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SIGAR OVERSIGHT CONTENTS

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The Special IG and staff meet with the Monitoring and Evaluation Committee, May 2013. (SIGAR photo)

SIGAR OVERSIGHT ACTIVITIES

This was SIGAR's most productive quarter since Congress created the agency in 2008. SIGAR issued 30 audits, inspections, alert letters, and other reports. This included six audits, 11 financial audits of costs incurred on contracts, two inspections, nine management and safety alert letters, and one Special Project report. Most of this work focused on contracting issues and program management. It identified poor planning, project delays, weak accountability, and deficient oversight. It also found significant waste, shoddy construction, and potential threats to health and safety.

Ongoing SIGAR investigations of fuel thefts in Afghanistan also saved the U.S. government approximately $800,000 during this reporting period. In addition, SIGAR investigations led to two arrests, two indictments, two criminal informations, two court-martial convictions, and two guilty pleas.

The six audits SIGAR published this quarter reviewed Department of Defense (DOD), State Department, and U.S. Agency for International Development (USAID) programs to develop the Afghan security forces, improve governance, and promote economic and social development. One audit showed that DOD is moving forward with a $771.8 million purchase of aircraft the Afghan National Army (ANA) cannot operate or maintain. Another revealed that USAID's main stabilization program has suffered repeated delays and is failing to meet critical contract objectives. SIGAR also found that State and USAID need stronger authority to terminate contracts when enemy affiliations are identified. In addition, SIGAR raised concerns about the capabilities and costs of the Afghan Public Protection Force (APPF), which U.S.-funded contractors must now rely on for security services. Finally, SIGAR discovered that State's reconstruction grants and cooperative agreements have gone largely unaudited. SIGAR's financial audits of contracts valued at about $942 million identified over $49 million in questioned costs.

SIGAR inspections of education facilities found such shoddy construction that the buildings pose a safety threat to teachers and students. In addition, SIGAR alert letters informed DOD and USAID about significant waste of U.S. funds. For example, SIGAR reported on the construction of a 64,000-square-foot building that may never be used and an agricultural program that suffered from poor planning and inadequate oversight.

AUDIT ALERT LETTERS

- Alert 13-2: Southern Regional Agricultural Development Program
- Alert 13-3: Fines, Fees, and Penalties Levied by Afghan Government
- Alert 13-4: Camp Leatherneck Incinerators and Burn Pits
- Alert 13-5: Chemonics International
- Alert 13-6: State Agreement with International Development Law Organization

COMPLETED AUDITS

- Audit 13-8: Business Taxes on Contractors in Afghanistan
- Audit 13-12: State Department Assistance Awards
- Audit 13-13: Afghan Special Mission Wing
- Audit 13-14: Contracting with the Enemy
- Audit 13-15: Afghan Public Protection Force Concerns
- Audit 13-16: Stability in Key Areas Programs

COMPLETED INSPECTIONS

- Inspection 13-9: Sheberghan Teaching Training Facility
- Inspection 13-10: Bathkhak School

COMPLETED SPECIAL PROJECT REPORTS

- Special Project 13-8: Culvert Denial Systems

SPECIAL PROJECT ALERT LETTERS

- Management Alert 13-4: Subcontractor Nonpayment Issues
- Safety Alert 13-5: Bathkhak School
- Safety Alert 13-6: Sheberghan Teacher Training Facility
- Management Alert 13-7: Command and Control Facility at Camp Leatherneck

During this reporting period, SIGAR also provided a special briefing to the House Committee on Oversight and Government Reform on the Kabul Bank crisis, requested implementing agencies to provide an analysis of their best performing projects, and conducted a peer review.

In addition to identifying and deterring waste, fraud, and abuse, SIGAR seeks to make recommendations to U.S. government agencies and the Congress to improve the efficiency and effectiveness of the nearly $97 billion U.S. reconstruction effort. This quarter, members of Congress drew on SIGAR's work for proposed legislation.

PROPOSED LEGISLATION INCORPORATES SIGAR RECOMMENDATIONS

During this reporting period, the House and Senate each incorporated SIGAR findings and recommendations into their drafts of the National Defense Authorization Act (NDAA) for fiscal year (FY) 2014. The House, which passed its version of the FY 2014 NDAA on June 14, 2013, would expand Section 841, which calls on the U.S. Central Command (CENTCOM) commander to take steps to prevent contracting with the enemy and authorizes DOD to terminate contracts it has determined are providing funding to active insurgent elements and opponents of U.S. or Coalition forces.

Other provisions of the bill would require DOD to report on measures to ensure that U.S. financial assistance to the Afghan security forces is not used to purchase fuel from Iran in violation of U.S. sanctions, require DOD to recoup taxes assessed by the Afghan government, and require DOD to provide information on the capability of the Afghan security forces to operate and maintain their infrastructure after January 1, 2015. These provisions drew on recommendations from four SIGAR reports:

- *Contracting with the Enemy: DOD Has Limited Assurance that Contractors with Links to Enemy Groups Are Identified and Their Contracts Terminated* (Audit 13-6)
- *Afghan National Security Forces: Limited Visibility Over Fuel Imports Increases the Risk that U.S.-Funded Fuel Purchases Could Violate U.S. Economic Sanctions against Iran* (Special Project Report 13-2)
- *Taxes: Afghan Government Has Levied Nearly a Billion Dollars in Business Taxes on Contractors Supporting U.S. Government Efforts in Afghanistan* (Audit 13-8)
- *Afghan National Security Forces Facilities: Concerns with Funding, Oversight, and Sustainability for Operations and Maintenance* (Audit 13-1)

The Senate Armed Services Committee, which reported its version of the FY 2014 NDAA on June 20, 2013, would also expand Section 841. As SIGAR has recommended, the Committee would direct the Secretary of Defense to report to Congress on efforts to reduce reliance on open-pit burning

of waste at operating bases in Afghanistan. The Committee drew on two SIGAR reports:

- *Contracting with the Enemy: DOD Has Limited Assurance that Contractors with Links to Enemy Groups Are Identified and Their Contracts Terminated* (Audit 13-6)
- *Forward Operating Base Salerno: Inadequate Planning Resulted in $5 Million Spent for Unused Incinerators and the Continued Use of Potentially Hazardous Open-Air Burn Pit Operations* (Inspection 13-8)

SENATORS URGE DOD TO IMPLEMENT SIGAR RECOMMENDATIONS

After the publication this quarter of SIGAR's audit of U.S. efforts to support the Afghan Special Mission Wing (SMW), a bipartisan group of nine senators urged Secretary of Defense Chuck Hagel to reconsider DOD's planned purchase of 48 Russian helicopters. The Afghan government established the SMW to provide critical air support for the Afghan National Army (ANA) Special Operations Forces whose primary mission is to combat the narcotics trade and terrorism. The United States awarded contracts totaling $771 million to purchase 48 new aircraft, and plans to spend hundreds of millions more for oversight, maintenance, training, and logistical support. SIGAR's audit found that the SMW lacks the capacity to operate and maintain the aircraft and recommended that DOD suspend all activity under the contracts awarded for the 48 new aircraft for the SMW until certain conditions were met. For a full summary of this audit see page 30.

Several members of Congress also urged the Secretary of Defense to halt the use of open-air burn pits in response to a SIGAR letter alerting DOD and Congress about the military's continued use of open-air burn pits in Afghanistan. They noted that the use of open-air burn pits potentially endanger the health of U.S. military and civilian personnel supporting Operation Enduring Freedom in Afghanistan. The alert letter is summarized on page 21 of this report.

SIGAR CONDUCTS PEER REVIEW

The public office of Inspector General carries with it a responsibility to apply a high standard of professionalism and integrity, and above all, foster good governance to promote the public's trust. As part of this responsibility, the Council of the Inspectors General on Integrity and Efficiency (CIGIE) requested that SIGAR conduct an external peer review of the Pension Benefit Guaranty Corporation, Office of the Inspector General (PBGC-OIG). SIGAR's responsibility was to express an opinion about PBGC-OIG's quality control system and its compliance with generally accepted government auditing standards (GAGAS).

After completing its review this quarter, SIGAR concluded that PBGC-OIG deserved a rating of pass with deficiencies. SIGAR identified deficiencies in audit planning, reporting audit results, and its quality control and assurance program. These deficiencies must be addressed to ensure PBGC-OIG provides reliable and objective information to the public.

PBGC-OIG rejected SIGAR's rating. Its response raised additional concerns about the potential lack of independence in the PBGC-OIG audit reports. In a letter to the PBGC Inspector General, Senator Charles Grassley wrote, "I would like to remind you that independence is the heart and soul of the IG Act and audit oversight." He requested that the PBGC Inspector General clarify comments related to IG independence and provide information on how the agency intends to address and resolve the issues identified in the peer review.

AUDITS

This quarter SIGAR issued six performance audit reports, 11 financial audits of contracts, and five audit alert letters that identified problems with planning, contract oversight, and accountability as well as serious safety issues. SIGAR announced seven new audits, including two financial audits of costs incurred under U.S.-funded awards for Afghanistan reconstruction activities.

AUDIT ALERT LETTERS

- Alert 13-2: Southern Regional Agricultural Development Program Had Poor Coordination, Waste, and Mismanagement
- Alert 13-3: Afghan Government Levying Additional Fines, Fees, and Penalties that May Cost U.S. Government Millions of Dollars
- Alert 13-4: Camp Leatherneck Incinerators, Burn Pit Being Used
- Alert 13-5: Concerns with Chemonics International, Inc. Meeting Its Responsibilities Under a Federal Contract
- Alert 13-6: Serious Deficiencies Noted in State Agreement with the International Development Law Organization

Alert Letters

With the security, political, and economic transitions looming, U.S. military commanders and civilian officials have asked SIGAR to provide them with real-time information to prevent waste and increase the effectiveness of U.S. reconstruction programs. One of SIGAR's main goals is to provide implementing agencies and Congress with actionable information while there is still time to make a difference. During this reporting period, SIGAR sent nine alert letters to inform DOD, State, and USAID about important audit findings requiring urgent attention. The Audits and Inspections Directorate sent five of these letters, drawing agency attention to waste and mismanagement in a $70 million USAID agriculture program, nearly $1 billion in taxes levied by the Afghan government on U.S.-funded contractors, and accountability issues related to two contracts. SIGAR's Special Projects Office also sent four management and safety alert letters. See pages 53–56 for a summary of these letters.

Alert 13-2: Southern Regional Agricultural Development Program Had Poor Coordination, Waste, and Management

On June 27, 2013, SIGAR informed U.S. officials in Kabul that it had found major waste and mismanagement of a USAID-funded agricultural program. SIGAR initiated a review after receiving a series of complaints

about the $70 million cooperative agreement with International Relief and Development Inc. (IRD) to implement USAID's Southern Regional Agricultural Development (S-RAD) program. The S-RAD program, which began in 2011, was intended to (1) reduce regional instability, (2) increase agricultural employment and income opportunities, (3) assist with the regional transition to a prosperous and sustainable agricultural economy, and (4) improve the confidence of Afghans in their government. To achieve these objectives, the program provided equipment, agricultural supplies, and training to Afghan farmers and agricultural cooperatives in 17 districts in Helmand and Kandahar provinces.

SIGAR identified a number of problems in the implementation of this program:

- IRD did not effectively coordinate and execute the S-RAD project activities SIGAR reviewed.
- IRD deviated from its work plan by distributing items—tractors, solar panels, and agricultural supplies—that were either more expensive than those called for in the plan or were not called for under the plan.
- USAID did not provide effective oversight of the program.

Unused water pumps from a USAID agricultural-improvement project sit in outdoor storage. (SIGAR photo)

The original work plan called for two-wheel tractors, but IRD purchased 95 four-wheel tractors for a total cost of $1.68 million. IRD officials told SIGAR they made the decision to switch to four-wheel tractors because some Afghan officials said they did not want any more two-wheel tractors distributed to farm cooperatives. However, the two-wheel tractors would have been more appropriate in the small plots with tight spaces. A subsequent study found that at least one-third of the 95 tractors that were distributed in Kandahar could not be located.

U.S. officials and Afghan officials repeatedly raised questions about the high cost and questionable value of IRD's approach to the distribution of solar panels and agriculture supplies. IRD expanded its purchase of solar panels despite objections from U.S. officials who cited the risk of theft, resale, or misuse. U.S. and Afghan officials reported that IRD's approach to the distribution of seeds, saplings, and fertilizers provided opportunities for corruption, distorted market prices, and were potentially destabilizing factors in the critical areas the program was supposed to help stabilize.

Although the program has ended, SIGAR shared its findings in an alert letter so that USAID could immediately take action to prevent such problems in future agricultural development programs.

Alert 13-3: Afghan Government Levying Additional Fines, Fees, and Penalties that May Cost U.S. Government Millions of Dollars

On June 28, 2013, in a follow-up letter to an audit published earlier this quarter, SIGAR informed Congress that it had identified additional

costs—including various fees, fines, and penalties—that the Afghan government was imposing on U.S.-funded contractors. The audit identified nearly $1 billion in business taxes and penalties imposed by the Afghan government on contractors supporting U.S. operations. (See Audit 13-8, *Taxes: Afghan Government Has Levied Nearly a Billion Dollars in Business Taxes on Contractors Supporting U.S. Government Efforts in Afghanistan*, which is summarized on page 27 of this report.)

The alert letter discussed four types of additional costs imposed on contractors: customs process fees, fines levied for delayed customs documentation, visa and work permit fees, and business license and registration fees. These additional fees, fines, and penalties may cost these contractors, and ultimately the U.S. government, hundreds of millions of dollars. Moreover, the actions taken by the Afghan government to enforce them may have an adverse effect on U.S. military operations.

U.S. government agencies, including DOD, have executed a number of international agreements with the Afghan government that clearly exempt goods imported into Afghanistan in support of the U.S. military mission from Afghan tariffs and customs duties. However the Afghan government is charging DOD commercial carriers customs process fees for every container of goods shipped into Afghanistan in support of U.S. military operations, even though the containers are supposed to be exempt.

In apparent violation of the Status of Forces Agreement between the United States and Afghan governments, the Afghan government has also charged fines for "late" or unprocessed customs declaration forms. As of May 2013, an official at the U.S. Army Military Surface Deployment and Distribution Command estimated that the Afghan government has levied more than $150 million in improper fines for unprocessed customs declaration forms since 2009. In addition, the Afghan government has restricted the freedom of movement for commercial carriers to deliver their cargoes—such as foodstuffs destined for U.S. military and International Security Assistance Force (ISAF) personnel—resulting in serious consequences for the U.S. government's combat mission and reconstruction effort in Afghanistan.

The Afghan government requires contractors to receive annual visas and work permits for each non-Afghan employee working in Afghanistan. While some bilateral agreements between various U.S. government agencies and the Afghan government may exempt certain U.S. personnel from requirements to obtain visas, other agreements are silent on the matter. SIGAR's analysis of the visa and work permit process indicates that these costs amount to approximately $1,138 per employee per year.

All contractors supporting the U.S. government in Afghanistan are required to register annually with the Afghanistan Investment Support Agency to obtain a business license. The fee associated with obtaining the required business license ranges from $100 to $1,000 per year, depending

on the industrial sector. In 2012, at least 1,138 companies operated in Afghanistan in support of U.S. operations.

As Congress considers future appropriations for Afghanistan, SIGAR believes it prudent to consider these costs and their impact on U.S. operations.

