

SIGAR

Special Inspector General for
Afghanistan Reconstruction

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QUARTERLY REPORT TO THE UNITED STATES CONGRESS





The National Defense Authorization Act for FY 2008 (P.L. 110-181) established the Special Inspector General for Afghanistan Reconstruction (SIGAR).

SIGAR's oversight mission, as defined by the legislation, is to provide for the independent and objective

- conduct and supervision of audits and investigations relating to the programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.
- leadership and coordination of, and recommendations on, policies designed to promote economy, efficiency, and effectiveness in the administration of the programs and operations, and to prevent and detect waste, fraud, and abuse in such programs and operations.
- means of keeping the Secretary of State and the Secretary of Defense fully and currently informed about problems and deficiencies relating to the administration of such programs and operation and the necessity for and progress on corrective action.

Afghanistan reconstruction includes any major contract, grant, agreement, or other funding mechanism entered into by any department or agency of the U.S. government that involves the use of amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

Source: P.L. 110-181, "National Defense Authorization Act for FY 2008," 1/28/2008.

(For a list of the congressionally mandated contents of this report, see Section 3.)

Cover photo:

A typical, heavily loaded Afghan truck waits at the U.S.-funded Weesh crossing on the Afghanistan-Pakistan border. An alert letter issued this quarter pointed out SIGAR auditors' observation that many Afghan trucks are too tall to pass through a new inspection device at the crossing. (SIGAR photo)



SPECIAL INSPECTOR GENERAL FOR
AFGHANISTAN RECONSTRUCTION

I am pleased to submit to Congress, and to the Secretaries of State and Defense, SIGAR's latest quarterly report on the status of the U.S. reconstruction effort in Afghanistan.

SIGAR has a unique mandate to provide oversight for what has become the largest U.S. effort to reconstruct a single country in our nation's history. Unlike other Inspectors General, who are usually limited to conducting audits and investigations of the agencies to which they are attached, SIGAR holds a unique congressional mandate to oversee any and all U.S.-funded reconstruction programs in Afghanistan. As the only agency tasked exclusively to examine Afghanistan reconstruction programs, SIGAR conducts its audits and investigations in a country that is not only deemed critical to U.S. national security, but also is impoverished, isolated, war-torn, and corrupt.

In this difficult environment, law enforcement plays a particularly crucial role in combating corruption and protecting the nearly \$100 billion U.S. investment in building Afghan security forces, fostering Afghanistan's democracy, and encouraging economic development. As the U.S. and Coalition troop drawdown proceeds, the U.S. Embassy Kabul is also trimming the civilian presence in the country. Other federal law-enforcement agencies are reducing or completely withdrawing their agents from Afghanistan as part of this "right sizing" process. SIGAR maintains a robust law enforcement presence in Afghanistan. The reduced presence of other agencies increases SIGAR's responsibility to root out and deter criminal activity related to Afghan reconstruction appropriated monies spent in Afghanistan, and to protect future funding from waste, fraud, and abuse.

The first section of this report discusses the law-enforcement challenges in Afghanistan. SIGAR's multi-pronged strategy to perform this increasingly vital function focuses on five critical areas: detecting fraud, building criminal and civil cases for prosecution in the United States and Afghanistan, tracking the flow of stolen reconstruction funds, preventing poorly performing and corrupt individuals and companies from being awarded U.S.-funded contracts, and exposing lax management practices both inside U.S. programs and Afghan ministries that place U.S. taxpayer dollars at risk.

SIGAR has built an experienced team of federal agents and analysts deployed to Afghanistan. They serve longer tours in country than most other U.S. oversight personnel and have successfully partnered with U.S. civilian and military law-enforcement and oversight agencies. Where possible, SIGAR works with and mentors Afghan law-enforcement authorities to arrest and prosecute Afghan citizens and companies engaged in criminal activity related to U.S.-funded contracts.

This quarter alone, SIGAR investigations resulted in \$63 million being frozen in bank accounts, two arrests, three sentencings, and more than \$95,000 in fines and restitutions. To date, SIGAR investigations have led to 47 convictions and guilty pleas; more than \$236 million in recoveries, savings, and contract monies protected*; and 61 suspensions and 94 debarments of individuals and companies from receiving U.S.-funded contracts. SIGAR has more than 300 ongoing criminal investigations in Afghanistan and the United States.

* "Contract monies protected" is an investigative term that refers to money that is put to better use as the result of contract terminations.

SIGAR's collaboration with Afghan authorities has yielded some noteworthy results, such as disrupting fuel theft to save the U.S. government an estimated \$2 million. SIGAR is also the only foreign law-enforcement agency that has been called upon to testify against an Afghan accused of corruption in an Afghan court.

Afghanistan's endemic corruption constitutes one of the most serious obstacles to the effective and efficient use of U.S. reconstruction dollars. As the United States provides more of its development assistance on-budget—directly to the Afghan government, rather than through U.S.-managed contracts—theft and fraud will pose an even greater risk to U.S. taxpayer dollars. This is why SIGAR investigators and auditors are taking a hard look at whether Afghan government ministries have the capability to properly account for how U.S. funds are spent. More importantly, that is why SIGAR's investigative work identifying individuals in various Afghan ministries who may be corrupt has become crucial even if those individuals cannot be prosecuted in U.S. courts because of lack of jurisdiction and in Afghan courts because of lack of will.

This quarter, our audit of the Afghan Ministry of Public Health identified internal control weaknesses that we believe put U.S. funds at risk of waste, fraud, and abuse. The audit also directly led to SIGAR's opening a criminal investigation of possible corruption at the ministry. In other cases, investigative results have triggered audits and special projects as SIGAR directorates share data. For example, work by our investigators resulted in two inspections that we report on this quarter. One identified construction failures at a courthouse; the other found design flaws at a major border crossing point.

Such findings may be more difficult to spot and confirm if increasing delivery of reconstruction aid via direct assistance is not coupled with effective safeguards.

Direct assistance can be a useful tool to help aid recipients build ministerial capacity and adapt funding to their particular and changing needs. However, maintaining appropriate levels of visibility and accountability is vital—and especially difficult in the Afghan setting. Recognizing this, Congress required the U.S. Agency for International Development (USAID), the principal U.S. agency providing direct assistance to Afghanistan's civilian ministries, to contract with private audit firms to assess the degree to which these ministries can manage and transparently account for funds. SIGAR has an audit under way to examine the integrity, accuracy, and usefulness of USAID's ministerial-assessment process. We plan to issue the results of this audit early next quarter.

