

2 SIGAR OVERSIGHT



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Fire trucks ceremonially spray water over a C-130H aircraft as the Afghan Air Force takes delivery of its two new cargo planes. (U.S. Army photo)

SIGAR OVERSIGHT ACTIVITIES

This quarter SIGAR issued 31 audits, inspections, alert letters, and other products covering programs worth nearly \$14.8 billion.

One performance audit found that although Counternarcotics Police of Afghanistan (CNPA) provincial units have received some support, overall U.S. financial resources devoted to the CNPA have only tangentially benefited them. A second performance audit determined that the U.S. Agency for International Development (USAID) implemented 80% of SIGAR's 127 recommendations in a timely, successful manner, reducing the risk of fraud, waste, and abuse of Afghan reconstruction funds. This quarter, SIGAR's financial audits identified nearly \$5.6 million in questioned costs as a result of internal-control deficiencies and noncompliance issues. To date, SIGAR's financial audits have identified more than \$83 million in questioned costs and \$197,494 in unremitted interest on advanced federal funds.

SIGAR also published one inspection report. It identified defective workmanship and work not completed according to contract requirements at the Pol-i-Charkhi prison, and discovered that the prison is being used, but is overcrowded.

SIGAR's Office of Special Projects wrote inquiry letters expressing concerns about a range of issues, including the unsafe fuel-storage tanks at Camp Shaheen, the soundness of plans for the Kandahar electricity-supply bridging solution, a dangerous school collapse in Sar-i-Pul, anti- and counter-corruption efforts, an incomplete response to a communications-towers inquiry, a troubling response to a whistleblower-protection inquiry, the potentially exploitative recruitment of third-country nationals (TCNs), weak oversight of Law and Order Trust Fund for Afghanistan (LOTFA) funds, an unnecessary second Afghan National Army (ANA) slaughterhouse in Pol-i-Charkhi District, the scrapping of 16 G222 planes, USAID's recovery of questioned costs, contract cancelled due to rising security costs, the incomplete documentation of the Department of Defense's (DOD) excess equipment disposition processes, and potentially wasteful expenditures on unused communications trucks. The office also conducted a review of the processes and controls used by the Combined Security Transition Command-Afghanistan (CSTC-A), the Department of State (State), and USAID for providing direct assistance to the Afghan government. The Office

AUDIT ALERT LETTER

- Audit Alert Letter 14-80a-AL: Afghan Air Force C-130 Aircraft Response

COMPLETED PERFORMANCE AUDITS

- Audit 15-1-AR: Status of SIGAR's Recommendations to USAID
- Audit 15-12-AR: U.S. Assistance to CNPA

COMPLETED FINANCIAL AUDITS

- Financial Audit 14-91-FA: Audit of Costs Incurred by ARD Inc.
- Financial Audit 14-93-FA: Audit of Costs Incurred by CARE International
- Financial Audit 14-94-FA: Audit of Costs Incurred by AECOM International Development Inc.
- Financial Audit 14-95-FA: Audit of Incurred Costs by Mine Clearance Planning Agency
- Financial Audit Financial Audit 14-100-FA: Audit of Costs Incurred by International City/County Management Association
- Financial Audit 15-7-FA: Audit of Costs Incurred by International Relief & Development Inc.

COMPLETED INSPECTIONS

- Inspection 15-11-IP: Pol-i-Charkhi Prison

COMPLETED SPECIAL PROJECT PRODUCTS

- This quarter SIGAR published 21 Special Project Inquiry Letters and Special Reports. For a complete list, see page 39.

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Performance audits: provide assurance or conclusions based on an evaluation of sufficient, appropriate evidence measured against stated criteria. Performance audits provide objective analysis so that management and those charged with governance can use the information to improve the program performance and operations, reduce costs, and facilitate decision-making by parties with responsibility to oversee or initiate corrective action for public accountability. Performance audits are conducted in accordance with generally accepted government auditing standards (GAGAS) and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Quality Standards for Federal Offices of Inspector General.

Inspections: are systematic and independent assessments of the design, implementation, and/or results of an agency's operations, programs, or policies. SIGAR conducts inspections, in accordance with CIGIE Quality Standards for Inspection and Evaluation, to provide information to Congress and the public on the quality of construction of facilities and infrastructure throughout Afghanistan; and generally, to provide an assessment of the extent to which the facilities were constructed in accordance with the contract requirements, used as intended, and are being maintained.

Financial audits: provide an independent assessment of and reasonable assurance about whether an entity's reported condition, results, and use of resources are presented in accordance with recognized criteria. SIGAR performs financial audits in accordance with GAGAS, which includes both requirements contained in the American Institute of Certified Public Accountants Statements on Auditing Standards and additional requirements provided in GAGAS. SIGAR also reviews financial audits conducted by independent public accountants (IPA). When an IPA conducts a financial audit, SIGAR conducts reasonable procedures to ensure compliance with GAGAS, based on the intended use of the IPA's work and degree of responsibility accepted by SIGAR with respect to that work.

of Special Projects also issued a special report which examined an all-time high in opium-poppy cultivation, despite the \$7 billion U.S. investment in counternarcotics.

During the reporting period, the criminal fines, restitutions, forfeitures, civil settlements, and cost savings to the U.S. government from SIGAR's ongoing investigations amounted to over \$1 million. Savings to date from SIGAR investigations total over \$500 million. SIGAR investigations also resulted in 14 arrests, three indictments, four criminal informations, two plea agreements, and a sentencing in the United States. Additionally, 24 individuals were barred from access to military installations and nine employees were terminated. SIGAR's suspension and debarment program referred 44 individuals and 13 companies for suspension or debarment. Of those 57 contractors, 11 were referred based on allegations that they engaged in fraud and nonperformance on contracts valued at over \$398 million.

AUDITS

SIGAR conducts **performance audits**, **inspections**, and **financial audits** of programs and projects connected to the reconstruction in Afghanistan. Since its last report to Congress, SIGAR has issued two performance audits, one inspection, six financial-audit reports, and one audit alert letter. This quarter SIGAR also began two new performance audits, bringing the total number of ongoing performance audits to 14. The published performance-audit reports reviewed the status and oversight process for reaching audit-recommendation resolution at USAID, and the U.S. and Afghan governments' ability to track CNPA funds and capabilities. The performance audits made a total of six recommendations; the inspection made five. The financial audits identified nearly \$5.6 million in questioned costs as a result of internal-control deficiencies and noncompliance issues.

Alert Letters

With Afghanistan in the midst of transition, U.S. military 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. To achieve that goal, SIGAR sends alert letters to highlight concerns in real time while implementing agencies are still able to act. During this reporting period, SIGAR sent one alert letter, addressing DOD's response to SIGAR's original C-130H alert letter, sent last quarter.



An Afghan Air Force C-130 sits on the flightline at Kabul International Airport. (NAT-C photo)

Audit Alert Letter 14-80a-AL: Afghan Air Force C-130 Aircraft Response

On October 6, SIGAR wrote to DOD regarding the agency's response to SIGAR's July 10 alert letter concerning the planned provision of C-130H cargo planes to the Afghan Air Force (AAF). In the July 10 letter, SIGAR requested that DOD review the AAF's medium-airlift requirements and its ability to fully use the two existing C-130Hs before providing two additional aircraft.