Alert 13-4: Observations on Solid Waste Disposal Methods in Use at Camp Leatherneck

In July, SIGAR alerted the commanders of CENTCOM and U.S. Forces-Afghanistan (USFOR-A) to the health dangers posed by the continuing use of open-air burn pit operations to dispose of daily waste at Camp Leatherneck in Helmand province. The toxic smoke from burning solid waste each day increases the long-term health risks for camp personnel.

The camp, which currently houses 13,500 U.S. civilian and military personnel, uses a combination of incineration and open-air burn pit operations to dispose of about 54 tons of solid waste produced every day. Although Camp Leatherneck spent $11.5 million to purchase and install two 12-ton and two 24-ton capacity incinerators, SIGAR inspectors found that the 12-ton incinerators were not being used to full capacity and the 24-ton incinerators were not being used at all because a contract for their operation had not been awarded. Consequently, in apparent violation of DOD guidance, Camp Leatherneck relies heavily on open-air burn pit operations to dispose of its solid waste.

Camp officials advised SIGAR that a contract was about to be awarded for the operation and maintenance of the 24-ton incinerators and that a $1.1 million contract for hauling trash off-site to a local landfill should be in place by the end of July 2013. SIGAR's analysis indicates that making efficient and effective use of the incinerators should enable the camp to terminate open-air burn pits operations and possibly eliminate the need for a contract to haul trash off-site.

Open-air burn pit smoke at Camp Leatherneck. (SIGAR photo)

SIGAR urged the military commanders to ensure the incinerators are used to full capacity and reevaluate the need for the contract to haul solid waste to a local landfill.

Alert 13-5: Financial Audit of Chemonics International, Inc

On July 2, 2013, SIGAR sent USAID a letter highlighting the refusal of U.S. contractor Chemonics International, Inc. (Chemonics) to provide auditors with all the information they requested during the course of a financial audit. SIGAR urged USAID to take special care in reviewing about $13.5 million questioned costs, remind Chemonics about its responsibility to fully cooperate with federal audits, and consider the issues identified in the financial audit in evaluating future awards and award modifications involving Chemonics. See page 41 for a summary of the financial audit of Chemonics.

Alert 13-6: Serious Deficiencies Noted in State Agreement with International Development Law Organization

SIGAR alerted the Secretary of State to serious deficiencies related to the Afghanistan Justice Training Transition Program (JTTP) which is being administered by State's Bureau of International Narcotics and Law Enforcement Affairs (INL). In its ongoing audit of State's rule of law programs, SIGAR learned that INL had awarded a sole source agreement to the International Development Law Organization (IDLO) to provide justice sector training services in Afghanistan. This award does not appear to contain basic provisions that would allow INL to ensure proper monitoring and evaluation of a project expected to cost U.S. taxpayers nearly $50 million. Moreover, preliminary information gathered by SIGAR auditors suggests that IDLO is ill-prepared to manage and account for how U.S.-taxpayer funds will be spent on the JTTP.

SIGAR recommended that State address the oversight deficiencies in INL's agreement with IDLO and review the circumstances that led to awarding IDLO an agreement to implement part of the JTTP. In addition, SIGAR recommended that State review all similar contracts, grants, and other agreements related to Afghanistan reconstruction to ensure that arrangements have been made for appropriate oversight.

Audit Reports Published

This quarter, SIGAR completed six audit reports that reviewed Afghan government taxes on contractors, State's oversight of grants and cooperative agreements, State and USAID efforts to prevent contracting with the enemy, DOD's program to build an Afghan SMW to support counternarcotics and counterterrorism efforts, the status of the APPF, and a USAID stabilization program.

COMPLETED AUDITS

- Audit 13-8: Taxes: Afghan Government Has Levied Nearly a Billion Dollars in Business Taxes on Contractors Supporting U.S. Government Efforts in Afghanistan
- Audit 13-12: Department of State's Assistance Awards for Afghanistan Reconstruction Activities Are Largely Unaudited
- Audit 13-13: Afghan Special Mission Wing: DOD Moving Forward with $771.8 Million Purchase of Aircraft that the Afghans Cannot Operate and Maintain
- Audit 13-14: Contracting with the Enemy: State and USAID Need Stronger Authority to Terminate Contracts When Enemy Affiliations Are Identified
- Audit 13-15: Afghanistan Public Protection Force: Concerns Remain about Force's Capabilities and Cost
- Audit 13-16: Stability in Key Areas (SIKA): After 16 Months and $47 Million Spent, USAID Had Not Met Essential Program Objectives

Audit 13-8: Taxes on Contractors

Taxes: Afghan Government Has Levied Nearly a Billion Dollars in Business Taxes on Contractors Supporting U.S. Government Efforts in Afghanistan

U.S. government agencies, including DOD, Department of State, and USAID have executed agreements with the Afghan government that exempt their contracts from certain Afghan business taxes. Through these agreements, the United States seeks to limit the taxes that U.S.-funded contractors pay in order to reduce the cost of projects to the U.S. taxpayer. However, SIGAR found that since 2008, the Afghan government has levied taxes and tax-related penalties on contractors supporting U.S. government contracts in Afghanistan that should be exempt from such taxes under the negotiated agreements.

FINDINGS

As shown in Table 2.1, since 2008, the Afghan Ministry of Finance (MOF) has levied over $921 million in business taxes and associated penalties on 43 contractors that support U.S. government efforts in Afghanistan. Of this amount, $93 million represented taxes levied on business receipts and annual corporate income—a tax category that both the U.S. government and the Afghan government agree should be exempt for contractors operating under covered agreements. SIGAR identified instances where contractors were taxed despite agreements between U.S. agencies and the Afghan government that provide exemptions for certain Afghan taxes.

U.S. and MOF officials disagree about the tax-exempt status of subcontractors, which has created confusion and interrupted of the U.S. effort in Afghanistan. MOF officials assert that the DOD and State agreements provide tax-exempt status only to prime contractors. U.S. government officials contend that the agreements provide tax exemption for all non-Afghan companies—both prime and subcontractors—supporting U.S.

TABLE 2.1

TAX ASSESSMENT ON CONTRACTORS SUPPORTING U.S. GOVERNMENT CONTRACTS

Agency	Total Tax	Withholdings	Business Receipts & Annual Corporate Income Taxes	Undeterminable [c]	Number of Contractors
USAID	$5,458,7138	$5,223,048	$235,665	$0	7
DOD	$92,875,298	$8,671,298	$62,704,000	$21,500,000	17
State	$19,095,672	$5,238,000	$1,200,000	$12,657,672	8
Multiple Agencies [a]	$803,967,530	$25,677,833	$29,300,000	$748,989,697	11
Total [b]	**$921,397,213**	**$44,810,180**	**$93,439,665**	**$783,147,368**	**43**

Notes:
[a] Multiple agency contractors are contractors that work under contracts for a combination of DOD, State, and USAID. No contractor in SIGAR's sample indicated that it had contracts with agencies other than DOD, State, and USAID.
[b] For figures presented to SIGAR in Afghanis, SIGAR converted to U.S. Dollar exchange published by Da Afghanistan Bank on 9/18/2012. This table reflects paid and assessed amounts.
[c] Some taxes were undeterminable because the tax assessment issued by the Afghan government did not indicate the specific category of tax that was being assessed. However, based on SIGAR's analysis, SIGAR believes that much of this total amount is likely illegitimate.

Source: SIGAR analysis of contractor data.

government efforts. Given the ongoing disputes and the ambiguous nature of the MOF-issued assessments, the 43 contractors in SIGAR's sample have paid approximately $67 million of the $921 million in total tax assessments. Most of them still face unresolved assessments. As a result of the outstanding assessments, the MOF has placed restrictions on some contractors and refused to renew business licenses. The Afghan government has even arrested some contractor personnel.

SIGAR also found that DOD and State contracting officers do not fully understand Afghanistan's tax laws and, as a result, they have improperly reimbursed contractors for taxes paid to the Afghan government. While DOD, State, and USAID have taken some steps to help their prime contractors gain tax exemption, DOD and State have not taken sufficient steps to ensure that their subcontractors obtain the required tax exemption certificates.

If approved, new provisions in the FY 2014 NDAA would require DOD to recoup taxes assessed by the Afghan government.

RECOMMENDATIONS

SIGAR recommended that the Secretary of State, among other things, develop a consistent, unified position on what the U.S. government deems appropriate taxation of contractors supporting U.S. government efforts in Afghanistan. SIGAR also recommends that State and USAID determine if reimbursed taxes were legitimate and recover any inappropriately reimbursed taxes. SIGAR also made three recommendations to State, USAID, U.S. Army Corps of Engineers (USACE), and the U.S. Central Command's Joint Theater Support Contracting Command (C-JTSCC) to develop procedures for contractors to obtain appropriate documentation of tax-exempt status with the Afghan government, issue guidance to properly identify taxes in contracts and invoices, and take steps to prevent the improper reimbursement of taxes to contractors. In addition SIGAR identified two matters for Congressional consideration to ensure that Congress has complete information on taxes levied by the Afghan government and to address any improper taxation by the Afghan government.

AGENCY COMMENTS

In commenting on a draft of this report, C-JTSCC and USACE concurred with SIGAR's recommendations. State did not explicitly agree or disagree with SIGAR's recommendation to develop a consistent, unified position on what the U.S. government deems appropriate taxation of contractors; it argued that such a unified position already exists and that it is inappropriate to suggest that there are inter-agency differences. SIGAR disagrees. SIGAR's finding that contractors have failed to receive guidance on differing tax treatment by different federal agencies shows that inter-agency differences do, in fact, exist. Regarding SIGAR's recommendation to determine if reimbursed taxes were legitimate and to recover any inappropriately reimbursed taxes, State neither agreed nor disagreed but requested further details on SIGAR's analysis. SIGAR provided State with specific information on the

types of taxes it identified during an exit conference in January 2013. This information should be sufficient for State to implement SIGAR's recommendation. Although SIGAR is willing to provide additional information on its analysis, SIGAR notes that it is State's responsibility to ensure that the taxes it reimburses are legitimate and to recover any inappropriately reimbursed taxes. USAID neither agreed nor disagreed with SIGAR's recommendations, but instead stated that the recommendations made had already been implemented, were not applicable, or lacked detailed analysis for the agency to implement. SIGAR disagrees and believes its recommendations are well-supported and valid.

Audit 13-12: State Department Grants and Cooperative Agreements

Department of State's Assistance Awards for Afghanistan Reconstruction Activities Are Largely Unaudited

U.S. government regulations issued by the Office of Management and Budget (OMB) require that independent auditors examine the expenditures of non-federal entities expending federal funds. The regulations, outlined in OMB circular A-133, stipulate that nonprofit organizations spending more than $500,000 a year in federal funds obtain a single or program-specific audit conducted by an independent auditor. Recognizing that financial audits play an important role in ensuring that funds are properly spent and accounted for, SIGAR initiated this audit to examine the extent to which funding grants and cooperative agreements have been audited.

FINDINGS

According to State records, the department made 140 grant and cooperative agreement awards over $1 million, with a total estimated value of $315 million between FY 2002 and FY 2011. Only 41—or 29%—of these awards have been audited. The 99 unaudited awards had disbursed a combined total of $191.6 million. Table 2.2 on the following page shows a breakdown of the types of organizations and the number of awards not audited.

The reasons that financial audits were not conducted varied by award recipient type:

- 50 of 65 awards to foreign organizations were not audited because State has not established a department-wide policy requiring that these organizations' awards be audited. Rather, individual bureaus have established their own policies, leading to inconsistent audit requirements within the agency.
- 42 of 68 awards to U.S. nonprofit organizations were not audited because they were not considered "major programs." Moreover, three organizations receiving three separate awards did not have A-133 audits conducted because State did not provide clear guidance to the awardees.

TABLE 2.2

STATE ASSISTANCE AWARDS FOR AFGHAN RECONSTRUCTION, 2002-2011

Type of Organization	Total Awards	Total Value of Awards ($ Millions)[a]	Awards Not Audited	Amount Disbursed Not Audited ($ Millions)[b]
Foreign organizations	65	$161.3	50	$103.0
U.S. nonprofit organizations	68	$136.4	42	$75.3
U.S. for-profit companies	4	$9.4	4	$6.7
Public international organizations	3	$8.3	3	$6.6
Total	140	$315.4	99	$191.6

Notes: Numbers have been rounded.
[a] Total value as of August 20, 2012; updated with amendments from the Public Affairs Section of U.S. Embassy Kabul as of December 10, 2012.
b Disbursement amounts were obtained from several different bureaus and offices dating from October to December 2012. For seven awards missing disbursement data, SIGAR estimated disbursement amounts to be equal to obligated amounts.

Source: SIGAR Audit 13-12, *Department of State's Assistance Awards for Afghanistan Reconstruction Activities Are Largely Unaudited.*

- 4 awards to for-profit companies were not audited because State has not clearly articulated whether these awards are required to be audited.
- 3 awards to public international organizations were not audited because the decision to audit rests with the recipient organizations, none of whom requested audits of these particular awards.

As part of its oversight mandate, SIGAR has initiated a number of financial audits of contracts, grants, and cooperative agreements funded by State, DOD, USAID, and the Department of Agriculture (USDA). Of the 99 awards that State has not audited, SIGAR is conducting financial audits on eight awards to two foreign organizations. The total value of these awards is $27 million.

RECOMMENDATIONS

SIGAR made four recommendations to the U.S. Secretary of State to improve accountability over its assistance awards for Afghanistan reconstruction. These included establishing a policy requiring audits of assistance awards to foreign organizations and clarifying guidance to ensure that audit requirements are clear and consistent.

AGENCY COMMENTS

In its comments on the draft of the report, State generally agreed with SIGAR's recommendations and noted that the report highlighted the need for State to enhance the oversight of federal assistance in the overseas environment.

Audit 13-13: Afghan Special Mission Wing

Afghan Special Mission Wing: DOD Moving Forward with $771.8 million Purchase of Aircraft that the Afghans Cannot Operate and Maintain

In July 2012, the Afghan government established the Afghan Special Mission Wing (SMW) to provide critical air support for the ANA Special Operations

Forces whose primary mission is to combat the narcotics trade and terrorism. Since then, DOD has obligated nearly $122 million to develop the SMW, awarded additional contracts totaling $771 million to purchase 48 new aircraft, and plans to spend hundreds of millions more for oversight, maintenance, training, and logistical support. This audit examined (1) the extent to which the SMW has the capacity to operate and maintain its current and planned fleet, and (2) the effectiveness of U.S. government oversight of two task orders valued at $772 million to provide ongoing maintenance, logistics, and supply support to the SMW.

SIGAR auditors join SMW flight crews as they prepare for a training mission in Kabul. (SIGAR photo)

FINDINGS

SIGAR found the Afghans lack the capacity—in both personnel numbers and expertise—to operate and maintain the existing and planned SMW fleets. For example, as of January 23, 2013, the SMW had just 180 personnel—less than one-quarter of the personnel needed to reach full strength. DOD and the NATO Training Mission-Afghanistan (NTM-A) lack a plan that identifies milestones and final dates for achieving full SMW personnel force strength to justify the approved fleet. Moreover, ongoing recruiting and training challenges have slowed SMW growth. These challenges include finding Afghan recruits who are literate and can pass the strict, 18- to 20-month U.S. vetting process which attempts to eliminate candidates that have associations with criminal or insurgent networks. The lack of agreement between the Afghan Ministry of Defense (MOD) and Ministry of Interior (MOI) on the command and control structure of the SMW is also having a negative impact on SMW growth and capacity.