In addition, SIGAR continues to be concerned about the capabilities of the Afghan National Security Forces (ANSF). The majority of U.S. reconstruction funding—more than \$54 billion—has gone to build the ANSF. The success of the U.S. mission in Afghanistan depends to a great extent on the Afghan National Army (ANA) and the Afghan National Police's (ANP) ability to protect Afghan civilians and prevent al-Qaeda and other terrorist groups from establishing strongholds from which to mount attacks against the United States and its allies. SIGAR published three audits this quarter that identified planning and logistics issues that must be addressed to not only safeguard funds used to construct ANSF facilities, purchase fuel for the ANP, and track spare parts for the ANA, but also to ensure a robust and effective ANSF. SIGAR is also currently examining ANSF personnel and payroll systems as well as the reliability of the system the U.S. military is using to measure the capabilities and capacity of the ANSF to ensure U.S. taxpayer dollars are properly used and accounted for during this important period of transition.

The drawdown of U.S. combat troops will have an unintended but major impact on the oversight of reconstruction. Nearly 80% of Afghanistan may not be readily accessible to U.S. civilian auditors, investigators, and other federal employees by 2015. SIGAR's maps illustrating diminishing oversight access appear in Section 2 of this report. This quarter

SIGAR wrote to the Secretaries of State and Defense and to the Administrator of USAID to inquire about how they plan to manage, monitor, and evaluate programs if it is not possible for U.S. contracting and oversight officials to visit sites. SIGAR looks forward to working with the Departments of Defense and State, USAID, and other government and non-government agencies to help clarify “best practices” to ensure effective oversight of reconstruction assistance. SIGAR will convene a panel of experts, drawn from government and non-government organizations, in the coming months to identify best practices for monitoring U.S.-funded projects and programs.

This quarter, I reiterate my concerns—which I raised in our last two quarterly reports—about the policies of the U.S. Army’s suspension and debarment program. The Army’s refusal to suspend or debar supporters of the insurgency from receiving government contracts because the information supporting these recommendations is classified is not only legally wrong but also contrary to sound public policy and national security goals. I continue to urge Congress to change this faulty policy and enforce the rule of common sense in the Army’s suspension and debarment program.

In his FY 2014 budget request, the President asked Congress to provide approximately \$12 billion in additional reconstruction assistance for Afghanistan. As the security, political, and economic transitions progress, the implementing agencies, other oversight bodies, and SIGAR must work together to ensure that U.S. tax dollars are not subject to corruption and achieve their intended purposes. My staff and I look forward to working with the Congress and the Administration to make programs more effective and free from waste, fraud, and abuse.

Respectfully,

A handwritten signature in black ink, appearing to read 'John F. Sopko', with a long horizontal flourish extending to the right.

John F. Sopko
Special Inspector General for Afghanistan Reconstruction

EXECUTIVE SUMMARY

In addition to providing a summary of SIGAR’s oversight work and an update on developments in the major development sectors, this report includes a discussion of the critical role that SIGAR investigators play in ensuring effective oversight of the nearly \$100 billion that Congress has appropriated for the reconstruction of Afghanistan. During this reporting period, SIGAR published 12 audits, inspections, alert letters, and other reports assessing the U.S. efforts to build the Afghan security forces, improve governance, and facilitate economic development. These reports identified a number of problems, including poor planning, management deficiencies, and oversight failures as well as project delays, shoddy construction, and threats to health and safety. SIGAR investigations led to more than \$63 million being frozen in bank accounts, two arrests, three sentencing, and more than \$95,000 in fines and restitutions.

SIGAR OVERVIEW

Law enforcement is a critical component of effective oversight. SIGAR has built one of the largest and most experienced teams of federal agents and analysts working in both Afghanistan and the United States to protect the U.S. investment in the reconstruction of Afghanistan. The SIGAR overview section of this report describes what SIGAR’s investigators are doing to successfully overcome significant challenges in Afghanistan’s complex environment to prevent waste, fraud, abuse, and corruption. SIGAR is focusing on five critical areas: detecting fraud, building criminal and civil cases for prosecution in the United States and Afghanistan, tracking the flow of stolen reconstruction funds, preventing poorly performing and corrupt individuals and companies from receiving U.S.-funded contracts, and exposing lax management practices in U.S. programs and Afghan ministries that place U.S. taxpayer dollars at risk.

AUDITS

SIGAR produced four audits, four inspections, and one alert letter this quarter. Three of the audits assessed programs to build and evaluate the ANSF. They found:

- DOD needs to take additional action to reduce waste in \$4.7 billion worth of planned and ongoing construction projects for the ANSF.
- DOD needs to strengthen oversight of U.S. funds provided to purchase fuel for the Afghan National Police (ANP).

- The Afghan National Army (ANA) is not consistently using or updating its inventory to track spare parts.

A fourth audit report identified financial management deficiencies at the Afghan Ministry of Public Health, putting \$236 million that USAID provides in direct assistance funding to the ministry at risk of waste, fraud, or abuse. As a result of the audit, SIGAR is investigating potential corruption at the ministry.

SIGAR issued four inspection reports of U.S.-funded facilities that identified the following problems:

- A district police headquarters that is in a state of severe disrepair for lack of maintenance
- A hospital that has not been finished due to poor contractor performance
- A courthouse that has never been completed
- A medical clinic that was not built according to design specifications and has never been used

SIGAR also sent an alert letter to inform DOD about design flaws that inspectors had discovered during the course of an ongoing audit at the Weesh-Chaman Border Crossing point in Kandahar Province.

NEW AUDITS

This quarter, SIGAR initiated two new performance audits and 13 financial audits. The two performance audits are part of a planned series of sector-wide audits. These audits will cover U.S. government completed,

EXECUTIVE SUMMARY

ongoing, and planned projects related to a specific sector in Afghanistan. The two audits begun this quarter will assess:

- the U.S. government's efforts to assist and improve the Afghan education sector
- Afghan women's initiatives funded by the U.S. government

The 13 new financial audits will be examining State- and USAID-funded contracts, grants, and cooperative agreements with combined incurred costs of approximately \$843.7 million, bringing the total number of ongoing financial audits to 25 with more than \$2.2 billion in costs incurred.

