



Office of the Special Inspector General for
Pandemic Recovery
Office of Audits

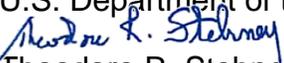
Independent Review of 4003(b) Loan Recipient's Validation Memo – American Airlines, Inc.

Report Number: SIGPR-A-22-003-2
March 29, 2022



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TO: Jacob D. Leibenluft
Chief Recovery Officer
U.S. Department of the Treasury

FROM: 
Theodore R. Stehney
Assistant Inspector General for Auditing
Special Inspector General for Pandemic Recovery (SIGPR)

SUBJECT: Independent Review of 4003(b) Loan Recipient's
Validation Memo – American Airlines, Inc.

This report presents the results of our review of the Validation Memo associated with American Airlines, Inc.'s (American) application submission to the Department of Treasury (Treasury). American received a \$5.477 billion loan under Section 4003, Division A, Title IV, Subtitle A of the Coronavirus Aid, Relief, and Economic Security Act of 2020 (the "CARES Act").

On April 18, 2020, American applied for a loan under Application Number LA-2004160279. All applicants had to provide specific documentation along with their applications to be further considered to receive a loan, as outlined in Treasury's Underwriting Guide. Treasury completed a Validation Memo once it received and reviewed an applicant's document submissions. Once the Validation Memo was completed, Treasury forwarded the application to the next level of the underwriting process.

Based on our review, we are not aware of any material modifications that should be made to the Validation Memo that Treasury completed for American to comply with Treasury's Underwriting Guide.

Please address questions regarding this report to Michael Sinclair at (202) 923-8021 or Michael.Sinclair@sigpr.gov.

Introduction

Section 4003 of the CARES Act authorizes the Treasury to make loans, loan guarantees, and other investments to provide liquidity to eligible businesses related to losses incurred as a result of the coronavirus pandemic. Sections 4003(b)(1)-(3) appropriated \$46 billion to help stabilize the airline industry and businesses critical to maintaining national security.

The breakdown of available funding was as follows:

1. Up to \$25 billion for passenger air carriers; businesses certified to perform inspection, repair, replace or overhaul services; and ticket agents;
2. Up to \$4 billion for cargo air carriers; and
3. Up to \$17 billion for businesses critical to maintaining national security.

Section 4003 loans were further categorized by the loan amount requested. The Air Carrier Loan Program is categorized into tiers as follows: Tier 1 loans were above \$300 million, Tier 2 loans were between \$20 million and \$300 million, and Tier 3 loans were under \$20 million.

Background

On April 18, 2020, American applied for a for \$6 billion loan under Section 4003 of the CARES Act and was originally allocated \$4.749 billion of the requested amount. As a result of additional CARES Act funding availability, Treasury increased American's allocation by \$728 million to \$5.477 billion in September 2020. Based on its loan amount, American is classified as a Tier 1 borrower.

During the application period, applicants were required to provide multiple documents, as identified in the Underwriting Guide. For each applicant to move forward in the loan process, they had to provide financial statements, a financial plan, and certain IRS forms, among other documentation. Depending on the applicant's type of business additional documentation was also required. For instance, air carriers had to provide their Department of Transportation certification as such under Section 40102(a) of Title 49, United States Code. All documentation provided was to be maintained by Treasury.

Once the required documentation was compiled, Treasury verified and recorded it using a Validation Memo. A completed and signed Validation Memo allowed the applicant to move forward to the loan underwriting process.

Results in Brief

Based on our review, we are not aware of any material modifications that should be made to the Validation Memo Treasury completed for American to comply with Treasury's Underwriting Guide. However, we identified one discrepancy in the completion of the Validation Memo that we considered inconsequential. For your information, the discrepancy is:

- The Reviewer responded "NO" in response to the question, "Did the Borrower receive or apply for, or does the Borrower expect to apply for, loans provided or guaranteed pursuant to other programs under the CARES Act?" However, American's application in Salesforce indicates "yes," and the reviewer recorded a PSA number in the following field, "Has an application for this EIN been submitted for Payroll Support?"

Compliance Statement

We conducted our review in accordance with generally accepted government auditing standards for attestation engagements. Those standards require that we plan and perform the review to obtain limited assurance that the Validation Memo is fairly presented in all material respects and completed according to Treasury's Underwriting Guide. A review is substantially less in scope than an examination, the objective of which is to obtain reasonable assurance and express an opinion on the subject matter. Accordingly, we do not express such an opinion. We believe that our review provides a reasonable basis for our conclusion.

Audit Team

This review was conducted the individuals listed below:

Michael Sinclair	Audit Manager
Renata Malionek	Management Analyst

Appendix A – Objective, Scope and Methodology

We have reviewed American Airlines Inc.'s submission of loan documents under Application Number LA-2004160279. Treasury was responsible for obtaining American's loan documentation and completing the Validation Memo in accordance with its Underwriting Guide prior to moving the application further in the loan process. Our responsibility is to express a conclusion about whether any material modification should be made to the Validation Memo for it to be in accordance with Treasury's Underwriting Guide and be fairly stated.

The objective of this review is to evaluate whether Treasury's Validation Memo for American was completed according to Treasury's Underwriting Guide and other applicable criteria, and fairly presents the supporting documentation provided by American in all material respects. Treasury's efforts culminated in the completion of the Validation Memo. Additionally, this review is an offshoot of the overall examination of the 4003(b) loan program.

We primarily performed this review remotely due to the ongoing telework situation dictated by the pandemic. We therefore relied on mostly electronic records for our review.

To accomplish the review objective, our fieldwork included, but was not limited to, the following procedures:

- Reviewed Treasury's Underwriting Guide and determined the documents required by all applicants;
- Reviewed American's Validation Memo for completeness and accuracy;
- Determined if the document submissions were complete and accurate;
- Requested additional documentation from Treasury officials when needed; and
- Held discussions with Treasury officials when applicable.

The review was conducted in accordance with generally accepted government auditing standards for attestation engagements.

Appendix B – Report Distribution

Chief Recovery Officer – U.S. Department of the Treasury

Office of General Counsel – U.S. Department of the Treasury

Inspector General – Special Inspector General for Pandemic Recovery

Asst. Inspector General for Auditing – Special Inspector General for Pandemic Recovery

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