DOD has not developed a plan for transferring maintenance and logistics management functions to the Afghans. DOD contractors perform 50% of the maintenance and repairs to the SMW's current fleet of 30 Mi-17 helicopters and 70% of critical maintenance and logistics management, as well as procurement of spare parts and material.

The SMW relies heavily on DOD to fulfill its counterterrorism responsibilities, a key part of its mission. As of January 16, 2013, only 7 of the 47 pilots assigned to the SMW were fully qualified to fly with night vision goggles, a requirement for executing most counterterrorism missions.

Despite these problems, DOD has moved forward to purchase 48 new aircraft for the SMW. In October 2012, DOD awarded a $218 million contract to Sierra Nevada Corporation for 18 PC-12 fixed-wing aircraft, and in June 2013, DOD awarded a $553.8 million contract modification to Rosoboronexport for 30 Mi-17 helicopters.

In addition to the challenges related to SMW capacity to operate and maintain its current or planned fleet, SIGAR found that two key DOD task orders—ones which provide ongoing maintenance, logistics, and supply services to support the SMW—lack performance metrics and DOD oversight has been inadequate. Poor oversight by DOD's Non-Standard Rotary Wing

Aircraft Contracting Division resulted in the contractor failing to properly account for certain aircraft hours in depot maintenance and a misrepresentation of readiness. The task orders lack quality assurance surveillance plans and, at the time of the audit, DOD did not have the personnel in Kabul with the right authority and requisite experience to effectively oversee U.S. contractor performance.

RECOMMENDATIONS

SIGAR recommended that the Under Secretary of Defense for Acquisition, Technology, and Logistics suspend all activity under the contracts awarded for the 48 new aircraft for the SMW until the memorandum of understanding between the MOI and MOD is completed and signed. Provided the memorandum of understanding between the MOI and MOD is completed and signed, SIGAR recommended setting clear personnel, maintenance, and logistics support milestones for the SMW and tying the acquisition and delivery of the new aircraft to successful completion of these milestones.

SIGAR also recommended that DOD develop a plan for transferring maintenance and logistics management to Afghans and incorporate the performance metrics and milestones into a proposed statement of work for the new maintenance and logistics contract.

Finally, SIGAR recommended that the DOD contracting authorities modify the two key task orders to incorporate performance metrics and appropriate quality assurance surveillance plans; ensure that the new contract/task order contains these metrics and plans; and deploy Contracting Officer Representatives to Afghanistan with the appropriate level of authority and requisite experience to effectively oversee contractor support for the SMW.

AGENCY COMMENTS

SIGAR received formal comments on the draft of this report from the Office of the Secretary of Defense (OSD), the North Atlantic Treaty Organization Training Mission-Afghanistan/Combined Security Transition Command-Afghanistan (NTM-A/CSTC-A), U.S. Army Materiel Command, and the NSRWA Contracting Division. OSD and NTM-A/CSTC-A did not concur with SIGAR's recommendation to suspend plans to acquire new aircraft for the SMW. Both stated that contracting actions have already been awarded and that ISAF is engaging the Afghan government to formulate a charter that would accomplish the same purpose as the planned memorandum of understanding between MOI and MOD. However, SIGAR maintains that moving forward with the acquisition of these aircraft is highly imprudent until an agreement between the ministries is reached. SIGAR also notes that, prior to awarding the contract for the 30 Mi-17s on June 16, 2013, DOD received a draft of this report containing a recommendation to suspend plans to purchase new aircraft for the SMW. OSD and NTM-A/CSTC-A concurred

with the other six recommendations in the report. The U.S. Army Materiel Command responded to the three recommendations addressed to it and concurred with each. The NSRWA Project Office concurred with the two recommendations addressed to it.

Audit 13-14: Contracting with the Enemy

Contracting with the Enemy: State and USAID Need Stronger Authority to Terminate Contracts When Enemy Affiliations Are Identified

In April 2013, SIGAR reported on the process DOD established to comply with Section 841—Prohibition on Contracting with the Enemy in the United States Central Command Theater of Operations—of the FY 2012 NDAA and ways to strengthen the legislation. The report noted that Section 841 does not provide State and USAID the legal authority to restrict, terminate, or void contracts with persons or entities opposing the United States or coalition forces.

In a follow up to SIGAR's earlier report, this audit (1) describes the processes State and USAID have established to prevent contracting with persons that actively support insurgencies or oppose U.S. or coalition forces in Afghanistan, and (2) discusses the potential impact of State and USAID not having Section 841 contracting authority.

FINDINGS

To prevent U.S. funds from supporting enemy combatants, both State and USAID have established processes for vetting non-U.S. contractors in Afghanistan.

Since October 2012, State has vetted all non-U.S. companies competing for U.S.-funded contracts. State's Office of Risk Analysis and Management compares the information provided by the contractor against various databases to determine whether derogatory information—which may include information about ties to enemy groups—on the company or its key officials exists. The assistant secretary of the office funding the activity makes the final decision on whether a contractor is eligible to receive a State-funded contract. If a contractor is deemed eligible, the determination is valid for one year, unless there are changes in the company's key officials.

USAID vets all non-U.S. prime contractors, along with their subcontractors, that are in the competitive range to receive contracts valued over $25,000. The Vetting Support Unit in USAID's mission in Afghanistan reviews an information package from the contractor for completeness and accuracy. If it identifies no problems, the USAID mission forwards the package to the agency's Office of Security in Washington, DC for additional scrutiny. The USAID security office submits a recommendation of eligibility for the contractor if it does not find any derogatory information. The USAID Senior Deputy Mission Director makes the final determination on whether to declare a contractor eligible for a contract.

DOD has provided State and USAID with information on its Section 841 designees since November 2012. Although the agencies take this information into consideration during their vetting processes, neither relies exclusively on this information when making contracting decisions.

Because State and USAID are not subject to Section 841, they are not prohibited from contracting with persons or entities identified as supporting an insurgency or otherwise opposing U.S. or Coalition forces. In addition, the agencies lack the authorities provided by Section 841 to terminate, restrict, or void a contract awarded to a person or entity identified as supporting the enemy or opposing U.S. forces. Although neither State nor USAID has active prime contracts with current Section 841 designees, under existing law the agencies would likely have to pay up to the full cost of any contract to complete a termination with a future Section 841 designee.

Section 841 of the FY 2012 NDAA calls on the CENTCOM commander to take steps to prevent contracting with the enemy and authorizes DOD to terminate contracts it has determined are providing funding to active insurgent elements and opponents of U.S. or Coalition forces.

MATTER FOR CONGRESSIONAL CONSIDERATION

Congress may wish to consider expanding Section 841 authority to State and USAID to allow senior procurement executives to void, terminate for default, or restrict future awards to persons or entities identified as enemies of the United States.

AGENCY COMMENTS

State and USAID commented that they would welcome the authority provided by Section 841, but both expressed concern with proposals that would indiscriminately expand DOD-specific contracting provisions to them.

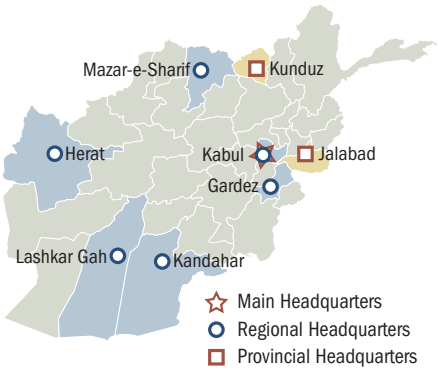
Audit 13-15: Security Transition

Afghanistan Public Protection Force: Concerns Remain about Force's Capabilities and Costs

In 2012, the Afghan government required nongovernmental organizations and private companies implementing USAID's reconstruction and assistance programs in Afghanistan to transition their security services from private security companies to the state-run APPF. This report, which follows up on SIGAR's June 2012 audit that outlined concerns about the APPF, examined the effect of the transition on security provided for USAID projects, the costs of the transition to the APPF, and USAID's mechanisms to review the costs of security services. A map of APPF locations is shown in Figure 2.1.

FIGURE 2.1

MAP OF APPF LOCATIONS



Source: SIGAR Audit 13-15.

FINDINGS

The effect of the transition to the APPF has been minimal on the projects in SIGAR's sample, but only because implementing partners hired risk management companies (RMCs) to fill APPF capacity gaps and perform critical functions. The Afghan government allowed contractors to hire RMCs to provide security advisory services. These services include advice on logistics, transportation of goods and equipment, and contract management of

the APPF. In addition the RMCs can provide training to the APPF guards hired by an implementing partner. Although some RMC personnel may be lightly armed for personal protection, Afghan government regulations bar RMCs from providing armed security and other guard services. SIGAR found that without RMCs, the APPF would be unable to provide the full range of security services needed by USAID implementing partners.

Contracted security costs decreased for more than half the projects in SIGAR's sample following the transition to the APPF because implementing partners reassessed security needs and renegotiated expatriate labor rates or contracts. The apparent ease with which implementing partners revised their approach to providing security raises concern that previous security requirements and costs were unnecessarily high.

Ultimately, relying on the APPF as the sole provider of security services raises concerns for future unrestrained cost increases. The APPF has a monopoly on the provision of security services and can unilaterally establish its rates. As a result, USAID's mechanisms to review the proposed costs associated with an implementing partner's use of the APPF do not ensure that the APPF only charges implementing partners for the services it provides. For example, SIGAR found that the APPF billed each implementing partner for some services and items actually provided by the RMCs. Implementing partners that require armed security have no choice but to pay the APPF's often inconsistent and inappropriate fees. Although the contracted security costs for the majority of projects reviewed by SIGAR decreased, the average rate for armed local guard services increased by as much as 47% for projects under the APPF.

Finally, USAID's continuing inability to ensure that its implementing partners adhere to Afghan government regulations for the proper use of RMCs may result in Afghan government intervention to disband RMCs without a valid license. Should the Afghan government intervene in this way, USAID's implementing partners would be left without the security services required to continue operations.

RECOMMENDATIONS

To ensure that USAID implementing partners use RMCs in accordance with Afghan government regulations, SIGAR recommended that the USAID Mission Director for Afghanistan (1) determine why a formal process requiring implanting partners to submit RMC licenses as part of their requests to enter into subcontracts with RMCs was never created, (2) establish and implement the necessary processes requiring implementing partners to submit RMC licenses, (3) develop policy guidance for implementing partners regarding the proper use of RMCs, (4) clarify the ratio of RMC guards to APPF guards cited in RMC regulations, and (5) establish a formal process to ensure that implementing partners do not exceed the RMC ratio.

AGENCY COMMENTS

At the time this publication went to press, USAID was finalizing formal comments on a draft of the report. The final audit report, including USAID's comments, can be found on SIGAR's web site at www.sigar.mil.

Audit 13-16: Stability in Key Areas

Stability in Key Areas (SIKA): After 16 Months and $47 Million Spent, USAID Had Not Met Essential Program Objectives

Over the past decade, USAID has overseen a series of stabilization programs aimed at improving security and extending the reach and legitimacy of the Afghan government. SIGAR's April 2012 audit of one of these programs highlighted a number of problems, including high contractor operating costs, difficulties setting and measuring program outcomes, and mixed program results.

USAID currently administers the Stability in Key Areas (SIKA) programs throughout Afghanistan, as shown in Figure 2.2. USAID created four regional SIKA programs in the north, south, east, and west through separate contracts with a total value of more than $203 million. AECOM International Development Inc. (AECOM) received the contracts for SIKA East, SIKA West, and SIKA South. Development Alternatives Inc. (DAI) won the contract for SIKA North. Each of the contracts has an 18-month base period with the possibility of additional 18-month option periods. USAID extended the performance period for SIKA East, SIKA West, and SIKA North before the 18-month base period expired, and signed a new contract for SIKA South with a new 18-month base period in March 2013.

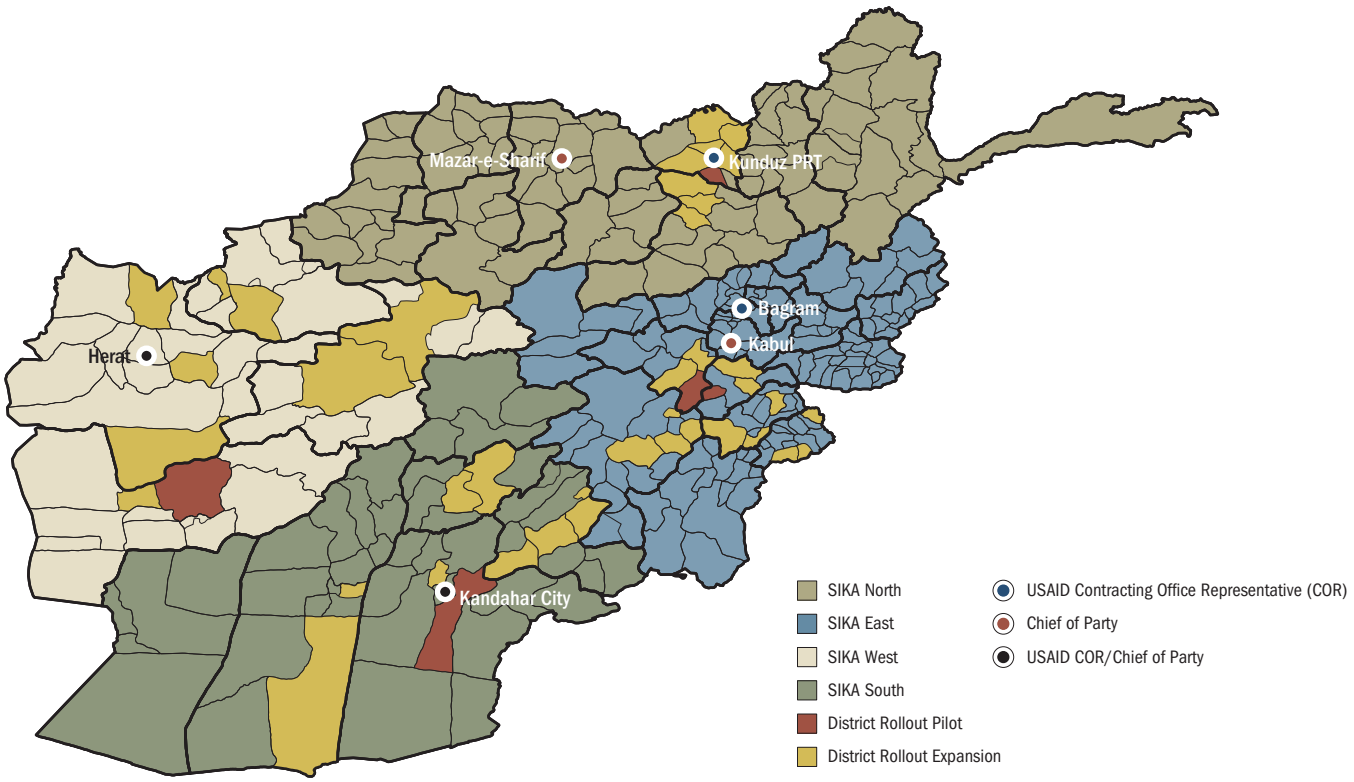
SIGAR conducted this audit to (1) describe USAID's progress in expending funds under the four regional SIKA programs, and (2) examine the challenges USAID experienced in expending funds and implementing the SIKA programs.