INVESTIGATIONS

During this reporting period, SIGAR investigations led to \$63 million in illegally obtained assets being frozen in bank accounts, more than \$1.5 million being protected, \$344,000 being recovered, and \$10,000 saved. SIGAR investigations also led to two arrests, three sentences, more than \$95,000 in fines and restitutions ordered, two indictments, one criminal information, a criminal complaint, and four guilty pleas. Afghan authorities arrested five Afghan citizens as a result of a SIGAR investigation. Investigation highlights include the following:

- A U.S. Sergeant First Class and a former U.S. soldier pled guilty to charges of bribery related to fuel thefts.
- A U.S. Army reservist pled guilty to conspiracy to commit wire fraud.
- A SIGAR investigation led to the recovery of three generators valued at \$302,510.
- Afghan authorities arrested an Afghan contractor for failure to install systems to prevent insurgents from planting improvised devices in culverts.

SPECIAL PROJECTS

SIGAR's Office of Special Projects published one report on the U.S. anticorruption strategy. This report found that the United States does not have a comprehensive anticorruption strategy.

SIGAR also wrote to the Secretaries of State and Defense and the Administrator of USAID to inquire about their plans to ensure oversight for U.S. funded reconstruction efforts as U.S. combat troops withdraw. SIGAR produced a series of oversight access maps projecting that no more than 21% of Afghanistan will be accessible to U.S. civilian oversight personnel by the end of the transition.

RECONSTRUCTION UPDATE

As of September 30, 2013, the United States had appropriated approximately \$96.6 billion for relief and reconstruction in Afghanistan since FY 2002. The President has requested approximately \$12 billion, including oversight and operations budgets, for FY 2014.

The U.S. reconstruction effort focuses on three broad areas: security, governance, and economic and social development. Key events shaping reconstruction efforts in these sectors this quarter include the following:

- U.S. and Afghan concerns over ANSF casualties
- The continuing negotiations for a new U.S.-Afghan bilateral security agreement
- The ongoing transition to Afghan-led security
- The release of the latest U.S. Civil-Military Strategic Framework
- Continued preparations, including the registration of candidates for president, for the 2014 Afghan presidential and provincial council elections
- Increased Afghan government spending and decreased revenues
- Expected slowing of economic growth due to fading business and investor confidence

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“We are determined to use all possible means to recover stolen taxpayer money. I’m proud of my agents, who worked closely with the Department of Justice on this groundbreaking achievement [of freezing more than \$63 million in U.S. government funds, allegedly obtained through fraudulent means]. This hits the criminals where it hurts. SIGAR will stop at nothing to follow this money trail wherever it leads.”

—*Special Inspector General John F. Sopko*

1 U.S. LAW ENFORCEMENT IN AFGHANISTAN



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A SIGAR special agent boards a helicopter after conducting an armed sweep of the U.S. consulate in Herat, which came under attack in September, to ensure all personnel were accounted for, and that no insurgents had entered the compound. (SIGAR photo)

U.S. LAW ENFORCEMENT IN AFGHANISTAN

AFGHANISTAN: TOUGH SETTING FOR U.S. LAW ENFORCEMENT

Serving as a U.S. law-enforcement officer in Afghanistan can involve dealing with thieves, bribe takers, money launderers, and drug smugglers—but also suicide bombers and insurgent attack squads.

Special Agent Jeff Millslagle of the Special Inspector General for Afghanistan Reconstruction (SIGAR) was at the U.S. consulate in Herat, Afghanistan, on the early morning of September 13, 2013. A truck packed with explosives rammed into the security gate and blew up. The blast killed several guards and heavily damaged the building. A group of armed insurgents then tried to storm the compound, but at least five were killed in the ensuing 20-minute firefight and others retreated. Assisting the Regional Security Officer¹, Millslagle conducted an armed sweep to ensure that all U.S. Chief of Mission personnel were accounted for and that no insurgents had penetrated the consulate. Millslagle also helped move casualties and



Deputy Secretary of Defense Ashton Carter inspects blast damage from the September 13, 2013, Afghan insurgent attack on the U.S. consulate in Herat. (DOD photo)

held a weapons position covering the blown-open entrance to the consulate. He survived the assault unscathed.

The Herat attack illustrates the key challenge for U.S. law-enforcement personnel in Afghanistan: 12 years into the U.S. involvement, the country is still a war zone. The consequences of the Herat attack further complicated law-enforcement. U.S. personnel relocated from the damaged consulate onto a nearby military base that ordinary Afghans cannot enter and that federal civilians cannot leave without military escort. There are now only two areas of the U.S. presence in Afghanistan where federal civilian employees are free to drive themselves around. Such restrictions greatly reduce SIGAR and other agents' ability to work with Afghan informants, talk with contacts, and recruit helpful witnesses.

Even without insurgent attacks, Afghanistan presents a daunting array of obstacles to American law enforcement. Travel is difficult. Customs and languages differ. Backup may be scant or nil. Useful evidence or even basic documentation is often hard to come by. The population can be suspicious and uncooperative. Officials may be corrupt or cowed by threats. U.S. officials have no authority to arrest Afghan nationals. The country has no extradition treaty with the United States. Suspects who are reported to Afghan authorities may never be prosecuted. Meanwhile, cash from Afghanistan's opium trade and from bribes, theft, and extortion related to inflows of American aid fuels both corruption and the insurgency.

Afghanistan is a challenge for U.S. law-enforcement officials, but what happens in Afghanistan doesn't always stay in Afghanistan. People, money, drugs, and other contraband involved in crime in Afghanistan enter the United States. So investigating crime in the Afghan reconstruction program entails stateside as well as in-country work for investigators, analysts, and prosecutors.

The United Nations Security Council recently highlighted the importance of crime as it extended the mandate of the NATO-led International Security Assistance Force. The Security Council's October 10, 2013, unanimous resolution expressed "serious concern about the security situation in Afghanistan, in particular the ongoing violent and terrorist activities by the Taliban, al-Qaida and other violent and extremist groups, illegal armed groups and criminals, including those involved in the production, trafficking or trade of illicit drugs."²

Crimes like theft, bribery, kickbacks, and money laundering deprive programs of intended resources and governments of needed revenues. They also foster public perceptions of corruption, undermine the legitimacy of both the Afghan government and the international reconstruction program, and enhance the popular appeal of the Taliban, who may be harsh and bloody-handed but are widely perceived as non-corrupt. As the U.S. Department of Defense has officially reported,

The insurgency's safe havens in Pakistan, the limited institutional capacity of the Afghan government, and endemic corruption remain the greatest risks to long-term stability and sustainable security in Afghanistan. ... Widespread corruption continues to limit the effectiveness and legitimacy of the Afghan government.³

In other words, criminality is not an incidental sideshow in Afghanistan, but a fundamental and critical challenge to U.S. military, reconstruction, and development efforts.