DOD responded, noting that based on historical mission-capable rates and projected maintenance and inspection schedules, the AAF requires at least three C-130Hs to ensure at least one aircraft is operational at all times. SIGAR recognizes the risk of having no C-130Hs operational, and agrees with DOD's decision to provide the AAF with a third aircraft. The letter also commends DOD's concurrence with SIGAR's recommendation to defer the decision on delivery of the fourth planned C-130H until the requirements review is complete. This represents a potential savings of about \$40.5 million through 2017—\$19.8 million for the aircraft itself, and \$20.7 million for the maintenance, parts, training, and modifications.

Performance Audit Reports Published

This quarter SIGAR published two performance audits that examined USAID's resolution of SIGAR audit recommendations and U.S. efforts to develop the CNPA.

AUDIT ALERT LETTER

- Audit Alert Letter 14-80a-AL: Afghan Air Force C-130 Aircraft Response

COMPLETED PERFORMANCE AUDITS

- Audit 15-1-AR: USAID: More than 80 Percent of All SIGAR Audit and Inspection Report Recommendations Have Been Implemented
- Audit 15-12-AR: Counternarcotics Police of Afghanistan: U.S. Assistance to Provincial Units Cannot be Fully Tracked and Formal Capability Assessments of These Units Are Needed

Audit 15-1-AR: U.S. Agency for International Development More than 80 Percent of All SIGAR Audit and Inspection Report Recommendations Have Been Implemented

SIGAR initiated this review to (1) identify and assess the status of SIGAR recommendations made to USAID in all SIGAR performance audits, financial audits, and inspections; and (2) review actions taken or planned by USAID to address any open recommendations.

To accomplish these objectives, SIGAR identified and examined all 127 recommendations made to USAID from SIGAR's establishment in January 2008 through April 2014, and conducted analysis to determine the number of open, closed and implemented, and closed but not implemented recommendations. SIGAR categorized each recommendation by sector, recommended action, and intended outcome. Finally, SIGAR examined documentation that USAID provided to determine any quantifiable financial benefit in the form of cost savings or recovered funds.

Of the 127 recommendations made to USAID from SIGAR's inception in January 2008 through April 2014, SIGAR closed 110, with 103 closed and implemented, and seven closed but not implemented. Fifty-one previously open recommendations were closed due to evidence provided after SIGAR notified USAID of this audit in February 2014.

SIGAR's analysis found that:

- Almost two-thirds of all recommendations were intended to achieve one of two outcomes: (1) ensure accountability and oversight of contract funds, or (2) strengthen contract compliance and internal controls.
- More than two-thirds recommended that USAID, to achieve the intended outcomes: (1) establish, improve, or follow existing procedures, policies, or other guidance; or (2) recover or ensure appropriate use of funds.

USAID's timely implementation of these recommendations resulted in stronger accountability of reconstruction funds spent in Afghanistan. One recommendation alone resulted in almost \$23 million being put to better use. Eighteen additional recommendations resulted in the sustainment or recovery of more than \$2.75 million in questioned costs. An additional recommendation resulted in USAID's increasing the timeliness of financial-contract audits of completed projects, helping to ensure that costs billed by contractors were allowable.

SIGAR closed seven additional recommendations that had not been implemented for several reasons:

- Five recommendations were closed because SIGAR planned to conduct additional audit work that could supersede the recommendations.
- Two recommendations were closed because USAID did not take action to address SIGAR's concerns.

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Seventeen of the 127 recommendations remain open, and SIGAR is waiting for further implementing actions by USAID prior to closing them. As of mid-August 2014, seven of these recommendations were open for more than one year, and one recommendation was open for more than two years. Seven of the open recommendations have identified \$61.9 million in questioned costs.

SIGAR made no recommendations in this audit.

Audit 15-12-AR: Counternarcotics Police of Afghanistan U.S. Assistance to Provincial Units Cannot be Fully Tracked and Formal Capability Assessments of These Units Are Needed

The Counternarcotics Police of Afghanistan (CNPA), established in 2003 as a specialist force of the Afghan National Police (ANP), conducts counternarcotics investigations and operations throughout Afghanistan. Due to the impending security transition and risks to Afghanistan's economy, U.S. efforts to bolster the Afghan government's counternarcotics capacity are crucial to minimizing financial and political benefits to the insurgency.

The CNPA, headquartered in Kabul, comprises six directorates or departments, including provincial and specialized units. As of November 2013, it consisted of 2,850 police personnel, of which 1,100—or 39%—were authorized for provincial units. SIGAR conducted this audit to determine the extent to which (1) State, DOD, and the Department of Justice's (DOJ) Drug Enforcement Administration (DEA) provided support to CNPA provincial units; (2) DOD direct assistance funding for CNPA provincial units could be tracked; and (3) the CNPA provincial units' operational capabilities and readiness have been formally assessed and reported.

U.S. government support—State, DOD, and DEA—to the CNPA has focused primarily on CNPA headquarters and its specialized units. Provincial units have received some support, such as facility refurbishments in six high-threat areas (costing about \$1.21 million) and the establishment of basic investigator training (part of a larger effort that cost \$161.4 million), but overall U.S. financial resources devoted to the CNPA have only tangentially benefited them. Studies over the past several years have shown that CNPA provincial units have been neglected and that problems continue with their unit development and capabilities.

DOD also provides direct assistance to the Afghan government's national budget. These funds support infrastructure, operation and maintenance (O&M), and salaries, including those for CNPA provincial units. Although the Afghan Financial Management Information System (AFMIS)—a government-wide accounting system—tracks the funding, it does not capture CNPA expenditure data by funding source, funding code, and location. As a result, SIGAR could not fully determine the amount of direct assistance provided to CNPA provincial units. In fact, SIGAR was able to track only \$13,529 of U.S. direct assistance provided for counternarcotics efforts throughout



Members of the CNPA participated in the grand opening ceremony for the new Counternarcotics Police of Afghanistan Headquarters Compound in Kabul in 2010. (U.S. Embassy Kabul photo)

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Afghanistan. Further, SIGAR found that the dual reporting structure, in which the Deputy Minister of Interior for Counternarcotics has management and oversight responsibility for the CNPA while the Deputy Minister of Interior for Security oversees CNPA's supporting resources, affected provincial units' ability to obtain funding and supplies. For example, SIGAR found three CNPA provincial units that received no funds to maintain their DOD-refurbished facilities, while other units lacked funds to transport certain drug-related prisoners to Kabul within mandated timeframes.

SIGAR found that CNPA provincial units' operational capabilities have not recently been formally assessed and reported. Without a formal rating system that measures training, leadership, sustainment, and operational progress, the U.S. government cannot determine whether its investment in CNPA provincial units has helped them become a capable, self-reliant, and sustainable force. The Regional Command Afghan National Security Forces Status Report (RASR), which assesses specific measures, such as training, sustainment, and law enforcement operations, has been used to assess the Afghan National Security Forces capabilities, but has not been used to assess CNPA provincial units. Rather, the CNPA Tactical Operations Center measures provincial units' operational progress on an aggregated basis and with different metrics than RASR.

SIGAR recommends that DOD, in coordination with State and DEA, work with the Afghan Ministries of Finance and Interior and the CNPA, as appropriate, to (1) identify direct-assistance funding amounts and develop and use detailed accounting codes for allocating and tracking CNPA provincial units' O&M funding in AFMIS; (2) clarify and reconcile the ways and means in which CNPA provincial units receive O&M funding to carry out their mission; (3) provide guidance to ANP provincial chiefs regarding the priority and amounts of support to be provided those units, including funds needed to maintain facilities and for transporting prisoners; (4) develop appropriate metrics to allow the CNPA Tactical Operations Center to more fully assess the CNPA provincial units' operational capabilities and readiness on a unit-by-unit basis; (5) establish a formalized, regularly scheduled assessment and reporting requirement; and (6) share reports of the assessments of CNPA provincial-unit readiness with U.S. government stakeholders in non-aggregated form so that they can better determine the effect and value of their investments.

