential sources as is practicable under the circumstances.
- (e) For contracts under this subpart, the contracting officer shall use the contracting procedures prescribed in 6.102(a) or (b), if appropriate, or any other procedures authorized by this regulation.

**BlueForge Alliance**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**

**September 30, 2023**

Per FAR 6.302, the following are circumstances permitting other than full and open competition:

- 6.302-1 Only one responsible source and no other supplies or services will satisfy agency requirements.
- 6.302-2 Unusual and compelling urgency.
- 6.302-3 Industrial mobilization; engineering, developmental, or research capability; or expert services.
- 6.302-4 International agreement.
- 6.302-5 Authorized or required by statute.
- 6.302-6 National security.
- 6.302-7 Public interest.

In accordance with FAR 9.405 (e)(1) After the opening of bids or receipt of proposals or quotes, the contracting officer shall review the exclusion records in SAM.

**Condition:**

During our testing of compliance and controls, we identified the following matters:

- For four procurement samples of a total of 15 items sampled, management utilized a single source justification. However, the rationale did not conform to the requirements of FAR 6.302 Circumstances Permitted Other than Full and Open Competition.
- For three procurement samples of a total of 15 items sampled, management was not able to provide evidence that they reviewed the exclusion records in sam.gov in accordance with FAR 9.405 (e)(1).

**Cause:**

The Entity did not follow its policies and procedures in place to ensure compliance with the requirements of procurement, suspension and debarment.

**Effect:**

Failure to perform procurement procedures in accordance with the Entity's documented policies and Procurement Procedures as outlined in the FAR could result in the procurement being disallowed. Failure to timely verify that a vendor is not suspended or debarred could result in transactions involving unreasonable costs or result in unintentionally entering into a contract with an entity that is barred from performing work for the Federal government.

**Context:**

This is a condition identified based upon our review of the Entity's compliance with specified requirements. The prevalence of these findings is detailed in the condition section above, for which the questioned costs total \$12,604,205. The samples were selected using a non-statistical method.

**Questioned Costs:**

\$12,604,205

**Identification as a Repeat Finding:**

This is not a repeat finding.

**BlueForge Alliance**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**

**September 30, 2023**

**Recommendation:**

We recommend that the entity follow established policies, procedures, and internal controls to comply with the FAR procurement standards regarding full and open competition when the rationale for vendor selection do not conform to the requirements of FAR 6.302 Circumstances Permitted Other than Full and Open Competition. The entity should also ensure that independent checks for suspension and debarment are completed for all vendor procurements.

## **Management's Corrective Action Plan**

### **Finding Number: 2023-001 Internal Control over Compliance and Compliance with Procurement, Suspension and Debarment**

#### **Summary of Finding:**

The Federal Acquisition Regulation (FAR) 52.244-5 outlines the following regarding competition:

- (a) The Contractor shall select subcontractors (including suppliers) on a competitive basis to the maximum practical extent consistent with the objectives and requirements of the contract.
- (b) If the Contractor is an approved mentor under the Department of Defense Pilot Mentor-Protégé Program (Pub.L.101-510, section 831 as amended), the Contractor may award subcontracts under this contract on a noncompetitive basis to its protégés.

The FAR subpart 6.3 outlines policies and procedures, and identifies authorities, for contracting without providing for full and open competition:

Per FAR 6.302 the following are circumstances permitting other than full and open competition

- 6.302-1 Only one responsible source and no other supplies or services will satisfy agency requirements.
- 6.302-2 Unusual and compelling urgency.
- 6.302-3 Industrial mobilization; engineering, developmental, or research capability; or expert services.
- 6.302-4 International agreement.
- 6.302-5 Authorized or required by statute.
- 6.302-6 National security.
- 6.302-7 Public interest.

In accordance with FAR 9.405 (e)(1) After the opening of bids or receipt of proposals or quotes, the contracting officer shall review the exclusion records in SAM.

During our testing of compliance and controls, we identified the following matters:

- For four procurement samples of a total of 15 items sampled management utilized a single source justification. However, the rationale did not conform to the requirements of FAR 6.302 Circumstances Permitted Other than Full and Open Competition.
- For three procurement samples of a total of 15 items sampled management was not able to provide evidence that they reviewed the exclusion records in sam.gov in accordance with FAR 9.405 (e)(1).

#### **Response to finding:**

- BlueForge Alliance (BFA) agrees with the comments provided and will take Corrective Action as identified below. Once Corrective Action is undertaken BFA will update policies and procedures to include the use of tools which will lead to full compliance with the requirements of FAR 6.302. BFA will also consolidate this information into BFA's procurement user manual which will be available to all staff members via BFA's SharePoint site.

- BFA agrees with the comments provided and will take Corrective Action as identified below. Once Corrective Action is undertaken BFA will update policies and procedures to include instruction which will lead to full compliance with the requirements of FAR 9.405 (e)(1). BFA will also consolidate this information into BFA’s procurement user manual which will be available to all staff members via BFA’s SharePoint site.

**Corrective Action:**

- BFA is currently in the implementation stages of the CPSR Pro Docs tool. BFA is expected to go live with this system no later than August 31, 2024. CPSR Pro Docs will allow BFA to process compliant procurement transactions efficiently and effectively from Micro-Purchases through the issuance of major Subcontracts. The software leverages expert knowledge and streamlines the Procurement process with automated workflow software. CPSR ProDocs is a logic and rule-based system that uses pre-existing text and meta-data to assemble compliant Procurement documentation. It is driven by regulatory compliant logic resulting in output documentation formulating customized results.

CPSR ProDocs will allow BFA to check 30 CPSR Audit Points, analyze source elements (prime contracts, thresholds, customized procedures), guide BFA buyers through process of compliant file documentation, and create checklists at the end that show missing items necessary for completion. These CPSR Pro Doc capabilities will result in BFA’s full compliance with FAR 6.302.

- BFA is currently in the implementation stages of the Deltek Costpoint tool. BFA is expected to go live with this system no later than October 31, 2024. The Supplier Module tool within Deltek Costpoint will allow BFA to do automatic visual compliance checks when suppliers are onboarded to the portal. Additionally, BFA will consolidate instruction on completing Sam.gov checks on all vendors within the BFA procurement user manual. Additionally, CPSR Pro Docs includes a checklist with assigned peer review that requires buyers to confirm their review of exclusion records in Sam.gov for each vendor being onboarded.

The additional visual compliance check through Deltek Costpoint in conjunction with the CPSR ProDocs checklist with assigned peer review will allow BFA to fully comply with the requirements of FAR 9.405(e)(1).

**Individual(s) Responsible for Corrective Action Plan:**

Lindy Beasley  
Principal, Contracts and Compliance  
979-229-6465

**Anticipated Completion Date:**

The anticipated completion date for implementation of the CPSR Pro Docs tool is August 31, 2024. The anticipated completion date for implementation of the Deltek Costpoint tool is October 31, 2024. BFA will update their policies, procedures, and procurement user manual at the conclusion of the tool implementations but no later than December 1, 2024.