FINDINGS

The SIKA contracts called for the award of grants to district entities to address sources of instability identified by local communities. Although USAID had disbursed approximately $47 million for the four SIKA contracts as of March 31, 2013, none of these funds have gone to fund the "labor intensive or productive infrastructure projects" called for in the contracts. Moreover, even in a few districts designated as pilot districts, AECOM and DAI did not complete a full project cycle—from identifying sources of instability through implementing community grant projects. Furthermore, neither contractor had awarded grants to eligible district entities. Although none of the programs had implemented grants, all four reported meetings and training sessions to identify sources of instability and potential solutions, increase local awareness of Afghan government and nongovernment organization services, and improve communication between provincial and

FIGURE 2.2

SIKA COVERAGE AND EXPANSION, AS OF MARCH 31, 2013



Source: SIGAR analysis of USAID data.

district entities. However, the value of these events—and ultimately the overall effectiveness of SIKA itself—cannot be established without grants execution, which USAID identified as essential in achieving the overall strategy and expected results of the contracts.

Contractors for the four regional SIKA programs cited the lack of an agreement with the Afghan government as one of the reasons for significant delays in program implementation. The SIKA contracts stressed the importance of working with and through Afghan government partners so that the programs were seen as an extension of the Afghan government. However, USAID did not secure a formal agreement with key Afghan government partners until nine months after it signed the first SIKA contract.

The contracts also required that the SIKA programs adhere to a model in which the community is responsible for project conception, implementation, and financial management. However, USAID's failure to clearly

present the model led to inconsistencies in how the contractors applied the model. This undercut the SIKA objectives and further delayed project implementation.

The program delays led USAID to extend the performance periods for each of the contracts, even though the contractors had not executed any grants. The overall delay in awarding grants appears to have created participant dissatisfaction with the program, particularly in the east and the south. There is a risk that disappointment in the program may undermine the SIKA goals and result in further destabilization and alienation from the Afghan government.

RECOMMENDATIONS

SIGAR recommends that the USAID Mission Director for Afghanistan issue guidance requiring documentation of Afghan government agreement for future USAID programs that align with Afghan government initiatives prior to the start of the program. To help ensure that the SIKA programs achieve identified strategic and program objectives, SIGAR also recommends that the USAID Mission Director for Afghanistan instruct USAID Mission Afghanistan's Office of Acquisition and Assistance and Stabilization Unit to modify the SIKA contracts to clearly articulate a consistent plan for community contracting and implementing the Kandahar Model of community contracting—in which the community is responsible for grant project conception, implementation, and financial management—and instruct the Contracting Officer's Representatives for each of the contracts to ensure that this approach is applied in the regional SIKA programs.

AGENCY COMMENTS

USAID believed that the first recommendation to require documentation of Afghan government agreement on future programs that align with Afghan government initiatives, has been met and requested it be removed. However, after reviewing the documentation provided by USAID, SIGAR determined that the intent of the recommendation had not been addressed and retained the recommendation in the report. USAID partially concurred with the second recommendation, stating that it planned to modify the SIKA West contract to add language on the Kandahar Model consistent with that used in the other SIKA contracts. However, including references to the Kandahar Model in the contracts does not meet the intent of the recommendation in articulating a consistent plan for community contracting and implementing the model. USAID did not concur with the third recommendation to instruct the Contracting Officer's Representatives for each of the contracts to ensure that this approach is consistently applied in the regional SIKA programs because it considered it redundant to processes already in place. However, inconsistencies in the application of the model demonstrate that the existing processes are not sufficient to ensure consistent

application in each of the SIKA programs. SIGAR therefore believes the recommended action is still necessary.

New Audits Announced This Quarter

This quarter, SIGAR initiated five new performance audits and two new financial audits, bringing the total number of ongoing audits to 27. Three new performance audits will focus on U.S. efforts in two areas critical to Afghanistan economy: banking and revenue collection. Two will look at U.S. programs to support the Afghan security forces. Other ongoing audits are assessing U.S. transition planning, programs to develop the Afghan security forces, projects to develop Afghanistan's water resources, the capacity of the Afghan government to verify payrolls, and the training of justice sector personnel. For a full list of ongoing performance audits, see Appendix C of this quarterly report.

Accountability of Weapons and Equipment Provided to The Afghan National Security Forces (ANSF)

Since 2009, DOD has provided more than 714,000 weapons worth approximately $1.5 billion to the ANSF. The drawdown of U.S. and Coalition forces and the transition of security responsibilities to the ANSF pose risks relating to the accountability of these weapons. CSTC-A bears primary responsibility for the training and equipping of the ANSF. It uses the Foreign Military Sales (FMS) process, which is administered by the Defense Security Cooperation Agency, to purchase most of the weapons.

Both GAO and DOD OIG conducted audits on weapons accountability for the ANSF in 2009. SIGAR will examine the action CSTC-A has taken to respond to those reports. The audit will evaluate (1) the procedures for the accountability of defense materiel and weapons procured by DOD to arm the ANSF, and (2) the visibility and controls in place for the oversight of defense materials and weapons after they have been provided to the ANSF.

U.S. Efforts to Develop and Strengthen the Capacity of Afghanistan's Central Bank

The near collapse of the Kabul Bank in September 2010 raised major concerns among the U.S. and other international donor agencies regarding the capacity of Afghanistan's central bank, Da Afghanistan Bank (DAB), to regulate Afghanistan's commercial banks. Recent increased efforts by U.S. government agencies to provide direct assistance funds to Afghan ministries have raised concerns about the ability of the Afghan banking sector to process these funds. This audit will evaluate the steps taken by various U.S. agencies to strengthen the oversight and regulatory capacity of DAB, the process by which U.S. agencies provide direct assistance funds to the Afghan government, and the internal controls put in place to safeguard these funds while deposited in Afghan banks.

NEW AUDITS

- Accountability of Weapons and Equipment Provided to the Afghan National Security Forces (ANSF)
- U.S. Efforts to Develop and Strengthen the Capacity of Afghanistan's Central Bank
- U.S. Agency for International Development (USAID) and Department of Homeland Security Customs and Border Protection (CBP) Efforts to Develop and Strengthen Afghanistan's Capacity to Assess and Collect Customs Revenue
- Wire Transfer Fees Associated with Department of Defense Payments to Afghan Contractors
- Mobile Strike Force Vehicles for the Afghan National Army

USAID and Department of Homeland Security Customs and Border Protection (CBP) Efforts to Develop and Strengthen Afghanistan's Capacity to Assess and Collect Customs Revenue

Improving the Afghan government's ability to generate domestic revenues by improving international trade and transit conditions is an important goal of the U.S. reconstruction effort. USAID and the Department of Homeland Security's CBP have programs to help the Afghan government reform customs laws, establish procedures, improve customs and border operations, and increase revenue collection. This audit will review USAID and CBP programs to develop and strengthen Afghanistan's capacity to assess and collect customs revenue. It will evaluate the extent to which USAID and CBP programs designed to reform Afghanistan's customs processes, procedures, and laws have achieved intended outcomes and contributed to the fiscal sustainability of the Afghan government.

Wire Transfer Fees Associated with DOD Payments to Afghan Contractors

DOD, through the Defense Finance Accounting Services, uses multiple U.S., international, and Afghan banks to execute wire transfers for payments to its Afghan contractors. These banks charge fees for processing wire transfers. The Afghan banks that ultimately receive funds through the final wire transfer are responsible for releasing those funds to the contractors. This audit will review how DOD uses wire transfers to pay its Afghan contractors and determine (1) the amount of wire transfer fees that DOD, or other U.S. government entities acting on behalf of DOD, paid between January 1, 2010, and January 1, 2013, and (2) the extent to which those fees are appropriate and reasonable based on applicable law, contracts, regulations, and standards.

Mobile Strike Force Vehicles for the Afghan National Army

In January 2011, CSTC-A began ordering Mobile Strike Force Vehicles (MSFV) to give the ANA a vehicle capable of providing protection similar to that of the Mine Resistant Ambushed Protected vehicles used by the International Security Assistance Force. MSFVs are procured through DOD's Foreign Military Sales (FMS) process. Since January 2011, obligations on these contracts have totaled more than $630 million for 634 MSFVs, spare parts, maintenance, and training. To date, more than 300 MSFVs have been delivered and are either in use by ANA battalions or fielded as part of an in-country vehicle logistics support and operator training program. The contractor is scheduled to deliver all remaining MSFVs by February 2014. This audit will (1) evaluate the effectiveness of U.S. government oversight of contracts to procure, operate, and maintain MSFVs for the ANA; and (2) determine the extent to which the ANA has the capacity to operate and maintain its current and planned MSFVs.

Financial Audits

This quarter SIGAR completed 11 financial audits of U.S.-funded contracts, grants, and cooperative agreements to rebuild Afghanistan. The awards—with a combined value of about $942 million—supported U.S. efforts to build Afghan security forces, improve governance, and foster economic development. These financial audits identified about $49.4 million in questioned costs as a result of internal control deficiencies and noncompliance issues. These deficiencies and noncompliance issues included, among other things, poor record retention, lack of supporting documentation, failure to adhere to procurement procedures, misstatements of costs, indirect costs that could not be evaluated, unreasonable costs, improper processes, and lack of tracking systems for equipment and spare parts. SIGAR has provided the audit findings to the implementing agencies, which are responsible for making the final determination on questioned costs.

SIGAR also announced two new financial audits of USAID-funded contracts with a combined value of $410 million, bringing the total number of ongoing financial audits to 13, with a combined value of nearly $1.5 billion.

SIGAR launched its financial audit program in 2012 after Congress and the oversight community expressed concern about oversight gaps and the growing backlog of incurred cost audits for contracts and grants awarded in support of overseas contingency operations. SIGAR competitively selected independent accounting firms to conduct the financial audits. SIGAR ensures that the audit work is performed in accordance with U.S. government auditing standards and coordinates closely with the federal inspector general community to avoid potential duplication of effort. A list of new and ongoing financial audits can be found in Appendix C of this quarterly report.

The following is summary of each of the financial audits released this quarter, their findings, and SIGAR recommendations.

Financial Audit 13-1: Audit of Costs Incurred by Chemonics International, Inc. in Support of USAID's Alternative Livelihoods Program-Southern Region

Chemonics International Inc. (Chemonics) expended more than $165 million from February 2005 through October 2009 on a USAID contract to provide short-term employment and assist in the development and expansion of licit agriculture production that would provide an alternative to growing poppies in Afghanistan's southern region. Activities focused on physical infrastructure construction, small and medium enterprise development, and agricultural and agribusiness assistance. The accounting firm Crowe Horwath, under contract with SIGAR to conduct financial audits, issued a disclaimer of opinion on the Fund Accountability Statement because Chemonics refused to provide support necessary to demonstrate that the indirect costs charged to the contract were accurate. The audit firm also observed instances of noncompliance with the terms and conditions

COMPLETED FINANCIAL AUDITS

- Financial Audit 13-1: Audit of Costs Incurred by Chemonics International Inc. in Support of USAID's Alternative Livelihoods Program-Southern Region
- Financial Audit 13-2: Audit of Costs Incurred by Cardno Emerging Markets Group LTD. in Support of USAID's Afghanistan State-Owned Enterprises Privatization, Excess Land Privatization, and Land Titling Project
- Financial Audit 13-3: Audit of Costs Incurred by Futures Group International LLC in Support of USAID's Project for Expanding Access to Private Sector Health Products and Services in Afghanistan
- Financial Audit 13-4: USAID's Technical Support to the Central and Provincial Ministry of Public Health Project: Audit of Costs Incurred by Management Sciences for Health
- Financial Audit 13-5: USAID's Program to Support the Loya Jirga and Election Process in Afghanistan: Audit of Costs Incurred by The Asia Foundation
- Financial Audit 13-6: USDA's Program to Help Advance the Revitalization of Afghanistan's Agricultural Sector: Audit of Costs Incurred by Volunteers for Economic Growth Alliance
- Financial Audit 13-7: Department of Defense Program to Support the Afghan National Army's Technical Equipment Maintenance Program: Audit of Costs Incurred by Afghan Integrated Support Services
- Financial Audit 13-8: USAID's Human Resources and Logistical Support Program: Audit of Costs Incurred by International Relief and Development Inc.
- Financial Audit 13-9: USAID's Alternative Development Project South/West: Audit of Costs Incurred by Tetra Tech ARD
- Financial Audit 13-10: USAID's Alternative Livelihoods Program–Eastern Region: Audit of Costs Incurred by Development Alternatives Inc.
- Financial Audit 13-11: State Department's Afghanistan Media Project: Audit of Costs Incurred by HUDA Development Organization Afghanistan

of the contract and applicable regulations that have a direct and material effect on amounts presented on the Fund Accountability Statement. Crowe Horwath reported two material weaknesses, six significant deficiencies in internal control over financial reporting, and 12 instances of noncompliance. As a result, the auditors questioned a total of more than $13.5 million in costs. The questioned costs included about $6.7 million in ineligible costs and $6.8 million in unsupported costs.

SIGAR made three recommendations to the Mission Director of USAID/Afghanistan:

- Determine the allowability of and recover, as appropriate, more than $13.5 million in questioned costs identified in the report.
- Advise Chemonics to address the eight internal control findings identified in the report.
- Advise Chemonics to address the twelve compliance findings identified in the report.

Chemonics disagreed with each of the audit firm's findings and all of the questioned costs.

This audit prompted SIGAR to also send an alert letter to USAID about the refusal of Chemonics to provide auditors with all the information they requested during the course of a financial audit. SIGAR urged USAID to take special care in reviewing about $13.5 million questioned costs, remind Chemonics about its responsibility to fully cooperate with federal audits, and consider the issues identified in the financial audit in evaluating future awards and award modifications involving Chemonics.

Financial Audit 13-2: Audit of Costs Incurred by Cardno Emerging Markets Group LTD. in Support of USAID's Afghanistan State-Owned Enterprises Privatization, Excess Land Privatization, and Land Titling Project

Cardno Emerging Markets Group LTD. (EMG) claimed total costs of nearly $55.6 million on its contract with USAID to assist the Afghan government with securing property registration, simplifying land titling procedures, and clarifying the legal framework supporting property rights as well as reforming, restructuring, and rationalizing state-owned enterprises. Regis & Associates, under contract with SIGAR to conduct this financial audit, found that EMG's Fund Accountability Statement presented fairly, in all material respect, revenues received and costs incurred under the contract for the period September 15, 2004, through October 14, 2009. However, the auditors reported two internal control deficiencies and two instances of noncompliance, which prompted them to question $93,423 in costs. This included $19,501 in ineligible costs and $73,922 in unsupported costs.

SIGAR made three recommendations to the Mission Director of USAID/Afghanistan:

- Determine allowability of and recover, as appropriate, $93,423 in questioned costs identified in the report.
- Advise EMG to address the two internal control findings identified in the report prior to applying for additional awards with USAID.
- Advise EMG to address the two compliance findings identified in the report prior to applying for additional awards with USAID.

In its written response, EMG's management concurred with the findings and recommendations. However, EMG's management requested that USAID waive the unsupported amounts based on alternate supporting documentation provided during the audit field work phase. EMG's management also stated that it will request approval from USAID on the exceeded budget line item.