NEW PERFORMANCE AUDITS

- U.S. Efforts to Develop Afghanistan's Civil Aviation Capabilities
- DOD Oversight of Infrastructure Projects Transferred to the Afghan Government

New Performance Audits Announced This Quarter

This quarter SIGAR initiated two new performance audits. They will assess U.S. efforts to develop Afghanistan's civil-aviation capabilities and DOD's oversight of infrastructure projects transferred to the Afghan government.

U.S. Efforts to Develop Afghanistan's Civil Aviation Capabilities

Since 2002, U.S. government agencies and departments, including DOD, the Department of Transportation (DOT), the Federal Aviation Administration (FAA), and USAID have assisted Afghan civil aviation in reconstructing aviation infrastructure, mentoring development of aviation laws and operational protocols, providing support to develop sustainable safety-oversight capability, training air traffic controllers and radar technicians, and developing regulatory policy.

This audit will review U.S. government's efforts to strengthen Afghanistan's capabilities to operate and maintain a safe and effective civil aviation program. Specifically, SIGAR plans to: (1) determine the extent to which the U.S. government's efforts to strengthen Afghanistan's capacity to operate and maintain its civil aviation program met their stated goals; (2) identify the challenges, if any, to creating and maintaining a professional, functional, and effective civil-aviation program in Afghanistan and steps taken to mitigate those challenges; and (3) assess the Afghan government's capacity to independently fund and operate its aviation program after December 2014.

DOD Oversight of Infrastructure Projects Transferred to the Afghan Government.

Since FY 2002, Congress has provided DOD approximately \$66 billion through various funds to help rebuild Afghanistan. A significant portion of these funds has been used to pay for infrastructure projects including military bases, hospitals, and roads, among other things. When projects are completed, their ownership is transferred to the Afghan government. DOD policies for post-transfer oversight of such assets vary depending on the agency in charge and the specific asset transferred. In many instances, depending on the size and scope of the project, DOD is required to obtain acknowledgment from the Afghan government that it is able to maintain or sustain the U.S.-funded projects after the transfer.

SIGAR and other oversight agencies have reported on transferred assets that have fallen into disrepair due to improper use, lack of sustainment, or both. These situations call into question the efficacy of implementing additional infrastructure projects when the United States has minimal oversight of the Afghan government's management of assets already transferred.

This audit will review DOD's efforts to maintain oversight of infrastructure projects transferred to the Afghan government. SIGAR plans to assess (1) the extent to which the Afghan government uses and sustains assets transferred from DOD and (2) the challenges, if any, that DOD faces in overseeing the use and sustainment of infrastructure that has been transferred to the Afghan government.

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TABLE 2.1

SIGAR'S FINANCIAL AUDIT COVERAGE (\$ BILLIONS)	
31 Completed Audits	\$2.9
35 Ongoing Audits	2.9
Total	\$5.8

Note: Numbers have been rounded. Coverage includes auditable costs incurred by recipients of U.S.-funded Afghanistan reconstruction contracts, grants, and cooperative agreements

Source: SIGAR Audits and Inspections Directorate.

Financial Audits

SIGAR launched its financial-audit program in 2012, after Congress and the oversight community expressed concerns about oversight gaps and the growing backlog of incurred-cost audits for contracts and grants awarded in support of overseas contingency operations. SIGAR competitively selects independent accounting firms to conduct the financial audits and ensures that the audit work is performed in accordance with U.S. government auditing standards. Financial audits are coordinated with the federal inspector-general community to maximize financial-audit coverage and avoid duplication of effort.

This quarter, SIGAR completed six financial audits of U.S.-funded contracts to rebuild Afghanistan. SIGAR also announced one new financial audit of the a U.S.-funded cooperative agreement with the American Soybean Association. SIGAR's financial-audits program has completed a total of 31 financial audits with more than \$2.9 billion in auditable costs and has another 35 financial audits ongoing with nearly \$3 billion in auditable costs, as shown in Table 2.1. These audits help provide the U.S. government and the American taxpayer reasonable assurance that the funds spent on these awards were used as intended. The audits question expenditures that cannot be substantiated or are potentially unallowable.

SIGAR issues each financial-audit report to the funding agency that made the award(s). The funding agency is responsible for making the final determination on questioned amounts identified in the report's audit findings. Since the program's inception, SIGAR's financial audits have identified more than \$83 million in **questioned costs** and \$197,494 in unremitted interest on advanced federal funds. When the funding agency determines that a **questioned amount** is unallowable, the agency issues a **bill for collection**. To date, agencies have issued bills for collection for 17 of the completed audits to recover more than \$8.3 million in questioned amounts. It takes time for funding agencies to carefully consider audit findings. As a result, final determinations remain to be made for several of SIGAR's issued financial audits. SIGAR's financial audits have also identified and communicated 135 compliance findings and 151 internal-control findings to the auditees and funding agencies.

SIGAR's financial audits have four specific objectives:

- Express an opinion on whether the **Special Purpose Financial Statement** for the award presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. government, and balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.
- Evaluate and obtain a sufficient understanding of the audited entity's internal control related to the award; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.

Questioned amounts: the sum of potentially unallowable questioned costs and unremitted interest on advanced federal funds.

Questioned costs: costs determined to be potentially unallowable. The two types of questioned costs are ineligible costs (violation of a law, regulation, contract, grant, cooperative agreement, etc., or an unnecessary or unreasonable expenditure of funds) and unsupported costs (those not supported by adequate documentation or proper approvals at the time of an audit).

Bill for collection: a letter or form sent to a debtor for the amount due, including interest, administrative charges, and late penalties, if applicable.

Special Purpose Financial Statement: a financial statement that includes all revenues received, costs incurred, and any remaining balance for a given award during a given period.

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- Perform tests to determine whether the audited entity complied, in all material respects, with the award requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations.
- Determine and report on whether the audited entity has taken adequate corrective action to address findings and recommendations from previous engagements.

A list of completed, new, and ongoing financial audits can be found in Appendix C of this quarterly report.

Financial Audits Published

This quarter, SIGAR completed six financial audits of U.S.-funded contracts, grants, and cooperative agreements to rebuild Afghanistan. These financial audits identified nearly \$5.6 million in questioned costs as a result of internal-control deficiencies and noncompliance issues. These deficiencies and noncompliance issues included, among other things, ineligible business class travel costs, unapproved purchases of nonexpendable equipment and property, over-reimbursement of indirect costs, unsupported or insufficient sole source procurement justifications, incorrectly calculated currency exchange transactions, inadequate monitoring of subrecipients, improper disposition of nonexpendable equipment, lack of supporting documentation, poor record retention, and failure to conduct vendor-suspension and debarment checks.

Financial Audit 14-91-FA: USAID's Local Governance and Community Development Project in Northern and Western Regions of Afghanistan: Audit of Costs Incurred by ARD Inc.

USAID entered into a contract task order with ARD Inc. (ARD) to support the Local Governance and Community Development (LGCD) Project in the Northern and Western Regions of Afghanistan. The objective of ARD's LGCD task order was to help the Afghan government extend its reach into unstable areas and engage at-risk populations by building the capacity of provincial and local government officials to deliver services and address citizen needs, create an environment which encourages local communities to take an active role in their own development, and promote stability by addressing the underlying causes of violence and support for insurgency. SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe Horwath), covered the period October 9, 2006, through October 8, 2009, and expenditures of \$55,981,242 for LGCD.