This essay offers a brief overview of SIGAR's law-enforcement presence in Afghanistan, the obstacles its personnel face in carrying out their duties, and SIGAR's strategy to overcome or mitigate those obstacles to detect, punish, and deter wrongdoing.

SIGAR'S INVESTIGATIONS DIRECTORATE

The SIGAR Investigations Directorate supports SIGAR's mission to prevent waste, fraud, abuse, and corruption by focusing on five critical areas: detecting fraud, building criminal and civil cases for prosecution in the United States and Afghanistan, tracking the flow of stolen reconstruction funds, preventing poorly performing and corrupt individuals and companies from receiving U.S.-funded contracts, and exposing lax management practices in U.S. programs and Afghan ministries that place U.S. taxpayer dollars at risk.⁴

The Investigations Directorate collaborates closely with SIGAR's Audits and Inspections Directorate and the Office of Special Projects. Each team may use others' work as a springboard for further action. In carrying out its duties, the Investigations Directorate often uncovers information that triggers SIGAR audits or special projects, while SIGAR audits have in turn often led to criminal investigations. For example, this quarter SIGAR's audit of the Afghan Ministry of Public Health revealed internal control weaknesses in the ministry that could put U.S. funds at risk. The audit also directly led to SIGAR's opening a criminal investigation of possible corruption at the ministry.

As of October 2013, the directorate has 306 open criminal investigations involving contract fraud, corruption, and theft in Afghanistan reconstruction. During this reporting period, a SIGAR investigation resulted in the court-ordered freezing of \$63 million in bank deposits suspected of being fruits of crime. SIGAR investigations also led to two arrests, three sentences, two indictments, one criminal information, one criminal complaint, and four guilty pleas in the United States; in Afghanistan, five Afghan citizens were arrested following SIGAR investigations.

SIGAR's Investigations Directorate comprises 57 staff—nearly a third of SIGAR's workforce—with 36 at its Virginia headquarters and 21 (plus two foreign-national employees) deployed in Afghanistan. Besides managers, the directorate employs special agents, investigative analysts, management specialists, forensic analysts, and Afghan support personnel. In addition,



SIGAR agent briefing customs agents at Kandahar Airfield. (SIGAR photo)

several attorneys with suspension-and-debarment expertise, prosecutors who serve as special assistant U.S. attorneys, and paralegals provide support to Investigations, but are not administratively part of its staff.

SIGAR special agents are full-fledged federal law-enforcement officers: badged, authorized to carry weapons, and empowered to make arrests (although not of Afghans on their home soil). The agents average more than 20 years' experience in law enforcement. Their duties take them not only to locations in Afghanistan, but to stateside military bases, ports of entry, court houses, prosecutors' offices, and other domestic sites touched by the ripples of criminality in Afghanistan reconstruction. The directorate's other professionals, such as investigative analysts, forensic auditors, and forensic examiners, bring an average of more than 10 years' professional experience to SIGAR.

SIGAR Investigations operates under the direction of Assistant IG Douglas J. Domin and Deputy Assistant IG Sharon E. Woods.

Domin is a former FBI agent whose career includes a posting at the U.S. Embassy London, a management role at the FBI's Dallas field office, and serving as special agent in charge of the FBI Minneapolis Division responsible for 200 personnel and operations in Minnesota and the Dakotas. While at the FBI, he also managed the massive information-technology project that produced IAFIS, the Integrated Automated Fingerprint Identification System that makes more than 100 million sets of criminal- and civil-case fingerprints, descriptions, criminal histories, and other data speedily available to law-enforcement officials 24 hours a day.⁵

Woods's career includes service as a Naval Criminal Investigative Service special agent, director of the Defense Criminal Investigative Service (DCIS), and director of investigations at the IG office of the Defense Logistics Agency. Before joining SIGAR, she helped DCIS establish its presence in Kuwait, Iraq, and Afghanistan.

The ongoing phased withdrawals of U.S. and Coalition military forces and the separate "right-sizing" reductions in other U.S. agencies' in-country presence combine to increase the difficulty of conducting effective oversight and to magnify the challenge and importance of SIGAR's investigative role in Afghanistan. Recent hires will help SIGAR deal with those challenges by adding to its cadre of high-level staff with direct experience in Afghanistan. The staff expansion reflects the Special Inspector General's program of adding subject-matter experts in areas like money laundering and counternarcotics to bolster existing capabilities.

The new hires include Frank P. Caestino, a Treasury Department professional who was one of the founders of the Afghanistan Threat Finance Cell and had served as deputy director of its Iraq counterpart. Joining SIGAR in the coming quarter will be David J. Schwendiman, a former federal prosecutor currently serving as Justice Attaché at U.S. Embassy Kabul. His prior experience includes international prosecution of war crimes in the Balkans. He will be SIGAR's Director of Forward Operations in Afghanistan, acting

U.S. LAW ENFORCEMENT IN AFGHANISTAN

as the Special IG's official representative. Also coming to SIGAR is Timothy A. Jones, a long-serving Drug Enforcement Administration official who is currently director of the Afghanistan Threat Finance Cell targeting the narco-terror financial nexus.

SIGAR'S INVESTIGATIVE STRATEGY

The Investigations Directorate pursues its objectives through several means:

- maintaining a robust presence in Afghanistan
- forging alliances with other law-enforcement agencies
- developing cases in Afghanistan and the United States
- aggressively targeting candidates for suspension and debarment
- combating money laundering
- countering the narcotics trade
- reaching out to observers of reconstruction misconduct

Maintaining a Robust Presence in Afghanistan

SIGAR has one of the largest, most experienced, and longest-deployed groups of U.S. law-enforcement professionals in Afghanistan. Most of SIGAR's Afghanistan-based investigative personnel are special agents with full U.S. law-enforcement officer authority.