Financial Audit 13-3: Audit of Costs Incurred by Futures Group International LLC in Support of USAID's Project for Expanding Access to Private Sector Health Products and Services in Afghanistan

USAID awarded Futures Group International LLC (Futures Group) a contract to assist the Afghanistan government with developing and supporting local health care solutions. From February 15, 2006, through May 12, 2012, the Futures Group received payments of approximately $37.5 million. Regis & Associates, under contract with SIGAR to conduct this financial audit, found that the Futures Group's Fund Accountability Statement presented fairly, in all material respects, revenues received and costs incurred under the contract. However, the auditors found two internal control deficiencies and two areas of noncompliance. The audit also identified $45,445 in questioned costs, including $43,044 in unsupported costs and $2,401 in ineligible costs.

SIGAR made one recommendation to the Mission Director of USAID/Afghanistan:

- Determine the allowability of and recover, as appropriate, $45,445 in questioned costs identified in the report.

In its written response, Futures Group concurred with the findings and recommendations. Futures Group's management also stated that they will refund to USAID the ineligible costs and unsupported costs, to the extent that satisfactory transaction records are not identified for the unsupported costs.

Financial Audit 13-4: USAID's Technical Support to the Central and Provincial Ministry of Public Health Project: Audit of Costs Incurred by Management Sciences for Health

In 2006, USAID awarded a cooperative agreement to Management Sciences for Health (MSH) to improve the capacity of the Afghan Ministry of Public Health to plan, manage, supervise, monitor, and evaluate the scale of public access to basic and hospital health services. Mayer Hoffman

McCann P.C. (MHM), under contract with SIGAR to conduct financial audits, examined about $85.5 million in MSH expenditures from July 1, 2006, through December 31, 2012.

MHM found that MSH's Fund Accountability Statement presented fairly, in all material respects, revenues received and costs incurred under the agreement. MHM identified 14 recommendations from prior audits or assessments for follow-up or corrective action. MSH did not agree with USAID/Afghanistan's July 2012 Regulatory Review for vetting and procurement that corrective actions were necessary for 12 of the findings and stated that there was no opportunity to remediate the other two findings because the related sub-awards had ended. MHM reported one significant internal control deficiency and two instances of noncompliance which resulted in $12,666 in questioned costs. These included $6,345 in ineligible costs and $6,321 in unsupported costs. The internal control deficiency was MSH's inability to provide documentation for three sampled local staff wages.

SIGAR made four recommendations to the Mission Director of USAID/Afghanistan:

- Determine the allowability of and recover, as appropriate, $12,666 in questioned costs identified in the report.
- Advise Management Sciences for Health to address the internal control finding identified in the report.
- Advise Management Sciences for Health to address the two compliance findings identified in the report.
- Resolve the 14 open recommendations to MSH from the July 7, 2012 USAID/Afghanistan's Regulatory Compliance Review for vetting and procurement.

In its written response, MSH generally concurred with the audit findings and noted that it had taken steps to address the deficiency and noncompliance issues.

Financial Audit 13-5: USAID's Program to Support the Loya Jirga and Election Process in Afghanistan: Audit of Costs Incurred by The Asia Foundation

In 2003, USAID awarded a cooperative agreement to The Asia Foundation to support the election process managed by the Afghan Constitutional Loya Jirga, assist in the establishment of the High Office of Oversight for Anti-Corruption, and provide technical assistance to the Afghan government. From August 1, 2003, through April 30, 2010, The Asia Foundation expended nearly $84.9 million.

Crowe Horwath, contracted by SIGAR to conduct financial audits, found that The Asia Foundation's Fund Accountability Statement presented fairly, in all material respects, revenues received and costs incurred under the contract. Nevertheless, Crowe Horwath reported five areas of internal

control deficiencies and instances of noncompliance, which led the auditors to question $26,381 in costs. The questioned costs included $5,457 in ineligible costs and $20,924 in unsupported costs. In addition, the audit found that The Asia Foundation had not remitted an estimated $110,333 in interest revenue earned on advances given by USAID.

SIGAR made four recommendations to the Mission Director of USAID/Afghanistan:

- Determine the allowability of and recover, as appropriate, $26,381 in questioned costs identified in the report.
- Recover the estimated $110,333 in interest revenue earned from advances provided.
- Advise The Asia Foundation to address the five internal control findings identified in the report.
- Advise The Asia Foundation to address the four compliance findings identified in the report.

In its written response, The Asia Foundation disagreed with three of the audit's findings, including that it owed any revenue on interest earned on USAID advances. It noted that it had many grants and cooperative agreements from USAID and they were all covered by a single Letter of Credit from 2003 to 2008. It provided a financial table to illustrate that it did not have excess balances. The Asia Foundation concurred with two of the findings and stated it was taking steps to develop an electronic archival system to maintain records.

Financial Audit 13-6: USDA's Program to Help Advance the Revitalization of Afghanistan's Agricultural Sector: Audit of Costs Incurred by Volunteers for Economic Growth Alliance

The U.S. Department of Agriculture (USDA) awarded a cooperative agreement to Volunteers for Economic Growth Alliance (VEGA) to enhance the capability and effectiveness of the Afghan Ministry of Agriculture, Irrigation, and Livestock. MHM, under contract with SIGAR to conduct financial audits, examined about $17.2 million in VEGA expenditures from November 24, 2010, through December 31, 2012. MHM found that except for the possible effects of (1) not being able to review accounting records from November and December 2012, totaling more than $2.6 million in costs and (2) questioning $720,501 in unsupported costs, VEGA's Fund Accountability Statement presented fairly, in all material respects, revenues received and costs incurred under the cooperative agreement.

SIGAR made three recommendations to the USDA:

- Determine the allowability of and recover, as appropriate, $720,501 in questioned costs identified in the report.
- Advise VEGA to address the five internal control findings identified in the report.

- Advise VEGA to address the two compliance findings identified in the report.

In a written response, VEGA disagreed with the audit's findings, particularly concerning the two main deficiencies—timekeeping weaknesses and lack of adherence to procurement procedures—that accounted for the bulk of unsupported costs. VEGA also noted that the internal weaknesses identified by the audit team have been corrected.

Financial Audit 13-7: Department of Defense Program to Support the Afghan National Army's Technical Equipment Maintenance Program: Audit of Costs Incurred by Afghan Integrated Support Services

In December 2010, DOD awarded a contract to Afghan Integrated Support Services (AISS) to support the ANA's Technical Equipment Maintenance Program by providing maintenance services, training Afghans in vehicle maintenance, and building the capacity of Afghans in the areas of management, administration, and leadership. MHM, under contract with SIGAR to conduct financial audits, examined nearly $32 million in AISS expenditures.

MHM issued a disclaimer of opinion on the fair presentation of the Fund Accountability Statement because AISS refused to provide the required management representations indicating that it had made available all information relevant to the audit. In addition, MHM reported four internal control deficiencies and five instances of noncompliance, which prompted the auditors to question a total of more than $2.8 million in questioned costs. These included $217,643 in ineligible costs and more than $2.6 million in unsupported costs.

SIGAR made three recommendations to the Contracting Officer:

- Determine the allowability of and recover, as appropriate, $2,869,307 in questioned costs identified in the report.
- Advise AISS to address the four internal control findings identified in the report.
- Advise AISS to address the five compliance findings identified in the report.

AISS disagreed with all the audit findings, including the more than $2.8 million in questioned costs.

Financial Audit 13-8: USAID's Human Resources and Logistical Support Program: Audit of Costs Incurred by International Relief and Development Inc.

USAID awarded International Relief and Development Inc. (IRD) a task order to provide qualified professionals and technicians to support USAID activities in Afghanistan. Crowe Horwath, contracted by SIGAR to conduct financial audits, reviewed more than $81 million in IRD expenditures from March 2006–April 2011.

Crowe Horwath reported that IRD's Fund Accountability Statement presented fairly, in all material respects, revenues received and costs incurred under the contract. Nevertheless, Crowe Horwath reported three significant deficiencies in internal control and six findings pertaining to matters of noncompliance. The audit firm identified nearly $1.5 million in questioned costs.

SIGAR made three recommendations to the USAID Mission Director/Afghanistan:

- Determine the allowability of and recover, as appropriate, questioned costs identified in the report.
- Advise IRD to address the three internal control findings identified in the report.
- Advise IRD to address the six compliance findings identified in the report.

Although IRD agreed with some of the audit's findings, it did not concur with most of the questioned costs.

Financial Audit 13-9: USAID's Alternative Development Project South/West: Audit of Costs Incurred by Tetra Tech ARD

USAID awarded a contract to Tetra Tech ARD to implement the Alternative Development Project South/West to reduce dependence on opium production in Afghanistan's southern and western regions. The $75 million program sought to increase agriculture productivity, build relationships between farmers and the market, strengthen the capabilities of the Ministry of Agriculture, Irrigation, and Livestock, and rebuild agriculture infrastructure.

MHM, contracted by SIGAR to conduct financial audits, reported four internal control deficiencies and three instances of noncompliance. The audit firm identified more than $3 million in questioned costs which included almost $2.1 million in ineligible costs and $961,013 in unsupported costs. MHM reported that, except for more than $3 million in questioned costs, the Fund Accountability Statement presented fairly the revenues received and costs incurred under the contract.

SIGAR made three recommendations to the contracting officer:

- Determine the allowability of and recover, as appropriate, the questioned costs identified in the report.
- Advise ARD to address the four internal control findings identified in the report.
- Advise ARD to address the three compliance findings identified in the report.

ARD disagreed with all of the findings resulting in questioned costs.

Financial Audit 13-10: USAID's Alternative Livelihoods Program–Eastern Region: Audit of Costs Incurred by Development Alternatives Inc.

In 2005, USAID awarded a task order to Development Alternatives Inc. (DAI) to implement the Alternative Livelihood Program for the eastern region in the provinces of Kunar, Laghman, and Nangarhar. At the time

these provinces accounted for almost a third of Afghanistan's poppy production. The $118.4 million program sought to accelerate broad-based, sustainable regional economic development by supporting legal activities and providing an immediate alternative source of income to poor households whose livelihoods depended, directly or indirectly, on the opium economy.

MHM, contracted by SIGAR to conduct financial audits, reported four internal control findings and one instance of noncompliance. The audit firm identified more than $25 million in questioned costs. This included nearly $24 million in unsupported costs and another $1.4 million in costs incurred by a subcontractor that filed for bankruptcy. DAI had not obtained support for the expenses incurred by this subcontractor. MHM reported that except for questioned costs identified, the Fund Accountability Statement presented fairly the revenues received and costs incurred under the task order.

SIGAR made three recommendations to the USAID Mission Director in Afghanistan:

- Determine the allowability of and recover, as appropriate, the questioned costs identified in the report.
- Advise DAI to address the four internal control findings identified in the report.
- Advise DAI to address the compliance finding identified in the report.

DAI disagreed with all the audit findings.

Financial Audit 13-11: State Department's Afghanistan Media Project: Audit of Costs Incurred by HUDA Development Organization Afghanistan

State provided three grants to HUDA Development Organization Afghanistan (HUDA) to promote independent journalism through the Afghan Media Project. HUDA was to provide the journalism departments of the universities with the ability to produce stories for the print, radio, and television media in both Dari and Pashto. HUDA claimed total costs of nearly $7.1 million from July 15, 2010, through December 31, 2012.

MHM, contracted by SIGAR to conduct financial audits, reported fifteen internal control deficiencies and six instances of noncompliance, which prompted them to question $2,405,102 in costs. This included $173,469 in ineligible costs and about $2.2 million in unsupported costs. MHM reported that, except for questioned costs identified, HUDA's Fund Accountability Statement presented fairly revenues received and costs incurred under the grants.

SIGAR made three recommendations to State's grant agreement officer:

- Determine the allowability of and recover, as appropriate, the questioned costs identified in the report.
- Advise HUDA to address the fifteen internal control findings identified in the report prior to applying for additional awards with State.

- Advise HUDA to address the six compliance findings identified in the report prior to applying for additional awards with State.

In its written response, HUDA's management concurred with three of the fifteen internal control and noncompliance findings and recommendations. However, HUDA's management did not concur with any of the questioned costs findings and recommendations, stating that (1) they followed relevant standards for competitive process in awarding the subcontracts, and (2) they located and provided supporting documents subsequent to the audit fieldwork.

INSPECTIONS

This quarter, SIGAR published two inspection reports and two safety alert letters resulting from the inspections, which highlighted a number of construction deficiencies, risks to health and safety, and ongoing problems with contract oversight of infrastructure projects.

In addition to ongoing work, SIGAR also initiated an inspection of the Justice Center Court House construction project in Parwan, pictured on the cover of this report, to determine whether the project complies with construction requirements and adheres to key contract terms and conditions.

COMPLETED INSPECTIONS

- Inspection 13-9: Sheberghan Teaching Training Facility: U.S. Army Corps of Engineers Paid Contractors and Released them from Contractual Obligations before Construction Was Completed and Without Resolving Serious Health and Safety Hazards
- Inspection 13-10: Bathkhak School: Unauthorized Contract Design Changes and Poor Construction Could Compromise Structural Integrity

Inspection 13-9: Sheberghan Teaching Training Facility: U.S. Army Corps of Engineers Paid Contractors and Released them from Contractual Obligations Before Construction Was Completed and Without Resolving Serious Health and Safety Hazards

In 2008, USAID and the U.S. Army Corps of Engineers (USACE) agreed to build educational facilities in Afghanistan. In February 2009, USACE-Afghanistan Engineer District North (USACE-TAN) awarded a $2.9 million contract to build three teacher training facilities in northern Afghanistan to Mercury Development, an Iraqi company. One of these facilities was to be located in Sheberghan in Jawzjan Province and completed in December 2010. USACE extended the contract to June 2011 and increased its value to $3.4 million.

SIGAR assessed whether the construction was completed in accordance with the contract and whether the facilities were being used as intended and maintained.

Improper electrical wiring and overloaded electrical circuits (circled in red) demonstrate the risk of fire and electrical shock to Sheberghan school occupants. (SIGAR photo)

FINDINGS

After four years and two separate contracts, the Sheberghan training facility remains incomplete. Water, sewage, and electrical systems have not been finished. The lack of electricity prevented SIGAR from testing the lighting, heating and cooling, water, and other systems. However, SIGAR found the wiring in the facility does not meet U.S. electric codes. Moreover, an

improper "tap" into the system presents a serious safety hazard. In addition, the water well may have been placed too close to the facility's sewage system, raising potential health issues. SIGAR issued a safety alert letter highlighting this issue. See page 55 for details on the alert letter.

Despite the contractor's failure to complete construction and resolve health and safety issues, USACE-TAN closed out the contract in late 2011. Having paid Mercury Development $3.1 million of the contract's $3.4 million for work completed at three teacher training facilities, USACE-TAN released the contractor from further liability. In January 2012, USACE-TAN awarded a $153,000 contract to an Afghan company to complete the facility within 30 days. Almost a year later, USACE-TAN terminated this contract because of the contractor's failure to complete the project. USACE-TAN also released the second contractor from further liability. USACE-TAN plans to hire a third contractor to finish the work. SIGAR noted a disturbing trend where USACE fails to hold contractors accountable for completing the work they were paid to perform. In January 2013, USAID terminated the agreement with USACE and is now taking steps to award a new contract to complete the facility, remediate problems, and formally transfer the facility to the Afghan government.