Crowe Horwath identified three material weaknesses and five significant deficiencies with ARD's internal control. It also found six instances of ARD's noncompliance with the terms of the award and applicable laws and regulations. For example, Crowe Horwath found instances in which

SIGAR SPECIAL PROJECT

SIGAR's financial audits work led to Office of Special Projects to send an inquiry letter expressing concerns regarding USAID/Afghanistan's recent decision not to collect from implementing partners all of the costs questioned in SIGAR's financial audits. These questioned costs represent taxpayer dollars that, if not used to support the reconstruction effort of Afghanistan as intended, should be returned to the U.S. government. For more information, see page 48 of this section.

COMPLETED FINANCIAL AUDITS

- Financial Audit 14-91-FA: USAID's Local Governance and Community Development Project in Northern and Western Regions of Afghanistan: Audit of Costs Incurred by ARD Inc.
- Financial Audit 14-93-FA: USAID's Partnership for Advancing Community Based Education in Afghanistan: Audit of Costs Incurred by CARE International
- Financial Audit 14-94-FA: USAID's Afghanistan Social Outreach Program: Audit of Costs Incurred by AECOM International Development Inc.
- Financial Audit 14-95-FA: Department of State's Demining Activities in Afghanistan: Audit of Incurred Costs by Mine Clearance Planning Agency
- Financial Audit Financial Audit 14-100-FA: USAID's Afghanistan Municipal Strengthening Program: Audit of Costs Incurred by International City/County Management Association
- Financial Audit 15-7-FA: USAID's Afghanistan Vouchers for Increased Production in Agriculture Program: Audit of Costs Incurred by International Relief & Development Inc.



Supported by a grant from USAID's LGCD project, the National Youth Council of Khowst held a bicycle-maintenance vocational-skills course for 60 unemployed young men in Khowst City. (USAID photo)

ARD failed to follow procurement guidelines for justifying sole-source procurements and determining reasonableness of costs for the LGCD Project. Specifically, ARD's sole-source procurement justifications were insufficient or inadequately supported, and labor costs in its subcontracts exceeded market rates. In addition, ARD could not provide documentation showing that USAID approved the purchase of nonexpendable equipment and property which may have been available from other federally funded projects. Lastly, Crowe Horwath found that ARD used incorrect rates when calculating indirect costs incurred on the project. Thus, USAID subsequently over-reimbursed the company for its work. As a result of these findings, Crowe Horwath questioned \$463,957 in costs, which included \$337,677 in unsupported costs (costs not supported by sufficient documentation to allow Crowe Horwath to determine their accuracy and allowability), and \$126,280 in ineligible costs (costs prohibited by the contract, applicable laws, or regulations).

In addition, Crowe Horwath found that the U.S. government lost a calculated \$102 in interest income in advances provided to ARD. Crowe Horwath requested prior audit reports or other assessments related to the LGCD project from ARD and USAID, but no pertinent reports were identified.

In Crowe Horwath's opinion, ARD's Special Purpose Financial Statement presented fairly in all material respects, revenues received, costs incurred, and the balance for the indicated periods in accordance with requirements established by SIGAR.

Based on the results of the audit, SIGAR recommends that the Mission Director of USAID/Afghanistan:

1. Determine the allowability of and recover, as appropriate, \$463,957 in questioned costs identified in the report.
2. Recover \$102 in lost interest revenue from advances provided.
3. Advise ARD to address the report's eight internal-control findings.
4. Advise ARD to address the report's six noncompliance findings.

Financial Audit 14-93-FA: USAID's Partnership for Advancing Community Based Education in Afghanistan: Audit of Costs Incurred by CARE International

USAID entered into a cooperative agreement with CARE International (CARE) to implement the Partnership for Advancing Community Based Education in Afghanistan. The program was intended to expand community-based education by enhancing supporting structures and processes, improving quality, and developing cooperation between community-based education and Afghanistan Ministry of Education schools. SIGAR's financial audit, performed by Crowe Horwath, reviewed \$30,973,141 in expenses incurred between April 10, 2006, and August 31, 2011.

Crowe Horwath did not identify any internal-control deficiencies or instances of noncompliance with applicable laws, rules, regulations, and

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the terms and conditions of the cooperative agreement in its audit of costs incurred by CARE under the Partnership for Advancing Community Based Education in Afghanistan program. Crowe Horwath did not identify any ineligible costs (costs prohibited by the contract, applicable laws, or regulations) or unsupported costs (costs not supported by sufficient documentation to allow Crowe Horwath to determine their accuracy and allowability).

Crowe Horwath did not report any findings related to the Partnership for Advancing Community Based Education in Afghanistan program. Therefore, SIGAR has no recommendations related to this audit.

Financial Audit 14-94-FA: USAID's Afghanistan Social Outreach Program: Audit of Costs Incurred by AECOM International Development Inc.

On July 5, 2009, USAID signed a contract with AECOM International Development Inc. (AECOM) to establish community councils (*shuras*) at the district level and to promote communication and collaboration between the Afghan government and communities. This support to the Afghanistan Social Outreach Program (ASOP) was intended to expand the role of the traditional shuras, overcome corruption, and increase participation in the political process by women, youth, and other marginalized groups. SIGAR's financial audit, performed by Kearney & Company (Kearney), reviewed \$34,458,220 in expenditures charged to the ASOP contract from July 5, 2009, through January 31, 2012.

Kearney identified one material internal-control weakness, two significant deficiencies in internal controls, and two instances of noncompliance



USAID's ASOP program established district community councils, like this meeting in Logar Province, to promote communication and collaboration between the Afghan government and communities. (USAID photo)

with contract terms. Specifically, Kearney found that AECOM's internal processes did not prevent documentation loss or provide for backup records of transactions for the Afghanistan Social Outreach Program. These transactions involved payroll, other direct costs, program costs, subcontracts, travel, and per diem costs. AECOM could not provide sufficient documentation of management reviews and approvals related to subcontracts and other direct costs. It was also not able to provide sufficient documentation of approval for purchase of nonexpendable property by USAID, or provide or retain sufficient documentation related to the disposition of the nonexpendable property. As a result, Kearney identified \$455,084 in unsupported costs (costs not supported by sufficient documentation to allow auditors to determine their accuracy and allowability). Kearney did not find any ineligible costs (costs prohibited by the contract, applicable laws, or regulations).

In addition, Kearney also identified six findings from a prior audit report that could have a material effect on AECOM's Special Purpose Financial Statement. Because AECOM did not provide any evidence that corrective actions had been taken, Kearney concluded that AECOM has not taken adequate corrective action to address these prior audit findings. Kearney issued a disclaimer of opinion on AECOM's Special Purpose Financial Statement, meaning that Kearney was prevented from expressing an opinion on the Statement's fair presentation and whether it was free from material misstatement. Specifically, although AECOM signed a representation letter, the letter did not address required representations on which Kearney would rely in rendering an opinion. For example, AECOM did not confirm its responsibility for the system of internal controls related to the preparation and fair presentation of the Statement.

Based on the results of the audit, SIGAR recommends that the Mission Director for USAID/Afghanistan:

1. Determine the allowability of and recover, as appropriate, \$455,084 in questioned costs identified in the report.
2. Advise AECOM to address the report's three internal-control findings.
3. Advise AECOM to address the report's two noncompliance findings.