SIGAR's presence in Afghanistan is robust not only in comparative size, but in mandate. By statute, SIGAR is the only U.S. oversight agency tasked exclusively with Afghan reconstruction. It is also the only one that can examine any aspect of the reconstruction effort regardless of agency boundaries.

SIGAR has established offices at Kabul, Kandahar Airfield, Camp Leatherneck, Herat, Mazar-e-Sharif, and Bagram Airfield.

Forging Alliances with Other Law-Enforcement Agencies

SIGAR is not alone as an American oversight and law-enforcement agency in Afghanistan. Other American law-enforcement agencies maintaining an Afghan presence include:

- Defense Criminal Investigative Service (DCIS), Department of Defense
- Department of Homeland Security (DHS)
- Department of State Office of Inspector General (State OIG)
- Drug Enforcement Administration (DEA), Department of Justice
- Federal Bureau of Investigation (FBI), Department of Justice
- Major Procurement Fraud Unit (MPFU), U.S. Army Criminal Investigation Division Command
- Naval Criminal Investigative Service (NCIS), U.S. Navy
- Office of Special Investigations (OSI), U.S. Air Force
- Regional Security Office (RSO), Department of State
- U.S. Agency for International Development Office of Inspector General (USAID OIG)



SIGAR agents visiting with Afghan villager. (SIGAR photo)

SIGAR collaborates with these agencies. In addition, the U.S. government has created a number of groups and task forces to address Afghanistan-related issues. SIGAR works closely with the following:

- **The International Contract Corruption Task Force (ICCTF):** The FBI spearheaded creation of this special interagency body in 2006 because of an immense crime problem of bribes, kickbacks, and theft among U.S. civilian and military contracting officials and contractors working on contingency operations.⁶ SIGAR joined the task force in 2009 and has a special agent assigned full-time to ICCTF headquarters. In addition to Afghanistan, ICCTF-affiliated agents operate in Iraq, Kuwait, Qatar, Pakistan, and Haiti. The ICCTF's members now include the FBI, SIGAR, DCIS, MPFU, NCIS, and the IG offices of State and USAID.
- **Task Force 2010 (TF 2010):** This team, set up by U.S. Forces-Afghanistan in 2010, works with commanders and acquisition personnel to combat contract extortion, theft, and prevent U.S. contract funds from ending up in enemy hands. TF 2010 operates audit, intelligence, law enforcement, and legal sub-units. SIGAR has had an agent embedded in the law-enforcement sub-unit, and has worked with TF 2010 staff at its former headquarters in Kabul and at Bagram and Kandahar Airfields. The task force has since moved its headquarters to an air base near Doha, Qatar, on the Persian Gulf. SIGAR has asked the U.S. Army for permission to station an agent there to continue the close working relationship.
- **Afghanistan Threat Finance Cell (ATFC):** Modeled after the Iraq Threat Finance Cell created under Treasury and DOD leadership, the ATFC began operations in 2009 to attack illicit financial networks by providing financial expertise and actionable intelligence to U.S. agencies. The ATFC seeks to identify and disrupt threat finance networks related to terrorism and the Afghan insurgency. The Drug Enforcement Administration leads the ATFC, with DOD acting as deputy. SIGAR has an analyst embedded at the cell. This has helped it access vast amounts of data for searches and other investigative work on illicit finance.
- **Combined Joint Interagency Task Force-Afghanistan (CJIATF-A):** This consortium coordinates and focuses efforts against corruption, narcotics, threat finance, and contracting with the enemy. It also conducts detainee operations and coordinates with units of the Afghan government. Members include TF 2010 and the CJIATF-Nexus counternarcotics analytical cell, with Interagency Operations Coordination Center and ATFC working in alignment with the CJIATF-A team.

SIGAR prosecutors also cooperate whenever possible with the Afghan Attorney General's Office (AGO) on investigations, interviews, and referrals for prosecutions involving Afghan nationals. No other U.S. agency has such a working relationship with the AGO. It gives the United States a voice in dealing with Afghan contractors against whom the United States has no

legal remedy. Since 2010, the AGO has prosecuted 35 individuals reported by SIGAR investigators for reconstruction fraud, theft, and corruption.

The AGO has acted against Afghans involved in some cases based on SIGAR work. These include contractors who failed to install culvert-denial systems needed to prevent insurgents from placing bombs under roads. As previous SIGAR reports have noted, however, the AGO typically prosecutes low-level suspects, not people with political connections or major assets that can be tapped to avoid justice.

Finally, SIGAR agents share information with the Independent Joint Anti-Corruption Monitoring and Evaluation Committee (MEC) on corruption and fraud in projects and contracts being executed in Afghanistan. Created in 2010 at the request of the Afghan government, this six-member international committee establishes benchmarks, identifies problems, and evaluates progress against corruption. The MEC is not a law-enforcement agency, but its reports form a point of reference for the international community and could affect Afghan government receptivity toward greater anticorruption efforts.

Developing Cases in Afghanistan and the United States

SIGAR agents use audit findings, informants' tips, interagency contacts, and other resources to develop cases in both Afghanistan and the United States.

As detailed in a SIGAR news release, the Investigations Directorate has scored major victories in cases involving fuel theft and in freezing \$63 million of bank deposits that may be related to illegal activity in Afghanistan. Such investigations, conducted in Afghanistan and the United States, will be increasingly important as the United States transfers more aid money directly to the Afghan government, creating new opportunities for misconduct including theft and illicit money transfers.

SIGAR Investigations is now in the preliminary stage—assessing jurisdiction—of a possible criminal investigation of the U.S.-funded acquisition of Russian-built Mi-17 transport helicopters for the Afghan security forces. Allegations involving the Mi-17 contracts came through SIGAR's hotline.

A vice president of a contractor at Kandahar Airfield in Afghanistan awarded work to an Afghan subcontractor from whom he then took \$60,000. SIGAR's investigation started in Afghanistan. The suspect, Elton M. McCabe III of Slidell, Louisiana, was arrested in December 2012 when he returned to the States. He pled guilty to accepting kickbacks and to conspiracy to commit offenses against the United States. He also agreed to forfeit \$60,000. McCabe was sentenced on August 22, 2013, to serve 10 months in federal prison.⁷

Smaller cases like the McCabe prosecution can be helpful. Taxpayers and the reconstruction effort benefit every time a person or organization contemplating misconduct considers the risks of detection and abandons a plan for crime. So the directorate's impact cannot be fully measured by simply totaling the dollar amounts recovered, restored, fined, or protected against further disbursement to bad vendors. Deterrence also counts.