Afghan teachers and students are using the unfinished Sheberghan facilities despite the lack of working systems and the health and safety issues. The U.S. government remains responsible for operations and maintenance because it has not yet transferred the facility to the Afghan government. The facility's occupants have asked the U.S. government to fund an estimated $50,000 per month in fuel costs for the electrical generator.

RECOMMENDATIONS

SIGAR made five recommendations to address the problems identified in this inspection. SIGAR recommended that the Commanding General, USACE direct USACE-TAN to determine, and report the results to SIGAR, on the reasons why two contractors were released from their contractual obligations and liabilities despite poor performance, unfinished construction, and electrical problems and determine disciplinary action may be appropriate. SIGAR also made four recommendations to the USAID Mission Director for Afghanistan determine whether sanitary sewer lines were improperly placed in relation to the water well, take measures to minimize the health and safety risks arising from faculty and students' current unauthorized use of the facility, complete construction of the Sheberghan teacher training facility and expedite its turnover to the Afghan government, and provide adequate project oversight.

AGENCY COMMENTS

USACE agreed to review the circumstances surrounding the contracts' close-outs contracts and report its results to SIGAR. SIGAR initially directed its recommendations concerning sewer line placement and

addressing health and safety risks to USACE. However, USACE no longer has the authority to conduct work on the project or control the facility's usage. As a result, SIGAR directed these recommendations to the USAID Mission Director. In its comments, USAID concurred with the last two recommendations. USAID also provided information on its efforts and plans to award a contract to complete the project, provide oversight, and transfer the facility to the Afghan government.

Inspection 13-10: Bathkhak School: Unauthorized Contract Design Changes and Poor Construction Could Compromise Structural Integrity

In August 2012, USFOR-A, through the Commander's Emergency Response Program, awarded a $262,899 contract to build an addition and improve conditions at a school located in the village of Bathkhak in Kabul Province. The contract had a 150-day performance period and required construction of a single-story, 10-classroom building. The contractor was also supposed to build a structure to house the generator, repair the water wells, install an irrigation system, complete a brick wall around the compound, and upgrade the existing classroom building. SIGAR assessed whether construction was completed in accordance with contract requirements and whether construction deficiencies had been identified and corrected.

Construction deficiencies found at Bathkhak school include large gaps between bricks in the wall that support the ceiling and roof. (SIGAR photo)

FINDINGS

SIGAR found that the contractor failed to meet contract design and material requirements. This, together with poor construction, jeopardizes the structural integrity of Bathkhak School.

Instead of building a single-story, 10-classroom building, the contractor is building two five-classroom buildings. Without U.S. government approval or knowledge, the contractor substituted building materials, using brick instead of cinderblock for the walls and a concrete slab for the roof instead of the wood-trussed framing system called for in the contract. The roof substitution raises serious safety concerns because the school sits in an area of high seismic activity. SIGAR issued a safety alert letter highlighting this issue. See page 55 for details on the alert letter.

SIGAR found a number of construction flaws including (1) large gaps between bricks in the walls that support the concrete ceiling and roof; (2) walls that did not appear to be reinforced; and (3) honeycombing, exposed rebar, and concrete form boards that remain in the roof. Each of these issues could compromise the building's structural integrity.

RECOMMENDATIONS

SIGAR recommended that the Commanding General of USFOR-A direct the appropriate USFOR-A units to (1) immediately conduct a thorough inspection of the two new school buildings to determine whether to certify their

structural integrity, (2) require the contractor to correct the deficiencies, (3) review the product substitutions and determine whether the changes warrant a reduction in the overall cost of the contract, and (4) identify the contractor officer(s) responsible for initial oversight of the construction projects. SIGAR recommended that USFOR-A determine why no oversight visits were made during the first six months of construction, no contracting modifications were made approving the substitution of building materials, and no pricing determinations were made of the substituted materials. After making these determinations, SIGAR recommended that USFOR-A decide what, if any, disciplinary action should be taken against the contracting officer(s) responsible for not properly overseeing construction activities.

AGENCY COMMENTS

In its written comments on a draft of this report, USFOR-A generally agreed with SIGAR's recommendations and noted that, as a result of SIGAR's report, it has implemented several new policies and re-inspected all recently completed infrastructure projects.

STATUS OF SIGAR RECOMMENDATIONS

The Inspector General Act of 1978, as amended, requires SIGAR to report on the status of its recommendations. This quarter, SIGAR closed nine recommendations contained in Audit 11-5 which examined U.S. salary support for Afghan government employees and technical advisors.

From 2009 through June 2013, SIGAR published 85 reports and made a total of 291 recommendations to recover funds, improve agency oversight, and increase program effectiveness. To date, SIGAR has closed about 70% of these recommendations. Closing a recommendation generally indicates SIGAR's assessment that the audited agency has either implemented the recommendation or otherwise appropriately addressed the issue. In some cases, a closed recommendation will be the subject of follow-up audit work.

Corrective actions taken for the closed audit recommendations this period included the designation of a representative to serve as a focal point for requests for salary support and to monitor salary support provided to Afghan civil servants by U.S. agencies. SIGAR closed this audit but on condition that it would examine more recent U.S. efforts to support the Afghan civil service.

The Inspector General Act of 1978, as amended, also requires SIGAR to report on any significant recommendations from prior reports on which corrective action has not been completed. In this quarter, SIGAR continued to monitor agency actions on recommendations in 28 audit and inspection reports.

Currently, there is only one audit report over 12 months old that is pending resolution. Audit 11-13, *Limited Interagency Coordination and Insufficient Controls over U.S. Funds in Afghanistan Hamper U.S. Efforts to Develop the Afghan Financial Sector and Safeguard U.S. Cash*, was published on July 20, 2011. The audit, discussed in SIGAR's April 2013 quarterly report, contains

four recommendations. One was directed to the U.S. ambassador to improve interagency coordination on financial sector development programs; the other three were directed at the Secretaries of State and Defense to strengthen oversight over the flow of U.S. funds through the Afghan economy.

SIGAR considers the recommendations resolved for five other audit and inspection reports that have remained open over 12 months. SIGAR is waiting for the agencies to complete the agreed upon actions.

SPECIAL PROJECTS

During this reporting period, SIGAR's Office of Special Projects issued a special report on contracts for culvert denial systems, two safety alert letters, and two management alert letters. SIGAR sent the alert letters to State, USAID and DOD to highlight urgent issues related to nonpayment of subcontractors, U.S. government waste, and school safety. It also provided a special briefing on the Kabul Bank crisis for the House Committee on Oversight and Government Reform. In addition, SIGAR continued its efforts to get implementing agencies to identify their ten best performing programs.

COMPLETED SPECIAL PROJECT

- SIGAR SP 13-8: Improvised Explosive Devices: Unclear Whether Culvert Denial Systems to Protect Troops Are Functioning Or Were Ever Installed

SP 13-8: Improvised Explosive Devices: Unclear Whether Culvert Denial Systems to Protect Troops Are Functioning Or Were Ever Installed

Because of the serious threat posed by the placement of improvised explosive devices (IEDs) in roadway culverts, DOD has funded a number of contracts to install systems to prevent insurgents from being able to access culverts. In 2012, A SIGAR investigation found that at least two Afghan companies in one province—with contracts valued at nearly $1 million to install culvert denial systems—had either never installed the systems or had improperly installed them. The ongoing investigation is looking into whether this apparent failure to perform may have been a factor in the death and injury of several U.S. soldiers. To date, an Afghan contractor and his sub-contractor have both been arrested and charged with fraud and negligent homicide. SIGAR investigators are working with the Afghan Attorney General's Office to arrest the second contractor. SIGAR alerted DOD to the investigations findings earlier this year.

SIGAR initiated this review to identify the number of contracts DOD has awarded for culvert denial systems and the extent to which DOD is providing oversight of these important contracts.

SIGAR found insufficient evidence to determine the number of contracts that DOD has awarded to install culvert denial systems. SIGAR identified three reasons for the lack of visibility into where these systems have been installed and at what they have cost:

- The installation of culvert denial systems is often included as a requirement in a road construction contract rather than as a separate contract.

Culvert-denial systems like this grid of steel rods prevent insurgents from easily placing explosives beneath roads. (SIGAR photo)

- Military units generate very different requirements for these systems based on the threat levels in their areas.
- U.S. troops have also constructed and installed the systems.

In addition, SIGAR has serious concerns about contract oversight for the construction and the installation of these systems. Existing documentation did not show whether culvert denial systems paid for with U.S. government funds were ever installed or, if they were, that the systems were installed properly. The accuracy, completeness, and quality of the contract files demonstrated significant problems with quality control and quality assurance. Finally, SIGAR believes that it is important to know where culvert systems have been installed and what condition they are in to prevent any further loss of life from the placement of IEDs in roadside culverts. SIGAR made three recommendations to the commanders of USFOR-A and C-JTSCC to improve contract management and oversight:

- Ensure that specific requirements are included in all contracts for quality assurance and quality control to be performed and documented.
- Ensure that contracting officials are performing the required quality assurance and quality control for culvert denial systems prior to making payments.
- Ensure actions are taken to identify, to the extent possible, the locations of culvert denial systems throughout Afghanistan.

In its response to this report, C-JTSCC noted that it had taken a number of steps to improve the quality to its contract oversight. C-JTSCC also requested additional time to assemble and review all records associated with culvert denial contracts awarded by regional commands in order to identify locations of culvert denial systems throughout the military theater. SIGAR believes this is reasonable.

The IJC emphasized that, due to the drawdown of Coalition Forces over the coming months and years, they may have to use alternative measures to inspect and identify locations of culvert denial systems. SIGAR acknowledges that alternative measures, such as aerial observation, may be needed. However, SIGAR also believes that it is not acceptable to spend taxpayer money on a contract when the contracting officer has no way to verify that the contract has been fulfilled.

SPECIAL PROJECT ALERT LETTERS

- Management Alert SP 13-4: Subcontractor Nonpayment Issues
- Safety Alert SP 13-5: Bathkhak School
- Safety Alert SP 13-6: Sheberghan School
- Management Alert SP 13-7: Command and Control Facility and Camp Leatherneck

Management Alert SP 13-4: Subcontractor Nonpayment Issues

SIGAR sent a management alert letter to DOD, State, and USAID to inform these agencies about the numerous complaints SIGAR has received relating to nonpayment of subcontractors. Nearly a quarter of SIGAR's hotline complaints from 2009 through 2012 have been related to Afghan prime contractor and subcontractor nonpayment issues. SIGAR has opened 52 investigations involving claims of $69 million that had not been paid. SIGAR

views the failure of prime contractors to pay their Afghan subcontractors as a serious risk to the U.S. reconstruction effort. The potential risks to subcontractors include business disruption and failure, with severe consequences for the livelihoods of employees and their families. Prime contractors accused of failing to pay subcontractors also face considerable risk of work stoppages, denial of access to work sites, death and kidnapping threats. As a result, U.S.-funded projects may be delayed, left incomplete, or sabotaged.

SIGAR urged the U.S. senior civilian and military leadership to determine the extent of the problem in the contracts that DOD, State, and USAID have awarded for Afghanistan reconstruction projects and to (1) more aggressively oversee these contractors to ensure subcontractors are promptly paid for their work, and (2) ensure that contract payment disputes are resolved according to contract terms.

A risk of collapse exists at the Bathkhak School because the contractor installed a concrete-slab roof atop brick walls instead of the wood-framed roof atop concrete blocks as required by contract. (SIGAR photo)

Safety Alert SP 13-5: Bathkhak School

SIGAR alerted the USFOR-A Commander that shoddy construction undermined the structural integrity of the U.S.-funded additions to the Bathkhak School in the Bagami district of Kabul province. Among other things, SIGAR found that design and construction flaws in the walls and roof could compromise the building's structural integrity. SIGAR was concerned that the roof could collapse on school children if it was not fixed before the school opened. Therefore, SIGAR urged USFOR-A to take all necessary and appropriate measures to address the safety risks that SIGAR had identified. SIGAR also urged USFOR-A to delay transferring the Bathkhak School buildings to the Afghan government until it received the full inspection report and was able to take action to address all its concerns. The final inspection report and USFOR-A's response to SIGAR's report and recommendations are summarized on page 51, under the inspections subheading of this report.

Despite water and sewage system problems, as well as electrical concerns, the Sheberghan school is already in use by Afghans. (SIGAR photo)

Safety Alert SP 13-6: Sheberghan Teacher Training Facility

SIGAR notified DOD and USAID about the safety risks it found during its inspection of the US.-funded teacher training facility in Sheberghan in Jawzjan province. SIGAR sent the alert letter, outlining structural issues as well as problems with the electrical, water, and sewage systems to enable the implementing agencies to correct the problems as quickly as possible. SIGAR inspectors had found problems with the electrical wiring that created potential electrocution risks and fire hazards for the building's occupants. Despite the fact that the building was still under construction, SIGAR found that Afghans were already using the building. SIGAR urged that USAID take all the appropriate measures to address the safety risks identified as soon as possible. The final inspection report and agency responses to the report and recommendations are summarized on page 49, under the inspections subheading of this report.

Cavernous and unneeded by the U.S. military, a $34 million command-and-control complex with an acre and a half of floor space sits idle in Helmand Province, with no current plans for alternative use. (SIGAR photo)

Management Alert SP 13-7: Command and Control Facility at Camp Leatherneck

SIGAR alerted the Secretary of Defense, the CENTCOM Commander, and the USFOR-A Commander to its discovery that a $34 million, 64,000 square-foot-building and related infrastructure at Camp Leatherneck may never be occupied. Documents provided to SIGAR indicated that as early as May 2010 military commanders in Afghanistan determined that the building, which was meant to serve as a command headquarters in Helmand to support the surge, was not needed. Nevertheless, the military still built the facility and continued to purchase equipment and make various improvements to the building through early 2013. In addition, SIGAR understands that U.S. military officials expect the building to be either demolished or turned over to the Afghan government as the U.S. military presence in Afghanistan declines and Camp Leatherneck is reduced in size.

To better understand why construction on this facility was not stopped after it became clear that it was not necessary, SIGAR requested DOD and the senior military leadership to provide detailed information about the decision to continue building the command headquarters. Those responses are due after this report went to press.

Top Ten Success and Failures

Last quarter SIGAR wrote to the Secretaries of State and Defense, and the Administrator of USAID, asking that each of their agencies submit a list of their 10 most-successful and 10 least-successful projects or programs in the Afghanistan reconstruction effort, along with an explanation of the criteria used for assessment and selection.

Although the agencies responded, they did not submit top-10/bottom-10 lists. They said, among other things, that many projects were conducted in cooperation with other agencies, and that performance criteria were often project-specific. The agencies did, however, present general descriptions of their efforts and pointed to various indicators of overall progress in Afghanistan.

This quarter SIGAR replied, noting that they had not complied with the agency's request for information. After pointing out that 2012 Office of Management and Budget guidance for executive departments and agencies had specifically called for measures to facilitate project comparisons, SIGAR observed that some of the overall indicators the agencies cited were not prima facie evidence of program or project success. For example, the cited metric of percentage of population within an hour's walk of a health facility could partly reflect Afghanistan's increasing urbanization or even better roads and paths, as well as health-program success.

SIGAR also noted that the agency responses indicated some level of program evaluation was being conducted and asked why the agencies could not compare outcomes. SIGAR repeated its earlier request, but modified it to ask for three lists of 10 more- and 10 less-successful projects or programs to avoid imposing burdensome research tasks on agency personnel to compile an absolute ranking.