Financial Audit 14-95-FA: Department of State's Demining Activities in Afghanistan: Audit of Incurred Costs by Mine Clearance Planning Agency

From April 1, 2008, to March 31, 2013, State's Bureau of Political-Military Affairs' Office of Weapons Removal and Abatement (PMWRA) issued five grants to the Mine Clearance Planning Agency (MCPA)—an Afghanistan-based international humanitarian demining organization—for demining activities in Afghanistan. Totaling over \$13 million, these grants were to provide support for the removal of land mines and unexploded ordnance in Afghanistan. SIGAR's financial audit, performed by RMA Associates LLC

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(RMA), reviewed \$13.4 million in expenditures charged to the five grants from April 1, 2008, through March 31, 2013.

RMA identified four internal-control deficiencies and one instance of noncompliance in its audit of costs incurred by MCPA. For example, MCPA lacked documentation to support its comparative price analysis and purchase requisitions, lacked purchase-requisition documents, and did not provide business-supplier identification. Specifically, for costs incurred under three grants, MCPA did not complete its internal-control process for price analysis in compliance with the Federal Acquisition Regulation for five equipment procurements. Completing that process would have ensured that the U.S. government received the best value for its money. In eight instances, MCPA lacked requisite documentation to validate that its management signed and/or properly coded expense statements. Also, MCPA could not provide purchase-requisition forms for four procurement transactions. Finally, MCPA did not collect from suppliers required business-registration information or a national identification for four procurements. These are generally accepted forms of identification that provide some assurance that a vendor is credible and will use U.S. government funds appropriately.

As a result, RMA identified \$688,206 in unsupported costs (costs not supported by sufficient documentation to allow auditors to determine their accuracy and allowability). RMA did not find any ineligible costs (costs prohibited by the grant, applicable laws, or regulations). A reconciliation of funds showed an outstanding balance of \$50,337, which MCPA reported to the State on December 31, 2012. In May 2014—more than a year after the end of five grants—MCPA requested that State approve its use of the remaining funds. However, SIGAR is questioning the amount because the request, its possible approval, and any use of the funds fell well outside the scope of the audit and the period of performance of any of the grants.

Based on the results of the audit, SIGAR recommends that State's Grants Officer:

1. Determine the allowability of and recover, as appropriate, \$688,206 in unsupported costs identified in the report.
2. Collect from MCPA the \$50,337 due to the Department of State.
3. Advise MCPA to address the report's four internal-control findings.
4. Advise MCPA to address the report's one noncompliance finding.

Financial Audit 14-100-FA: USAID's Afghanistan Municipal Strengthening Program: Audit of Costs Incurred by International City/County Management Association

On May 1, 2007, USAID awarded the International City/County Management Association (ICMA) a cooperative agreement to implement the Afghanistan Municipal Strengthening Program. Under the program, ICMA sought to improve the delivery of public services in provincial capitals through such



A deminer from the MCPA at work clearing a minefield in Parwan Province. (UNAMA photo)

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activities as public works and utility projects, city-to-city partnerships, and human capital development. SIGAR's financial audit, performed by Williams Adley & Company-DC LLP (Williams Adley), reviewed expenditures of \$25,124,306 from May 1, 2007, through August 31, 2010.

Williams Adley identified five internal-control deficiencies and five instances of noncompliance in auditing costs incurred by ICMA in implementing USAID's Afghanistan Municipal Strengthening Program. Specifically, Williams Adley found that ICMA's internal-control processes did not ensure the retention of sufficient supporting documentation for transactions related to the Other Direct Costs, Travel and Transportation, and Activities cost categories. This included USAID's approval of a security contract for more than \$1.4 million. Williams Adley also noted that ICMA's misunderstanding of applicable travel rules prompted it to improperly charge USAID more than \$40,000 in business-class travel costs for seven travelers. Further, Williams Adley found that ICMA failed to enforce its own policies relative to competitive procurements related to municipal waste-management equipment and a construction project in Asadabad, the capital of Kunar province.

As a result of these deficiencies and instances of noncompliance, Williams Adley identified \$2,056,308 in total questioned costs, comprising \$1,951,122 in unsupported costs—costs for which inadequate supporting documentation was provided—and \$105,186 in ineligible costs—costs prohibited by the agreement, applicable laws, or regulations. Williams Adley identified five prior recommendations that could have had a material impact on ICMA's Special Purpose Financial Statement. It found that ICMA took corrective action on all five recommendations. Williams Adley rendered a qualified opinion on ICMA's Special Purpose Financial Statement because of the material effects associated with more than \$2 million in questioned costs.

Based on the results of the audit, SIGAR recommends that the Mission Director for USAID/Afghanistan:

1. Determine the allowability of and recover, as appropriate, \$2,056,308 in questioned costs identified in the report.
2. Advise ICMA to address the report's five internal control findings.
3. Advise ICMA to address the report's five noncompliance findings.

Financial Audit 15-7-FA: USAID's Afghanistan Vouchers for Increased Production in Agriculture Program: Audit of Costs Incurred by International Relief & Development Inc.

On September 1, 2008, USAID awarded a cooperative agreement to International Relief & Development Inc. (IRD) to implement the Afghanistan Vouchers for Increased Production in Agriculture Program. This program was intended to increase basic food crop production in Afghanistan and enable the country to meet its food requirements by providing accessible and affordable agriculture goods to farmers, thereby

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USAID programs intended to increase basic food-crop production in Afghanistan include activities like wheat seed distribution. (USAID photo)

contributing to community and economic development through cash-for-work programs. SIGAR's financial audit, performed by Crowe Horwath, reviewed \$503 million in expenses charged to the award from September 1, 2008, through April 22, 2013.

Crowe Horwath identified 14 material weaknesses and significant deficiencies in internal controls and 12 instances of material noncompliance with the cooperative agreement terms. Crowe Horwath found that IRD was not able to provide sufficient documentation to support transactions and financial records for the Afghanistan Vouchers for Increased Production in Agriculture Program. For example, IRD could not provide adequate supporting documentation for three armored vehicles from which a determination regarding its compliance with USAID's nonexpendable property disposition requirements could be made. In addition, IRD's indirect costs charged to the award exceeded the approved amount by \$929,103. Furthermore, IRD incorrectly calculated and recorded currency-exchange transactions which resulted in an unreasonable cost passed on to the U.S. government. Lastly, IRD did not invest \$11,657 in program income earned back into the program.

As result of these deficiencies and instances of noncompliance, Crowe Horwath identified \$1,893,484 in total questioned costs, consisting of \$294,513 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval—and \$1,598,971 in ineligible costs—costs prohibited by the agreement, applicable laws, or regulations.

Crowe Horwath also determined that IRD held excessive advanced cash balances that resulted in \$5,754 in interest lost by the U.S. government.

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Crowe Horwath reviewed prior audits of IRD, but determined that the findings were not pertinent to this audit. Crowe Horwath issued a disclaimer of opinion on the Special Purpose Financial Statement. Specifically, Crowe Horwath was unable to verify the data present in the Statement and therefore was prevented from issuing an opinion because (1) IRD was not able to produce sufficient audit evidence to determine if revenues earned under the award, as reported on the Statement, were materially accurate and fully verifiable, and (2) certain subcontract and subgrantee transactions were recorded inconsistently in the financial records.

Based on the results of the audit, SIGAR recommends that the Mission Director for USAID/Afghanistan:

1. Determine the allowability of and recover, as appropriate, \$1,893,484 in questioned costs identified in the report.
2. Collect from IRD the \$5,754 in interest payable to USAID.
3. Advise IRD to address the report's 14 internal-control findings.
4. Advise IRD to address the report's 12 noncompliance findings.