Effective investigations and case development require access to information. SIGAR will benefit greatly from the access it has now gained to the voluminous Afghanistan files of the U.S. Senate's Permanent Subcommittee on Investigations (PSI). The Special IG wrote to PSI Chairman Carl Levin and Ranking Member John McCain in April 2013 asking for access. Senate Majority Leader Harry Reid introduced a resolution on May 23, 2013, authorizing the PSI leaders to making committee records relating to U.S. efforts in Afghanistan available to federal investigators. The resolution was adopted by unanimous consent.⁸ This highly unusual move highlights SIGAR's aggressive pursuit of every available investigative avenue.

Aggressively Targeting Candidates for Suspension and Debarment

SIGAR has found that suspension and debarment—the act of temporarily or permanently preventing a person or firm from contracting with the U.S. government—can be a powerful tool in Afghanistan. U.S. law enforcement has little legal leverage against Afghan citizens and Afghan-owned companies. But U.S. implementing agencies can suspend or debar any company or individual of any nationality from obtaining additional U.S.-funded contracts, grants, or loans if they have performed poorly, engaged in illicit activity, or have links to criminal and insurgent networks.

Other U.S. agencies, military and civilian, have at times been reluctant for operational or other reasons to act on SIGAR recommendations to suspend or debar contractors. The U.S. Army, for example, has declined to accept SIGAR recommendations involving 43 companies with ties to the Taliban, al-Qaeda, or the Haqqani Network. The firms are on the Commerce Department's Entity List of foreign persons or entities barred from receiving certain exports. SIGAR has repeatedly called on the Army to prevent these companies from ever receiving U.S. contracts, but the Army has cited legal reasons for not acting.⁹ SIGAR believes the Army's refusal to suspend and debar these companies is contrary to good public policy and to national-security goals.

Agency resistance to SIGAR recommendations does not preclude all action, however. SIGAR investigations have resulted in some 200 individual Afghans being banned from U.S. bases and barred from obtaining visas to enter the United States.

SIGAR has requested but has not yet secured its own regulatory authority to suspend or debar dubious contractors. The request was submitted to the Office of Management and Budget (OMB) in late 2011; OMB has not acted on it. SIGAR is therefore confined to making recommendations to other agencies that suspensions and debarments be imposed. Since 2008, SIGAR has referred 358 cases to other agencies, resulting in 61 suspensions, 94 debarments, and one administrative settlement.

Combating Money Laundering

Theft and fraud related to U.S. contracts for reconstruction work in Afghanistan and the country's large narcotics trade lead to many attempts to "launder" the monetary proceeds to avoid law-enforcement scrutiny and move funds to other jurisdictions.

Money laundering involves Afghans, Americans, and people of other nationalities. The central figure in one case was an American contractor official who engaged in both corruption and cash smuggling. SIGAR investigators caught Donald G. Garst trying to smuggle \$150,000 out of Afghanistan through a commercial package shipper. He later admitted to receiving about \$210,000 from Afghan vendors after soliciting kickbacks in return for favorable contracting treatment. The U.S. Department of Justice said Garst had planned to receive another \$400,000 in kickbacks, but was caught before he could collect the payment.¹⁰ Garst's employer at the time, AC First, is a joint venture of the large contractors AECOM and CACI, and held a multi-million-dollar contract with the U.S. Army for vehicle and equipment maintenance, facilities and supply management, transportation, and other services in Afghanistan.

On February 12, 2013, a federal court in Kansas sentenced Garst to 30 months in prison and fined him \$52,117 for his guilty plea to a charge of bulk cash smuggling. The \$150,000 cash shipment was forfeited.

The Garst case is no isolated incident. Afghanistan stands at the top of a 149-country money-laundering risk index calculated by the Basel Institute on Governance.¹¹ SIGAR has reported on evidence of bulk cash smuggling through Kabul Airport, and estimates of total illicit cash transfers run into the billions of dollars. Illegal transfers of funds out of Afghanistan, whether by smuggling bulk cash or by electronic means, deprive the Afghan government of tax revenues, support criminal enterprises and terrorism, and undermine public trust in the government.

Several U.S. laws criminalize money laundering.¹² But investigating money-laundering cases in Afghanistan is extremely difficult. Attempts to obtain evidence-quality, certified records from Afghan banks typically fail. Afghan police and even court records often do not exist. Government offices may lack computerized records, computers, or even electric power. Investigators therefore turn to Western Union wire records, logs of informal Afghan "hawala" financial transfers, or Afghan prosecutors for information and evidence.

SIGAR has taken special steps to reinforce its capability to detect and investigate money laundering. Besides hiring a former Treasury money-laundering expert who had served with the Afghanistan Threat Finance Cell, SIGAR is making a significant new investment in information technology. New hardware and software will assist in following the tortuous trails of money leaving Afghanistan.

Countering the Narcotics Trade

As described at greater length in the Security section of this report, counter-narcotics efforts have absorbed large amounts of U.S. money and effort in Afghanistan. The country is the world's leading producer of opium, and the drug trade provides a living for hundreds of thousands of Afghan farmers. It also produces a public-health scourge, a motivation for users to commit crimes to obtain drugs, a source of financing for insurgents and terrorists, and material for the money-laundering and cash-smuggling business.

SIGAR agents worked on one criminal case that illustrates the intermingling of offenses. While assigned to the Kunar Provincial Reconstruction Team, Sidharth Handa, an Army Reserve captain, collaborated with an Afghan interpreter to solicit bribes from companies competing for construction contracts. The two had agreements to receive more than \$1.3 million in bribes, of which they collected and split \$315,000 before Handa left Afghanistan. A cooperating witness and an undercover agent later met him in a Virginia hotel under pretext of delivering another \$500,000 of the promised amount. In the course of his conversation with the cooperating witness, Handa also discussed selling heroin.

Officers arrested Handa as he left the hotel with the money, a loaded handgun, and a spreadsheet detailing bribe promises and payments. On September 23, 2011, a federal court in Virginia sentenced Handa to 120 months in prison for soliciting and accepting bribes, and for conspiring to distribute heroin. He was also ordered to pay \$315,000 in restitution.¹³

SIGAR's continuing engagement with the DEA-led Afghanistan Threat Finance Cell gives it access to documents, evidence, and informants that can assist in the counternarcotics effort.