Congressional Briefing on Kabul Bank Crisis

SIGAR briefed staff of the House Oversight and Government Reform Committee on its review of all the official reports related to the Kabul Bank crisis. When the bank collapsed in 2010, loans and advances to customers totaled about $935 million and amounted to 70% of depositor funds at the bank. Customer deposits were the sole source of financing for the bank's activities. Afghanistan's central bank, Da Afghanistan Bank (DAB) covered the losses. As of July 2013, only $173.2 million has been recovered.

SIGAR informed the Committee that it had found no evidence to suggest than any U.S. foreign assistance funds were directly lost in the Kabul Bank crisis. Although the U.S. government and international organizations used the bank to transfer salary payments for the Afghan security forces and Afghan civilian employees, it did not play a direct role in the establishment or development of the bank.

SIGAR is conducting an audit of U.S. efforts to develop and build the capacity of DAB. The audit will evaluate the steps taken by U.S. agencies to strengthen the oversight and regulatory capacity of DAB after the near collapse of the Kabul Bank. The audit will also assess the process by which U.S. agencies provide direct assistance funds to the Afghan government, and the internal controls put in place to safeguard these funds while they are in Afghan banks.

Reporting fraud is the goal of a SIGAR Investigations Directorate outreach campaign that includes advertisements and posters featuring the Fraud Hotline number and e-mail address. (SIGAR image)

Indictment: a formal, written accusation originating with a prosecutor and issued by a grand jury against a party charged with a crime. Its sole purpose is to identify the defendant's alleged offense, and is not evidence that the offense charged was committed and may not be considered as evidence in a subsequent trial.

Criminal Information: a written accusation made by a public prosecutor, without the participation of a grand jury. The function of an information is to inform the defendant of the nature of the charge made against him and the act constituting such charge so that he can prepare for trial and to prevent him from being tried again for the same offense. (Black's Law Dictionary)

INVESTIGATIONS

During this reporting period, SIGAR's ongoing investigations related to fuel thefts saved the U.S. government approximately $800,000. SIGAR investigations also resulted in two arrests, two indictments, two criminal informations and two guilty pleas in the United States as well as two court-martial convictions under the Uniform Code of Military Justice and two arrests under Afghan law. Criminal fines and restitutions amounted to over $88,000. In addition, SIGAR's suspension and debarment program referred 27 individuals and 15 companies for suspension or debarment based on evidence developed as part of SIGAR's investigations.

During this reporting period, SIGAR initiated 33 new cases and closed 42, bringing the current number of active investigations to 289, of which SIGAR is the lead agency on 238, as shown in Figure 2.3.

Criminal Information Filed Against U.S. Army Captain and Military Member Debarred

On May 28, 2013, the United States Attorney's Office in the Eastern District of North Carolina filed a criminal information against Captain Franklin Delano Rivera-Medina, charging him with one count of solicitation and acceptance of gratuities; a second count of bulk cash smuggling; and aiding and abetting the same. The criminal information is the result of a multi-agency investigation conducted by SIGAR, the Federal Bureau of Investigation (FBI), Defense Criminal Investigative Service (DCIS), and Army Criminal Investigation Command-Major Procurement Fraud Unit (CID-MPFU).

From April 2008 through February 2009, Rivera-Medina was deployed to Afghanistan with the Combined Joint Special Operations Task Force. As the Service Detachment Commander, Rivera was responsible for re-supplying 17 forward operating bases by contracting with local vendors for vehicles known in Afghanistan as "jingle trucks" that transport and deliver supplies. In collusion with another military member, Tonya Long, Rivera accepted cash gratuities, as well as large screen televisions, high-end electronics, and other gifts from Afghanistan trucking vendors in exchange for preferential treatment. He smuggled more than $10,000 in currency back into the United States with the intent to evade currency-reporting requirements by concealing the money in gutted video players. Rivera has been ordered to forfeit all property and proceeds that resulted from his illegal activity.

Additionally, on June 6, 2013, the U.S. Army Legal Services Agency issued a letter advising Long, the second subject of this investigation, that she was debarred for a period of ten years. In September 2012, a criminal information was filed against Long charging her with one count of bulk cash smuggling and with aiding and abetting another in doing the same. Long smuggled approximately $1 million from Afghanistan to North Carolina. In March 2013 she pled guilty to the charges and was sentenced to 60 months confinement and $1 million in restitution.

Investigation Results in Court-Martial Convictions for Theft, Bribery, and Drugs

In April 2013, a military judge sentenced two U.S. servicemen to be confined for 21 months and nine months respectively. The court-martial–which resulted from a SIGAR investigation of fuel theft, bribery and drugs on U.S. bases in Afghanistan–also reduced the ranks of the two men.

The investigation began when the 147th Financial Management Support Detachment at Forward Operating Base (FOB) Salerno contacted SIGAR in March this year and advised investigators that U.S. Army Private First Class Jesse Montel Anderson had been conducting unusual transactions using his Eagle Cash card, a debit card used by the military. From September 2012 until February 2013, Anderson had been assigned as a fuel technician to Combat Outpost Terazayi. From February 23 through March 9, 2013, Anderson made five transfers of cash to his Eagle Cash account in $350 increments totaling $1,750. In addition, on or about February 6, 2013, Anderson inquired about converting $4,500 in denominations of $100 to his Eagle Cash account. Anderson was informed that the limit for each transaction was $350 and that no denomination larger than $20 would be authorized.

SIGAR and Army CID agents interviewed Anderson and he admitted that while assigned to Terazayi he had taken money from two Afghan citizens in exchange for fuel. Anderson stated that an interpreter from Terazayi told him that he had purchased fuel from a soldier with the previous unit assigned to the outpost. Anderson told SIGAR agents that he sold the fuel to the interpreter and Noor Wali Khan, a local contractor, by allowing 400-500 gallons of fuel to remain in the trucks after they were unloaded. He said the interpreter and Noor paid him $100 per 100 gallons of fuel on nine separate occasions totaling $4,500. Anderson stated that Noor told him that he, the truck driver, and the fuel company would divide the profits from the sale of the fuel. Anderson also admitted to having deposited $350 to his Eagle Cash account on five different occasions.

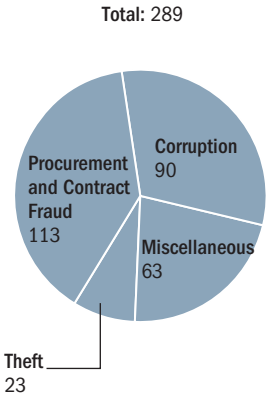
SIGAR and Army CID agents conducted a search of Anderson's room on FOB Salerno. During the search, investigators seized 550 grams of hashish, $4,500 in $100 denominations, $1,400 in $20 denominations, and a notebook containing fuel records.

During a second interview, Anderson admitted to having exchanged $900 of fuel for a kilogram of hashish from Noor on Terazayi. He stated that he had arranged for a transfer of the hashish via Facebook communications with a service member who was assigned to FOB Salerno, Specialist Keith Williams. Williams agreed to sell the hashish on FOB Salerno for Anderson and later divide the profits. Anderson granted SIGAR agents access to his Facebook account, which confirmed his statement.

Anderson also stated that he had provided some of the hashish to another service member assigned to Terazai, Specialist James Sellers.

FIGURE 2.3

SIGAR INVESTIGATIONS: NUMBER OF OPEN INVESTIGATIONS, AS OF JUNE 30, 2013



Source: SIGAR Investigations Directorate, 7/9/2013.

Cash and drugs derived from fuel theft and bribery and seized by SIGAR and Army investigators earned two Army enlisted men court-martial convictions and months of confinement. (SIGAR photo)

SIGAR agents interviewed Williams, who admitted that he had received the hashish from Anderson and that the two had discussed selling it on Facebook. Williams stated that a fourth service member, Specialist James Morris, actually sold the hashish on FOB Salerno. Williams said he collected and held the money from the sales for Anderson.

In subsequent interviews, Sellers admitted that he had used hashish obtained from Anderson. Morris admitted to using hashish given to him by Williams. Based on their confessions and corresponding co-defendant statements, Sellers and Morris were charged with possession and use of a controlled substance by U.S. Army JAG Office on FOB Salerno. They were both reduced in rank from E-4 to E-1, fined two months pay ($1,516) and ordered to serve 45 days extra duty.

On April 30, 2013, Anderson was sentenced by court-martial to 21 months in confinement, a reduction in rank from Private First Class (E-3) to Private (E-1), forfeiture of all pay and allowances, and a bad conduct discharge. On April 29, 2013, Williams was sentenced by court martial to nine months confinement, a reduction in rank from specialist (E-4) to private (E-1), and a bad conduct discharge.

SIGAR agents identified the contractor, Noor, as an employee of Adrees Ekhlas Construction Company. On April 6, 2013, the U.S. military blacklisted Khan due to his involvement in fuel theft and corruption. Khan is no longer allowed access to any U.S./NATO bases in Afghanistan.

Investigation Identifies Fraudulent Fuel Invoices Resulting in Recovery of $600,000

A SIGAR special agent learned from discussions with the staff at the General Support Contracting Command (GSCC) at Camp Phoenix that the command was accumulating invoices that might be indicative of fraud, theft, or government employee corruption.

SIGAR launched an investigation in April 2013. Agents reviewed discrepant delivery invoices for further investigative consideration. To date, 11 transportation movement requests (TMRs) have been determined to be fraudulent. The fabricated TMRs gave drivers the authorization to upload fuel from the fuel yard and subsequently, the drivers diverted the fuel for sale. Statements provided by military members confirmed that the deliveries were never completed and that the signatures on the delivery forms were forgeries.

Because of this investigation, the GSCC was able to bill the transport providers for the value of the fuel and deny them delivery charges. According to the GSCC, recovered fuel costs and averted delivery charges are estimated to amount to over $600,000.

SIGAR Thwarts $150,000 Fuel Theft Scheme

On April 19, 2013, SIGAR and Army CID were notified that two forged TMRs had been discovered in connection to two 5,000 gallon fuel trucks

owned and operated by an Afghan company, Sheenz Varatis Logistics. The Afghan company was under contract to deliver 10,000 gallons of fuel to FOB Orgun-E. At the time the forged TMRs were discovered, the drivers and their two trucks were waiting at FOB Sharana for an escort before continuing on to FOB Orgun-E. After SIGAR and Army CID were notified of the forgeries, the trucks were held at FOB Sharana, pending an investigation. SIGAR investigators interviewed the Afghan transport company's program manager as well as the U.S. military personnel involved in documenting the initial order and the discovery of the forged TMRs. The investigation determined that two Afghan local nationals were involved in a $20,000 bribery scheme to steal the fuel by falsifying TMRs to indicate the fuel had been delivered to FOB Orgun-E. The investigation resulted in the recovery and eventual return of the 10,000 gallons of fuel to the U.S. government inventory at Bagram Airfield on June 20, 2013. Based upon the U.S. Army calculation of $15 per gallon, the recovered fuel amounted to $150,000 cost savings to the U.S. government.

Checking fuel-pump meters against delivery records helps detect and deter fuel theft, a multi-million-dollar problem in Afghanistan. (SIGAR photo)

Fuel Theft Investigation Results in Two Arrests and Cost Savings of $90,000

On June 27, 2013, in response to complaints that Afghan fuel truck drivers were offering bribes to U.S. fuel point soldiers, SIGAR and Army CID initiated a "sting" operation at FOB Goode. The sting operation was designed to identify Afghan drivers who offered a bribe to a soldier in exchange for fuel. Two National Fuel Trucking Company trucks, each capable of holding 12,000 gallons of fuel, arrived at the FOB Goode fuel point for downloading. The first truck, driven by Mohammed Ameen, was unloaded and found to be 353 gallons short of fuel. When Ameen was informed of the shortage, he offered the soldiers a small quantity of hashish in return for modifying the paperwork to reflect that he had delivered the correct amount of fuel. The soldiers were allowed to accept the bribe as part of the sting operation. After conferring with the second truck driver, Khan Agha, Ameen gave the fuel point soldiers a bribe comprising $95 and 8,500 afghanis in order to leave 6,000 gallons of fuel in Agha's truck. Ameen and Agha were then arrested by local Afghan authorities and turned over to Afghan local law enforcement officials for prosecution.

Based on the U.S. Army fuel contract price of $15 per gallon, the 6,000 gallons of recovered fuel has a value of $90,000.

U.S. Soldier Indicted for Fuel Theft Scheme at FOB Fenty

On April 9, 2013, a federal grand jury in the District of Colorado returned a five-count indictment charging Specialist Stephanie Shankel-Charboneau with conspiracy, bribery, theft, money laundering, and structuring transactions to evade reporting requirements. That same day a summons was issued requiring Shankel-Charboneau to surrender to the U.S. Marshal Service and

appear in court on April 24, 2013. The charges came after a SIGAR investigation revealed that Shankel-Charboneau, Sergeant Christopher Weaver, and civilian Jonathon Hightower conspired in Afghanistan with Afghan nationals to facilitate the theft of fuel from FOB Fenty in exchange for cash. The Afghan nationals were subcontractors to Afghan American Army Services and Guzar Merbachakot Transportation (GMT).

Thirteen search warrants were executed for email and social media accounts. After reviewing the contents of the accounts, agents of SIGAR, Army CID, and DCIS developed probable cause to obtain and execute search warrants at the residences of Weaver and Shankel-Charboneau in Colorado as well as Hightower's residence in Houston, Texas. During the course of these searches, interviews were also conducted with Weaver, Shankel-Charboneau and Hightower, who all admitted to conspiring with an Afghan representative of GMT to facilitate the theft of fuel from FOB Fenty. In addition, Weaver and Hightower implicated another service member, Staff Sergeant Bilah Abdullah, in the scheme to steal fuel from FOB Fenty. Abdullah is the subject of a separate SIGAR investigation. As previously reported, Weaver and Hightower have already been prosecuted.

U.S. Contractor Employee Pleads Guilty to Conspiracy

On May 2, 2013, in the Eastern District of Louisiana, U.S. contractor Elton Maurice McCabe III pled guilty to one count of conspiracy to commit wire fraud and receive illegal kickbacks. McCabe had been arrested in December 2012, following an investigation by SIGAR and other U.S. law enforcement agencies.

From June through December 2009, McCabe worked in Afghanistan for an American company while maintaining a residence in Slidell, Louisiana. During that time, McCabe was assigned to subcontract four construction projects at Kandahar Airfield, including one to build an apron between the runway and the hangars.

McCabe awarded the apron subcontract at a value of $3.2 million. At the time of the award, he asked the subcontractor for what he called a $60,000 "loan." Although McCabe called the payment a loan, he and the subcontractor established no repayment conditions or terms of interest.

On July 18, 2009, the subcontractor gave McCabe $7,000 cash. On July 22, 2009, the subcontractor wire-transferred an additional $53,000 from Beirut, Lebanon to the bank account in Louisiana of McCabe's wife. "To buy a vehicle from McCabe's wife" was noted on the bank's transfer form.

On December 13, 2012, McCabe was arrested at his Louisiana residence by agents from SIGAR, DCIS, FBI, Air Force Office of Special Investigations, and Army CID. McCabe agreed to cooperate fully. His plea agreement includes a forfeiture of $60,000, which represents the sum of money equal to the amount of proceeds derived from the conspiracy to commit wire fraud.