INSPECTIONS

Inspection Reports Published

This quarter SIGAR published one inspection report. It identified defective workmanship and work not completed according to contract requirements at the Pol-i-Charkhi prison. It also discovered that the prison is being used, but is overcrowded.

Inspection 15-11-IP: Pol-i-Charkhi Prison

Renovation Project Remains Far from Complete after 5 Years and \$18.5 million

Pol-i-Charkhi prison, Afghanistan's largest correctional facility, was built in 1973 to house approximately 5,000 prisoners. In June 2009, the Department of State's Bureau of International Narcotics and Law Enforcement Affairs (INL) awarded a contract with a modified value of \$20.2 million to Al-Watan Construction Company (AWCC) to replace prison-block holding areas with individual cells and renovate the prison's infrastructure, including its plumbing, electrical, and septic systems. On November 26, 2010, State terminated the contract for convenience. State also funded three capital-improvement projects—a potable-water tower, a commercial power upgrade, and a new staff barracks—at a cost of \$5.3 million. All three projects were transferred to Afghan prison authorities. SIGAR assessed whether (1) the work was completed in accordance with contract requirements and applicable construction standards, and (2) the prison facility was being used as intended and maintained.

More than five years after renovation work began, Pol-i-Charkhi prison has not been completed, and the contract has been terminated for

COMPLETED INSPECTIONS

- Inspection 15-11-IP: Pol-i-Charkhi Prison: Renovation Project Remains Far from Complete after 5 Years and \$18.5 Million

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An aerial view shows the Poli-Charkhi prison complex. (INL photo)

convenience. INL paid AWCC \$18.5 million of the \$20.2 million contract value, although AWCC only completed about 50% of the required work. Furthermore, an independent firm identified defective workmanship including failure to backfill trenches, improper roof flashing, and soil-settlement issues. SIGAR found that not all of AWCC's work was completed according to contract requirements. Most notably, AWCC substituted wood for metal roof trusses without authorization and covered some 30-year old wood trusses with new roofing material rather than replacing them as required. AWCC's renovation work was overseen by a contracting officer's representative—a State Department employee—who was later convicted in the United States of taking a bribe on a different contract.

State plans to award an estimated \$11 million contract to complete the renovation work and another \$5 million contract to construct a wastewater-treatment plant. Wastewater is pooling on the surface of the two septic/leach fields that AWCC installed under the renovation contract despite tests conducted prior to installation showing that such pooling could occur because of poor soil porosity. INL officials plan to award the two new contracts by November 2014, but INL has focused on an above-ground treatment plant rather than potentially less expensive and more easily maintained alternatives. Both projects will require close monitoring to avoid repeating the situation that occurred under the original renovation work. One item that should not be delayed is the six back-up diesel generators that were installed but never connected to the prison's power grid.

In contrast to the issues identified under the renovation contract, SIGAR found that the three capital-improvement projects—water

tower, commercial-power upgrade, and staff barracks—generally were completed in accordance with contract requirements. Furthermore, Pol-i-Charkhi prison is being used, but is overcrowded, with prisoners housed in hallways. The prison was designed for about 5,000 prisoners, but currently houses about 7,400. The security advantage of reconfiguring prisoner holding areas into smaller cells—the primary basis for the renovation work—that could contain and separate maximum-security and other prisoners has been lost. Despite overcrowding, SIGAR found the prison to be relatively well maintained.

SIGAR recommends that the Secretary of State direct INL to (1) determine the extent to which AWCC substituted wood for metal trusses or covered, rather than replaced, existing wooden trusses without authorization, and take appropriate action to recoup any funds due from the contractor; (2) conduct an inquiry into whether the contracting officer negotiated an equitable settlement agreement with AWCC, document all accelerated construction schedule payments, and take steps to recoup funds as appropriate; (3) conduct a cost-benefit analysis of alternative wastewater management systems, and, if warranted, reissue a request for information soliciting proposed solutions to managing the prison’s wastewater management needs; (4) ensure that before the follow-on renovation work and construction of the wastewater treatment plant or alternative system begins, that it has a written monitoring plan in place to oversee the work performed pursuant to the two contracts; and (5) identify the scope of work and conduct a cost-benefit analysis of awarding a separate contract—on an expedited basis—to hook up the prison’s six back-up power diesel generators.

New Inspections Announced This Quarter

This quarter, SIGAR has initiated three new inspections. Each inspection will assess whether (1) construction has been or is being completed in accordance with contract requirements and applicable construction standards, and (2) the parts of the facility, if any, that are occupied are being used as intended and properly maintained. These inspections will assess:

- Warehouse facilities in the South Park region of Kandahar Airfield
- Special Operations Task Force-South Command and Control Facility at Camp Brown, Kandahar Airfield
- Counter-Narcotics Justice Center

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 29 recommendations contained in 11 audit reports. Four of the recommendations resulted in the recovery of \$1,978,151 in ineligible or unsupported contract costs paid by the U.S. government. (Financial Audits 13-09-FA, 14-18-FA, and 14-23-FA). From 2009 through September 2014, SIGAR published 150 audits, alert

NEW INSPECTIONS

- Warehouse facilities in the South Park region of Kandahar Airfield
- Special Operations Task Force-South Command and Control Facility at Camp Brown, Kandahar Airfield
- Counter-Narcotics Justice Center

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letters, and inspection reports and made 453 recommendations to recover funds, improve agency oversight, and increase program effectiveness.

SIGAR has closed over 81% 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.

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 29 audit and five inspection reports. In this quarter there were no recommendations over 12 months old where the agency had yet to produce a corrective action plan that SIGAR believes would resolve the identified problem. However, there are six audit reports over 12 months old where SIGAR is waiting for the respective agencies to complete their agreed-upon corrective actions.

SIGAR recently initiated audits of the agency resolution process at the Departments of Defense and State, and USAID. The audits examine the status and oversight process for reaching audit resolution at these agencies. SIGAR issued the final report for the Department of State last quarter and identified a nearly 75% implementation rate. This quarter, SIGAR issued the final report for USAID and identified a more than 80% implementation rate. Report issuance for the work performed at the Department of Defense is expected later this year.

SPECIAL PROJECTS

The Inspector General's Office of Special Projects was created to examine emerging issues and deliver prompt, actionable reports to federal agencies and the Congress. The team conducts a variety of assessments, producing reports on all facets of Afghanistan reconstruction. The directorate is made up of auditors, analysts, investigators, lawyers, subject-matter experts, and other specialists who can quickly and jointly apply their expertise to emerging problems and questions.