Reaching Out to Observers of Reconstruction Misconduct

SIGAR's Investigations Directorate reaches out to engage everyone in the fight against fraud and corruption. SIGAR runs an antifraud hotline that invites anyone with tips on possible illegal activity to call, fax, e-mail, or visit SIGAR with their information—anonously if they wish. About 70 hotline complaints come in each quarter, with about 40% leading to a preliminary or full investigation.

One hotline tip to SIGAR involved an Afghan construction company that wanted to overturn two terminations for default on its U.S.-funded contracts. The company offered \$30,000 to influence an American contracting officer's representative working at the U.S. Embassy Kabul in 2009–2010 for the State Department's Bureau of International Narcotics and Law Enforcement Affairs. SIGAR investigators checked out the hotline information, collected evidence, and referred the case to prosecutors. On September 19, 2013, defendant Kenneth M. Brophy pled guilty in U.S. District Court in Wilmington, DE, to receipt of an illegal gratuity by a public official. His plea agreement proposes six months' incarceration, six months'



REMEMBER: FRAUD CAN KILL

Report Fraud
Involving U.S. Reconstruction Dollars to SIGAR
www.sigar.mil

 sigar.hotline@mail.mil

Afghanistan | 0700107300 (cell) | 318-237-3912 x7303 (DSN)
United States | +1-866-329-8893 (int'l line) | 94-312-664-0378 (DSN)

SIGAR publicizes its fraud hotline with posters and advertisements.

supervised release, and forfeiture of \$30,000, subject to court approval. On April 29, 2013, the Department of State suspended Brophy from further contracting with the government.¹⁴ A final debarment decision based on Brophy's criminal conviction is pending.

The telephone hotlines—866-329-8893 toll-free in the United States, 0700107300 for Afghan cell phones—are answered during business hours at SIGAR headquarters and in Kabul, and voicemail is available in three languages, 24 hours a day. Broadcast news reports featuring interviews or speeches by SIGAR officials boost the inflow of hotline contacts both state-side and in Afghanistan.

SIGAR also advertises its antifraud mission and the hotline in venues like the Armed Forces Network, *Stars and Stripes*, and the in-flight magazine of Safi Airways, the Afghan national airline. Posters in English, Dari, and Pashtu are placed at U.S. bases, Afghan ministries, and many jobsites. SIGAR is also looking into airtime buys on Afghan radio and television—an option that could be particularly useful in a largely illiterate country.

WHAT MAKES AFGHANISTAN A UNIQUE CHALLENGE?

For a variety of reasons, the Afghan setting complicates all of the duties of a law enforcement agent and may represent a worst-case scenario for conducting U.S. law enforcement in a foreign country.

Work in a Combat Zone

As noted earlier, the overriding challenge is that Afghanistan is an active combat zone. Oversight and investigative officials in Afghanistan depend heavily on the U.S. military for transportation and security. The continuing drawdown of U.S. and other Coalition forces from Afghanistan and related base closures are already having an impact on federal agencies' ability to move at will in the country and to complete investigations expeditiously.

Most stateside fraud investigations are worked for several years from receipt of initial allegation to criminal, civil, or administrative resolution. Afghanistan demands a faster pace for reasons including frequent personnel rotations that reduce the numbers of knowledgeable witnesses, erode institutional memory, and create lapses in record creation and retention. At one point, SIGAR investigative personnel were stationed at nine locations in Afghanistan and could book travel around the country on rotary- or fixed-wing aircraft that flew several times a day. Recently in-country scheduled transport flights from the main U.S. base to forward operating bases have declined to three a week. These constraints make it all the more important for Investigations to collaborate with investigative partners and to use new techniques and technologies to carry out its mission.

Shrinking Areas of Access for Oversight

As the area in which the U.S. military is prepared to transport civilians shrinks with the drawdown of U.S. troops, about 80% of Afghanistan may no longer be readily accessible to U.S. oversight and investigative officials after 2014.¹⁵ Given that the U.S. Army Corps of Engineers, USAID, and Regional Contracting Commands may continue to award contracts for construction projects outside of the shrinking oversight-access zones, the trend implies growing barriers to SIGAR's and other agencies' ability to act aggressively on allegations or evidence of waste, fraud, and abuse. Meanwhile, the ongoing reductions in other law-enforcement agencies' presence in Afghanistan will magnify both the challenge and the importance of SIGAR's work in country in 2014 and beyond as reconstruction funds continue to be disbursed.

Section 2 of this report includes a highlight on the oversight-access challenge, with maps illustrating changes since 2009 and expected in 2014.

Heavy U.S. Reliance on Contracting

Contracts present another challenge in Afghanistan. There, as in Iraq, U.S. military, reconstruction, and development activities rely on large numbers of contractors for tasks ranging from construction and equipment

maintenance to facilities maintenance and training. As of fourth quarter FY 2013, U.S. Central Command reported 85,528 DOD contractors in Afghanistan, split roughly equally among U.S., Afghan, and third-country nationals.¹⁶ As has been the case for much of the time in Iraq and Afghanistan, contractors outnumber deployed military personnel. Many of the DOD contractors work on reconstruction activities including building projects, management and maintenance, and training Afghan forces. Additional thousands of contractors, cooperative-agreement partners, or grantees work for or on behalf of State, USAID, and other federal agencies with smaller roles in Afghanistan.

The plethora of contracts, the billions of dollars involved, the tens of thousands of contractor employees, and differences—including in languages and record-keeping systems—all combine with shortages of competent and conscientious contracting officers and supervising/technical representatives to create special problems for oversight—and numerous, amplified opportunities for waste, theft, and corruption.

Another obstacle for investigators arises out of the 2006 statutory creation of the “Afghan First Initiative.” This legislation gives preference to Afghan contractors for DOD-required goods and services. It may support the political objective of cultivating good will and helping to develop Afghanistan’s economy, but it has had the unintended consequence of making it more difficult to prosecute reconstruction fraud and theft.

In Iraq, U.S. operations involved many Iraqi subcontractors, but the primary contractors legally responsible for employing and managing the subcontractors were generally U.S. companies subject to U.S. law. In Afghanistan, by contrast, U.S. law enforcement has no jurisdiction over Afghan primary contractors or their subcontractors. Agencies can only refer cases to Afghan prosecutors, recommend suspension and debarment to prevent further contract work by offenders, and bar specific personnel from U.S. bases.