Sentencing is scheduled for August 2013.

Investigation Results in Guilty Plea of U.S. Military Member

Christopher Chase Bradshaw pled guilty in the United States District Court for the Southern District of Mississippi on June 19, 2013, to one count of conspiracy to commit wire fraud and a second count of theft of government property. An Army Reservist who served as a finance office cashier at FOB Salerno in Afghanistan from April 2010 to March 2011, Bradshaw allegedly used his position to add stored cash value to his military debit card and to those of two co-conspirators. Bradshaw would add the stored value to the cards but fail to include those transactions in the daily transaction report, which was electronically submitted from Afghanistan to the Federal Reserve Bank in Boston every day. The Defense Finance and Accounting Service of the Department of Defense lost about $32,300 which was the amount of stored cash value which Bradshaw added to the cards but failed to report.

Bradshaw is tentatively scheduled for sentencing in August 2013. SIGAR and Army CID-MPFU are continuing the investigation and will work together to bring the two co-conspirators to prosecution.

Bribery Investigation Results in Seizure of U.S. Soldier's Property

After a multi-agency investigation, Special Forces member James Travis admitted to accepting bribe payments from Afghan trucking companies in exchange for preferential treatment in contract awards. Travis, who was deployed to Afghanistan, admitted to accepting $95,000 in bribes. He also admitted to selling U.S. government-appropriated fuel to Afghan vendors. On March 28, 2013, a seizure warrant was issued that allowed U.S. authorities to take $46,131 from the bank accounts of James and Marla Travis. Almost two months later, on May 17, 2013, a federal judge in the Eastern District of North Carolina issued another seizure warrant for a vehicle owned by James Travis. On May 20, 2013, agents from SIGAR, DCIS, and the FBI recovered the vehicle. It was later relinquished to the U.S. Marshals Service, where it will be sold at an auction. The current appraised value of the vehicle is estimated at approximately $40,985.

U.S. Contractor Arrested for Bid-Rigging

SIGAR and several other U.S. law enforcement agencies executed the arrest of a U.S. contractor, Keith Johnson, on May 1, 2013. SIGAR, DCIS, the FBI, and Army CID opened their investigation after a complainant alleged that Keith Johnson, an employee of PAE Government Services, which is a subsidiary of Lockheed Martin Corp, and his family members were steering supply contracts and rigging bids in order to award contracts to a company owned and operated by Johnson's wife and his mother-in-law. Johnson, the program manager for PAE, allegedly had his wife, Angela Johnson, establish a company called Military Logistics Support (MLS) and then positioned her as the sales manager. The complainant also alleged that close associates of the Johnsons had established other companies so that Johnson

could steer contracts to them as well. Johnson then received kickbacks through a shell company operated under the name of Johnson's daughter, Christine Hammer. Johnson awarded purchase orders to MLS in excess of $10 million. Contracts awarded to Johnson's associates may have exceeded $12 million in total. The investigation is continuing.

Former Soldier Arrested

In early 2011, SIGAR launched an initiative to review and analyze postal money order purchases by U.S. personnel stationed in Afghanistan for indications of fraud. In February 2011, SIGAR identified two Army personnel, Staff Sergeant Phillip Wooten and Sergeant First Class Mauricio Espinoza, as having engaged in suspicious monetary transactions during their deployment.

Both Wooten and Espinoza were assigned to the 7th Special Forces Group based at Fort Bragg, North Carolina when they allegedly stole more than $215,000 earmarked for reconstruction efforts in Kandahar, Afghanistan. According to his indictment, Espinoza was deployed to Afghanistan as a paying agent, while Wooten was responsible for contracting with local vendors. Between July 2009 and April 2010, the two allegedly conspired to inflate and falsify receipts to Afghan vendors, allowing them to steal the money and send it home.

As previously reported, Wooten pled guilty in December 2011 to a two-count criminal information of conspiracy and theft of government property. He is currently awaiting sentencing.

Espinoza was arrested on July 20, 2012, and released on bail. When he failed to appear in federal court on June 3, 2013, in the Eastern District of North Carolina, a federal bench warrant was issued for his arrest. On June 6, 2013, Espinoza was arrested in the state of California. He was subsequently transported by the U.S. Marshals Service to detention in the Pamlico County Jail in North Carolina. Following oral arguments by the defense and prosecution, the presiding judge in a federal court in New Bern, North Carolina, deemed him a flight risk and ordered that he be held in jail until the next scheduled court date of September 16, 2013.

Former State Employee Indicted for $30,000 Bribe

On April 2, 2013, Department of State employee Kenneth Michael Brophy was indicted in the District of Delaware for conspiracy, receipt of an illegal gratuity by a public official, and willful receipt of an illegal payment for assisting a contractor pursue a claim against USACE. SIGAR arrested Brophy on October 14, 2012, with assistance from the FBI and the State Department, Office of the Inspector General.

Brophy's alleged illegal activities occurred while serving as a personal service contract employee working for the Bureau of International Narcotics and Law Enforcement (INL) at the U.S. Embassy Kabul during 2009. He supervised construction contracts of police facilities, including the

renovation of the Pol-i-Charkhi Prison performed by an Afghan contractor. The contractor paid Brophy $30,000 to lobby USACE to re-instate a contract previously terminated due to unsatisfactory performance. Brophy assisted company officers in drafting documents for submission to the USACE, provided general advice regarding the Afghan company's communications with the USACE, and personally lobbied a USACE official to re-instate the contract. Brophy initially provided false statements to federal officials about the gratuity payment, claiming the cash payment was "slipped" into his coat pocket and that he "did not notice the money" until he returned to his billet in the U.S. Embassy.

Brophy's trial is scheduled for September 2013.

American Contractor Blacklisted; Marijuana Valued at $276,000 Seized

Lawrence Tucker, an American contractor, was blacklisted from access to any military installation in Afghanistan after an investigation by SIGAR and other law enforcement agencies. On June 20, 2013, the Army CID at FOB Salerno seized 921 marijuana plants in a plot near the perimeter of a storage yard managed by a U.S. contractor, AC First. Investigators also recovered containers of Miracle Grow and empty water bottles in the plot. Officials identified Lawrence Tucker, a resident of Houston, Texas, as the individual responsible for growing the marijuana. Army CID agents on FOB Salerno asked SIGAR for assistance as Tucker was a contractor employed by a U.S. company. As a result of the seizure, AC First fired Tucker and he returned to the United States. SIGAR and Army CID presented the facts of the investigation to the FOB Salerno JAG office and Tucker was subsequently blacklisted. SIGAR submitted the same information to the Regional Security Office, Kabul, in order to ensure that the State Department bars him from access to any contracts.

The Drug Enforcement Administration (DEA) estimates that a mature marijuana plant will produce a pound of processed ingestible substance. DEA estimates the value of a pound of processed marijuana in Afghanistan at $300. The value of 921 plants at maturity and after processing is $276,300.

Suspensions and Debarments

This quarter, SIGAR's suspension and debarment program referred 27 individuals and 15 companies for suspension or debarment based on evidence developed as part of investigations conducted by SIGAR in Afghanistan and the United States. To be suspended and debarred means to be excluded from receiving federal contracts or assistance because of misconduct. Of these 42 contractors, 14 individuals, and 10 companies were referred for debarment based on allegations that they engaged in fraud and nonperformance as part of six contracts valued at $5,344,982. An additional 18 individuals were referred for suspension or final debarment based on

criminal allegations of theft from coalition forces, acceptance of bribes, bulk cash smuggling into the United States, or final criminal convictions in U.S. District Court. These 42 referrals bring the total number of such referrals made by SIGAR since 2008 to 327—180 individuals and 135 companies to date, as shown in Figure 2.4.

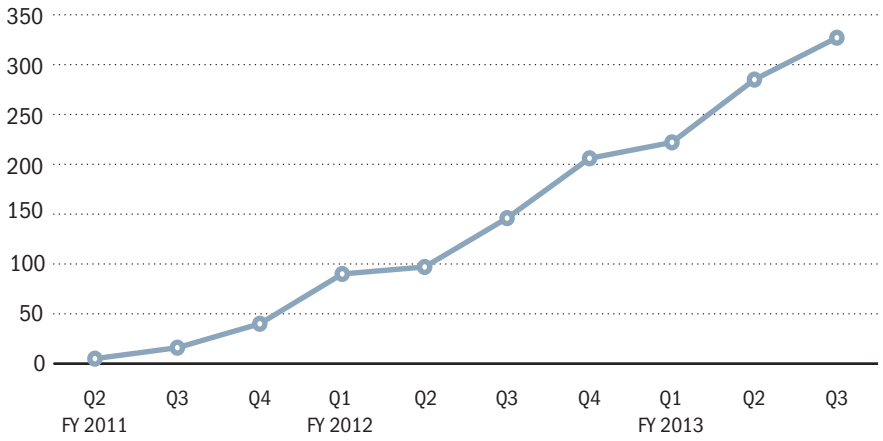
As of the end of June 2013, these referrals have resulted in a total of 59 suspensions and 68 finalized debarments of individuals and companies engaged in U.S. funded reconstruction projects. For a complete list, please see Appendix C.

A continuing problem is the Army's refusal to act on SIGAR's recommendations to suspend or debar individuals who are supporters of the insurgency, including the Taliban, the Haqqani Network, and al-Qaeda. The Army suspension and debarment official has taken the position that suspension or debarment of such individuals and entities would be a violation of their due process rights if based on classified information or if based on findings by the Department of Commerce which placed them on the Entities List. SIGAR has referred 43 such cases to the Army, and all have been rejected, despite detailed supporting information demonstrating that these individuals and entities are providing material support to the insurgency in Afghanistan. In other words, they may be enemies of the United States, but that is not enough to keep them from getting government contracts.

Suspensions and debarments are an important tool for ensuring that U.S. agencies award contracts only to responsible entities. SIGAR's program addresses three challenges posed by U.S. policy and the contingency contracting environment in Afghanistan: the need to act quickly, the limited

FIGURE 2.4

SIGAR INVESTIGATIONS: CUMULATIVE REFERRALS FOR SUSPENSION AND DEBARMENT, Q2 FY 2011 – Q3 FY 2013



Source: SIGAR Investigations Directorate, 7/11/2013.

U.S. jurisdiction over Afghan nationals and Afghan companies, and the vetting challenges inherent in the use of multiple tiers of subcontractors. SIGAR continues to look for ways to enhance the U.S. government's responses to these difficulties through the innovative use of information resources and investigative assets both in Afghanistan and the United States. SIGAR makes referrals for suspensions and debarments based on completed investigations that SIGAR participates in. In most cases, SIGAR makes its referrals in cases where there is no possibility of criminal prosecution or remedial action by a contracting office. In such cases, suspensions and debarments are the primary remedy to address contractor misconduct. In making referrals to agencies, SIGAR provides the basis for a suspension or debarment decision as well as all of the supporting documentation needed for an agency to support that decision should it be challenged by the contractor at issue.

SIGAR's increasing emphasis on suspension and debarment is exemplified by the fact that of the 327 referrals for suspension and debarment that have been made by the agency to date, 291 have been made since the second quarter of 2011. Beginning in July 2012, SIGAR accelerated its suspension and debarment program, referring 103 individuals and companies for exclusion from contracting to suspension and debarment officials in implementing agencies. SIGAR's referrals over this nine month period represent allegations of theft, fraud, poor performance, financial support to insurgents, and mismanagement in reconstruction contracts having a value of $165,326,264.

Proposed Debarment of Mesopotamia Group

On May 7, 2013, following up on SIGAR's recommendation from last quarter, the Army proposed debarring Mesopotamia Group and three of its officers. As a result the company is temporarily excluded from contracting. A final debarment decision is currently pending with the Army.

Last quarter, SIGAR proposed the debarment of Mesopotamia Group and three of its officers based upon the company making false claims of approximately $5 million as part of a U.S. Army contract to provide medical equipment maintenance to Afghan National Army hospitals. SIGAR's investigation found that Mesopotamia Group had provided inadequately trained personnel, substandard repairs to equipment, and maintained inadequate records all in violation of the contract's requirements. This poor performance was illustrated by the inability of staff at the Dawood National Military Hospital to use any of its ventilators to aid victims of an October 2007 suicide bomb attack on a Kabul bus that resulted in the deaths of 13 Afghans. It was also shown by a second incident at Herat Provincial ANA Hospital in which an improperly attached regulator prevented hospital staff from using a breathing incubator during surgery, contributing to the death of an Afghan soldier.

On repeated occasions, Mesopotamia Group allegedly refused to provide its staff with the resources to address these problems while billing the entire amount the contract allowed, regardless of whether the work was actually completed according to the terms of the contract.

Debarment of Afghan Local National

In July 2012, a SIGAR special agent received information from Task Force 2010 that employees of an Afghan business, 77 Construction Company, were stealing U.S. military property at Camp Leatherneck and selling it to other companies operating within Camp Leatherneck. The investigation revealed that Zikrullah Shahim, a translator for 77 Construction, had stolen five generators. Shahim was interviewed and subsequently arrested by the Afghan Attorney General's Office. On May 7, 2013, the Department of the Army Legal Services Office issued a Notice of Proposed Debarment to Shahim effective May 7, 2013.

SIGAR BUDGET

Congress appropriated $49.9 million for SIGAR's operating expenses through Fiscal Year 2013 in the Full Year Continuing Appropriations Act 2013 (P.L. 113-6). SIGAR's Fiscal Year 2013 annual funding was then reduced, in accordance with Office of Management and Budget direction on the implementation of sequestration, to $48.0 million.

Since SIGAR was established in 2008, Congress has appropriated a total of $164 million for SIGAR through 2013. Recently, the Office of Management and Budget released the President's Fiscal Year 2014 Budget, which includes SIGAR's request for $49.7 million to continue critical oversight operations of reconstruction funds.

SIGAR STAFF

Since its last report to Congress, SIGAR increased its staff from 182 to 185 federal employees. During this reporting period, SIGAR welcomed 17 new employees and lost 14. SIGAR has extended offers of employment that will bring the number of full-time staff to 194 by the end of August 2013. SIGAR is on target to begin FY 2014 at its assigned strength of 205.

As a temporary agency with a demanding mission, SIGAR faces challenges recruiting and retaining professional staff, but continues to attract highly qualified auditors, investigators, and analysts. SIGAR is authorized 57 billets in Afghanistan. SIGAR expects to fill all 57 billets next quarter.

This quarter, SIGAR had 32 authorized personnel at the U.S. Embassy Kabul and 14 authorized at locations outside the U.S. Embassy. SIGAR has staff members stationed at six locations across the country, including Kandahar and Bagram airfields, Mazar-e-Sharif, Camp Leatherneck,

The Special IG, center, and some stateside staff gather with SIGAR's forward team at the U.S. Embassy in Kabul. (SIGAR photo)

USFOR-A headquarters in Kabul, and the U.S. Consulate in Herat. SIGAR employs three local Afghans in its Kabul office to support investigations and audits. In addition, SIGAR supports its work with staff assigned to short-term temporary duty in Afghanistan. This quarter, SIGAR had 18 personnel on temporary duty in Afghanistan for a total of 282 days.

"While the nature of our relationship is changing, the commitment of the international community to the people of Afghanistan remains resolute and enduring."

—General Joseph Dunford Jr., USMC
Commander, ISAF and USFOR-A

Source: American Foreign Press Service article, June 18, 2013.