SIGAR's Office of Special Projects wrote inquiry letters to the U.S. Army Corps of Engineers (USACE), USAID, DOD, IRD, DynCorp, the United Nations Development Programme (UNDP), CSTC-A, the U.S. Air Force, the U.S. Central Command (CENTCOM), and the International Security Assistance Force (ISAF). These letters expressed concerns about a range of issues, including the unsafe fuel-storage tanks at Camp Shaheen, the soundness of plans for the Kandahar electricity-supply bridging solution, a dangerous school collapse in Sar-i-Pul, anti- and counter-corruption efforts, an incomplete response to a communications-towers inquiry, a troubling response to a whistleblower-protection inquiry, potentially exploitative

COMPLETED SPECIAL PROJECTS

- Special Project 14-86-SP: Inquiry Letter: Fuel Storage Tanks
- Special Project 14-87-SP: Inquiry Letter: Kandahar Bridging Solution
- Special Project 14-88-SP: Inquiry Letter: DOD Anti/Counter Corruption Efforts
- Special Project 14-89-SP: Inquiry Letter: Korak Uzbeki School Collapse in Sar-i-Pul
- Special Project 14-90-SP: Inquiry Letter: Communications Towers Response
- Special Project 14-92-SP: Inquiry Letter: IRD Whistleblower Protections Response
- Special Project 14-96-SP: Inquiry Letter: Recruitment of Third-Country Nationals for Afghan Work
- Special Project 14-97-SP: Inquiry Letter: Recruitment of Third-Country Nationals for Afghan Work
- Special Project 14-98-SP: Inquiry Letter: UNDP LOTFA Oversight Response
- Special Project 14-99-SP: Inquiry Letter: CSTC-A Role of UNDP Oversight and Financial Management of LOTFA
- Special Project 14-101-SP: Inquiry Letter: Afghan Budget Bailout
- Special Project SP-78: ANSF Requirement Validation
- Special Project 15-02-SP: Inquiry Letter: Scrapping of 16 G222 Aircraft at Kabul International Airport
- Special Project 15-03-SP: Inquiry Letter: ANA Slaughterhouse in Pol-i-Charkhi District
- Special Project 15-04-SP: Inquiry Letter: Status of Four G222 Aircraft at Ramstein Air Force Base, Germany
- Special Project 15-05-SP: Inquiry Letter: USAID's Questioned Costs
- Special Project 15-06-SP: Inquiry Letter: Contract Terminations Due to Security Changes
- Special Project 15-08-SP: Disposition of U.S.-Owned Excess Equipment in Afghanistan
- Special Project 15-09-SP: Inquiry Letter: State Department Communication Trucks
- Special Project 15-10-SP: Special Report: Poppy Cultivation in Afghanistan
- Special Project 15-14-SP: Review: Direct Assistance: Review of Processes and Controls Used by CSTC-A, State, and USAID

recruitment of TCNs, weak oversight of LOTFA funds, an unnecessary second ANA slaughterhouse in Pol-i-Charkhi District, the scrapping of 16 G222 planes, USAID's recovery of questioned costs, a contract cancelled due to rising security costs, incomplete documentation of DOD's excess-equipment disposition processes, and potentially wasteful expenditures on unused communications trucks. The office also reviewed the processes and controls used by CSTC-A, State, and USAID for providing direct assistance to the Afghan government. The Office of Special Projects also issued a special report which examined an all-time high in opium-poppo cultivation, despite the \$7 billion U.S. investment in counternarcotics.

Inquiry Letter 14-86-SP: Fuel Storage Tanks

On July 31, 2014, SIGAR wrote to the commanding general of USACE to warn of an urgent safety concern regarding the fuel farms located at the power plants that provide electricity to Camp Shaheen. The bulk-fuel storage tanks were not properly constructed to allow removal of water and particulate matter. If water and contaminants build up in these fuel tanks, the power plants they support could mechanically fail. Furthermore, the operations and maintenance contracts for the fuel tanks call for removal of water and debris only at six-month intervals. Contamination of fuel at Camp Thunder in Gardez has already caused its power plant to fail.

Inquiry Letter 14-87-SP: Kandahar Bridging Solution

On July 30, 2014, SIGAR wrote to DOD, State, and USAID officials to address their responses to SIGAR's June 10 inquiry letter about the Kandahar Bridging Solution and the U.S. government's plans to provide electric power to Kandahar after December 2014. Those responses give SIGAR little confidence that the important objectives of delivering electricity in Kandahar and demonstrating Afghan government capability to provide basic services and improve living conditions will be achieved. Furthermore, SIGAR remains concerned that the United States still has no realistic plan to help the Afghan government develop a sustainable source of electricity between the end of the Kandahar Bridging Solution and the point at which a stable source of power generation is projected to come online.

Inquiry Letter 14-88-SP: DOD Anti/Counter Corruption Efforts

SIGAR wrote to the commander of U.S. Forces-Afghanistan (USFOR-A) on July 31, 2014, to inquire about plans for maintaining the U.S. military's support for programs and task forces to fight corruption in Afghanistan after U.S. combat operations conclude at the end of 2014. Corruption is widely considered one of the most serious obstacles to Afghan reconstruction, and although the United States has not had a comprehensive anti- or counter-corruption strategy, U.S. military agencies did establish various task forces to try to understand and counter the pervasive

corruption. SIGAR is concerned that maintaining these task forces and other initiatives to stem corruption will grow increasingly complex and difficult as the U.S. military drawdown accelerates, and as the Afghan government takes on additional responsibilities.

In a letter dated September 18, 2014, the Combined Joint Interagency Task Force at ISAF responded that it was undergoing reorganization under new leadership. The ISAF described the new assigned organizational responsibilities and how each would seek to resolve the findings of the Joint and Coalition Operational Analysis anti/counter-corruption report, which concluded that “lack of unity of effort reduces the effectiveness of CAC operations” and “lack of political will on the part of GIROA (Afghanistan government) rendered almost all counter-corruption efforts moot.”

Inquiry Letter 14-89-SP: Korak Uzbeki School Collapse in Sari-Pul

SIGAR sent an inquiry letter to the USAID Mission Director for Afghanistan on September 9, 2014, to request more information about USAID’s response to media reports that an Afghan school funded by a program supported by the agency recently collapsed. The media reports indicated that up to 32 students and one teacher were injured when the school’s roof collapsed. An Afghan official said the National Solidarity Program (NSP) constructed the school four years ago. The NSP manages funds donated to the Afghan government through the multilateral Afghanistan Reconstruction Trust Fund, to which USAID provides on-budget assistance.

In a letter dated September 22, 2014, the USAID Acting Mission Director for Afghanistan responded that the agency provided no funding for the Korak Uzbeki School, which USAID stated had been built with World Bank funds. “USAID has contacted the World Bank to learn more about the circumstances surrounding this incident,” according to the agency’s letter of response.

Inquiry Letter 14-90-SP: Communications Towers Response

On September 9, 2014, SIGAR wrote to Secretary of State John Kerry to address the State Department’s response to SIGAR’s February 25, 2014, letter regarding six communication towers constructed in Afghanistan. Based on State’s response, SIGAR is concerned that the \$6.5 million project was never used as intended, and that officials responsible for planning and executing the project did not take into account red flags raising concerns about project viability. The State Department’s response to SIGAR also failed to include key contractual and other documents related to the communications-tower project. The State Department responded to SIGAR’s inquiry letter on October 9 and SIGAR is presently evaluating the detailed response.

Inquiry Letter 14-92-SP: IRD Whistleblower Protections Response

On July 30, 2014, SIGAR wrote to International Relief and Development (IRD) to address the company's response to SIGAR's original inquiry letter, dated May 20, 2014. SIGAR's review of 81 separation agreements signed by IRD employees determined that 48 of the agreements contain unacceptable gag provisions that attempt to limit the rights of former employees. Furthermore, the emails sent from IRD to the 48 prior employees failed to explicitly state that those gag provisions are null and void with regard to the former employees' rights as potential whistleblowers.

Given IRD's persistent resistance to notifying its former employees of their rights as potential whistleblowers, SIGAR requested that IRD send a letter to the 48 former employees it compelled to sign separation agreements with gag provisions and inform them of their rights under the False Claims Act and 41 U.S.C. § 4712. SIGAR also requests that IRD include appropriate language related to 41 U.S.C. § 4712 in all of its future separation agreements. Such language should include an unambiguous statement that no provision of the separation agreement will be construed as a waiver of their rights under 41 U.S.C. § 4712 or any other law protecting whistleblowers.