Legal Complications

Afghan sovereignty and the status of international agreements also complicate life for U.S. law-enforcement officials in Afghanistan. The United States and Afghanistan are still negotiating a bilateral agreement that would define the legal status of U.S. military and law-enforcement personnel in Afghanistan. At present, U.S. agencies can and do refer cases to Afghan prosecutors, but they cannot arrest Afghan nationals or present cases in Afghan courts. By contrast, cases involving U.S. nationals in Afghanistan can be turned over to federal officials for criminal prosecution or, if DOJ does not opt to take a case involving a military member, to military commands for action under the Uniform Code of Military Justice.

SIGAR works with Afghan law enforcement, but it is rare for a non-Afghan even to appear as a witness in the country’s criminal proceedings. When a SIGAR special agent testified in an Afghan appellate court in March 2013, it



SIGAR agent testifying in Afghan criminal trial. (SIGAR photo)

INVESTIGATIVE INNOVATIONS

SIGAR investigators' innovations to deal with the Afghan operating environment include:

- aggressive use of suspension-and-debarment recommendations
- obtaining an *in rem* warrant to seize assets implicated in criminal activity
- testifying as a prosecution witness in an Afghan appellate court
- barring certain Afghans from entering U.S. bases or obtaining U.S. visas

may have marked the first testimony by a U.S. law-enforcement agent. The special agent's testimony helped the court reinstate charges, extend the prison sentence, and double the fine imposed on an Afghan accused of bribery and theft totaling more than \$1 million related to U.S. reconstruction contract work.¹⁷ The SIGAR testimony was based on agents' use of law-enforcement tools including undercover work, recordings, aerial surveillance, informants, and cooperation with Afghan police and prosecutors.

Although the United States has extradition treaties with at least 110 countries, Afghanistan is not one of them.¹⁸ Bringing an Afghan accused of violating U.S. law to the United States for trial would therefore require a special, long-odds diplomatic effort with an Afghan government already sensitive to perceptions of foreign influence. So far, DOJ has prosecuted no Afghans in U.S. courts on charges related to Afghan reconstruction.

In a related complication, DOJ has not yet used Afghan citizens to testify as witnesses in U.S. court cases related to SIGAR investigations. Obtaining visas, paying travel and lodging expenses, dealing with language barriers, and taking heed of reprisal threats against witnesses and their families have proved insurmountable obstacles.

SIGAR's Investigations Directorate continues to adapt to the Afghan operating environment, and will refine and adjust its approaches further as conditions change and new obstacles or opportunities arise.

Challenges of Giving More Money Directly to Afghan Ministries

The United States and other international donors have committed to provide increasing portions of reconstruction and development assistance directly to the Afghan government, rather than through U.S. agencies' and contractors' work, or through nongovernmental organizations operating on behalf of the U.S. government.

"Direct assistance" is a term with varying definitions, and is sometimes also known as "on-budget" or "government-to-government" assistance.¹⁹ Ideally, providing direct assistance may help a recipient government build its own capacity to plan and execute budgets, and to channel and adapt funding to its country's changing needs and priorities. But realistically, direct assistance may also magnify the threat of corruption and theft. For example, Afghan government ministries may not have the appropriate expertise, financial systems, or internal controls to properly manage and oversee the increased flow of money, possibly multiplying opportunities to divert cash.

U.S. government assessments of Afghan ministries' capabilities have raised serious questions about the feasibility of providing additional money through direct assistance. Nevertheless, the U.S. government and other international donors have committed to channel at least 50% of funds through direct-assistance programs. The commitment partly reflects the reality that, within two years, it will be largely up to the Afghan government to sustain the reconstruction effort in which the U.S. and others have invested so much.

Some SIGAR audits have indicated that certain Afghan ministries are not yet capable of adequately managing these large flows of money. SIGAR has repeatedly found weaknesses in the abilities of the Afghan Ministries of Defense and Interior to manage funds that pay for critical petroleum, oil, and lubricants. SIGAR audits have also found significant challenges to Afghan ministries' ability to sustain U.S.-provided facilities and equipment using direct assistance.

Audits described in this and prior SIGAR quarterly reports have uncovered conditions ripe for waste, fraud, and abuse. Such findings are then referred to SIGAR Investigations for additional review. Any resulting criminal investigations can be complicated by weaknesses in Afghan recordkeeping systems, limited access to personnel and documents, and other oversight challenges. Yet even if SIGAR cannot prosecute Afghan citizens or persuade Afghan officials to prosecute them, identifying individuals and agencies implicated in corruption or theft could help international donors and implementing agencies with the design and targeting of their direct-assistance programs.

Most recently, SIGAR completed an audit this quarter of the \$236 million Partnership Contracts for Health program, which supports the Afghan Ministry of Public Health (MOPH) in its delivery of health services to local Afghan clinics and hospitals. The audit found significant financial management deficiencies at the MOPH, including problems with the ministry's internal audit, budget, accounting, and procurement functions. In SIGAR's view, USAID's decision to continue disbursing funds to the MOPH with little or no assurance that these funds are safeguarded from waste, fraud, and abuse raises serious concerns about the integrity of the program.

Moreover, following issuance of this audit, SIGAR received allegations of fraud and corruption within the very unit of the MOPH set up to mitigate the ministry's financial-management weaknesses. These allegations have prompted a new criminal investigation involving U.S. assistance to the MOPH that may result in SIGAR's referring cases to U.S. or Afghan prosecutors.

THE OUTLOOK

Nearly \$19 billion of U.S. funds appropriated for Afghanistan reconstruction have not yet been disbursed, and the administration has committed to request billions more in the years ahead. Plans call for much of this money to be provided through direct assistance. At the same time, other U.S. and international agencies will have reduced their in-country presence and oversight access will become more difficult. These facts will require SIGAR and other U.S. oversight and law-enforcement agencies to continue refining and adjusting their approaches for the changing Afghan operating environment. They also suggest that SIGAR and its Investigations Directorate will be busy for some time to come.

“Significant portions of Afghanistan are already inaccessible to SIGAR, other inspectors general, the Government Accountability Office, and other U.S. civilians conducting oversight, such as contracting officers. SIGAR believes this constraint on oversight will only worsen as more U.S. and coalition bases close.”

—*Special Inspector General John F. Sopko*