SIGAR's letter also requested that IRD provide evidence that it has notified its current employees of their rights under 41 U.S.C. § 4712 and provided them with a list of all the government offices authorized to receive protected disclosures of information. Finally, the inquiry letter asks IRD to send its revised code of business ethics and conduct, as well as the results of its review of the old code of business ethics and conduct.

SIGAR has received a written response from IRD detailing the firm's actions to address SIGAR's requests on protection of the disclosure rights of whistleblowers. SIGAR is analyzing the response.

Inquiry Letters 14-96-SP and 14-97-SP: Recruitment of Third-Country Nationals for Afghan Work

On September 12, 2014, SIGAR wrote to DynCorp International Inc. (DynCorp) and to the U.S. Army Sustainment and Contracting Commands, echoing concerns articulated in two inquiry letters sent last reporting period about improper recruiting of third-country nationals (TCNs).

These concerns were raised after SIGAR special agents conducted interviews with third-country-national workers who indicated that they usually must borrow substantial sums of money at high interest rates in their home countries in order to pay recruitment fees. In some cases, the substantial sums that the TCN workers borrow to pay these fees will take many months of work to pay back. The high levels of indebtedness that often result may make it difficult for these TCNs to leave their jobs.

To continue its investigation of improper recruitment practices and mistreatment of third-country nationals working at U.S. military bases, SIGAR's letters request additional information and records concerning: (1) DynCorp International's compliance with the many laws, policies, and contract provisions prohibiting human trafficking; and (2) the U.S. Army Sustainment and Contracting Commands' procedures for implementing the government's zero-tolerance policy against human trafficking.

In a letter dated September 30, 2014, the U.S. Army Materiel Command, of which the Sustainment Command and Contracting Command are a part, reiterated their commitment to the DOD Trafficking in Persons regulations, and that appropriate antitrafficking clauses are included in all wartime contracts, including LOGCAP. The Command indicated it would provide further information on other specific human trafficking issues addressed by SIGAR's letter of inquiry at a near-term date.

Inquiry Letter 14-98-SP: UNDP LOTFA Oversight Response

SIGAR sent a letter on September 12, 2014, to the UNDP administrator to address UNDP's June 6 response to SIGAR's original May 13, 2014, inquiry about UNDP's administration of LOTFA. SIGAR notes that the UNDP's response regarding its oversight responsibilities contradicts the language contained in the LOTFA financing agreement and fails to acknowledge the problems that continue to plague the program. These issues include the potential payment of artificially inflated ANP salaries, possible fraud related to MOI salary deductions, unsupported charges against LOTFA, miscoded and ineligible expenses, diverted funds, and direct cash disbursements to MOI and ANP personnel.

Even more troubling is UNDP's apparent assertion that the organization is not responsible for ensuring that LOTFA funds are only used for legitimate purposes, and that UNDP cannot seek a comprehensive accounting of how the funds are being spent. Given the roughly \$3.17 billion contributed to LOTFA to date, it is extremely important that SIGAR's concerns are taken seriously, and that these issues are addressed, especially as negotiations for the next phase of LOTFA funding begin. New negotiations offer the opportunity to write a new financing agreement that includes provisions guaranteeing full oversight access and accountability.

In two separate letters of response, dated September 29, 2014, and October 7, 2014, UNDP offered a more robust and fulsome outline of its management of LOTFA, including a 16-page attachment to the second letter. That attachment addressed SIGAR's specific questions about LOTFA funding. It highlighted efforts to curtail suspect deductions from police salaries, and indicated that UNDP plans to engage a private entity to conduct a scoping study of the payroll process to provide recommendations on possible technical improvements. UNDP officials also met with SIGAR to reaffirm

their intention to adopt any necessary corrective action or reforms concerning LOTFA and donor funds.

Inquiry Letter 14-99-SP: CSTC-A Role of UNDP Oversight and Financial Management of LOTFA

On September 17, 2014, SIGAR wrote to CSTC-A to express continued concerns about LOTFA's program to fund the ANP. As it has articulated in prior inquiry letters, SIGAR believes UNDP officials are not proactively addressing many of the problems plaguing the program, claiming they do not have the authority to conduct comprehensive oversight of this multibillion dollar program. SIGAR's inquiry letter lauds CSTC-A's efforts to improve accountability for LOTFA, and asks for the agency to demand a new financing agreement with provisions for full oversight access and accountability for all donor countries and the UNDP as negotiations for the new phase of LOTFA funding is negotiated.

In a letter of response dated October 7, 2014, the commanding general of CSTC-A wrote that the command's position is that "UNDP has the duty and authority to oversee the expenditure of LOTFA funds. CSTC-A will continue to demand that UNDP exercise its oversight role and responsibilities for administering LOTFA. Furthermore, CSTC-A will insist that UNDP incorporate appropriate provisions outlining their full oversight and accountability as part of the development of the next phase of LOTFA funding."

Inquiry Letter 14-101-SP: Afghan Budget Bailout

SIGAR sent an inquiry letter on September 26, 2014, to the State Department to ask for information about press reports that the Afghan Ministry of Finance had requested an immediate infusion of \$537 million to cover its FY 1393 (December 21, 2013–December 20, 2014) budgetary shortfalls and pay government salaries. While the reported request was new, the issue of fiscal sustainability is not a new one in Afghanistan. The financing gap—the disparity between government revenues and expenditures—is estimated to be \$7.7 billion on average through 2018, which will limit Afghanistan's ability to pay for discretionary services and delay its progress to self-reliance. These issues raise concerns about not only the fiscal sustainability of Afghanistan, but also the extent to which the Afghan government in general and the MOF in particular have managed the billions of dollars in U.S. and international-donor reconstruction assistance.

In a letter dated October 10, 2014, the State Department responded "there is a widespread belief that the current shortfall grew from a combination of economic inertia associated with a protracted political transition and the government of Afghanistan's unrealistic budget." The letter asserted that, "Both President Ghani and Chief Executive Officer Abdullah Abdullah have articulated a commitment to implementing the kinds of reforms required to avert a similar situation in the future." State Department officials later added

that a formal request for additional funds had not yet been made, and that it was not clear that \$537 million would be the precise amount of additional assistance needed, despite widespread press reports to the contrary.

Special Project SP-78: ANSF Requirement Validation

In a letter sent October 1, 2014, SIGAR informed DOD of its review of the process by which DOD entities validate and fulfill requirements for equipment for the ANSF. The purpose of the review is to document and evaluate the requirements validation process used to support decisions to procure vehicles, weapons systems, communications systems, and other items on the *tashkils* for the ANSF. Due to the limited revenue of the Afghan government and continuing challenges from antigovernment forces, the ANSF will rely on the United States and other international donors for funding and equipment for years to come. Therefore, the ability of DOD entities to identify and fulfill realistic requirements for the ANSF is a key factor in ensuring those forces' future viability and effectiveness.

Inquiry Letter 15-03-SP: ANA Slaughterhouse in Pol-i-Charkhi District

On October 2, 2014, SIGAR wrote to CENTCOM, ISAF, and USACE requesting information to assist with completing the inspection of the ANA slaughterhouse in the Pol-i-Charkhi District. To date, SIGAR has been prevented from completing its report because inspectors have been unable to obtain adequate documentation supporting the decision to build this new slaughterhouse, the second such facility in the Kabul area.

This new slaughterhouse project was initiated to address insufficient capacity at the original facility, then abruptly terminated when CSTC-A stated that the first facility could, in fact, support the ANA's requirements. Although the new slaughterhouse was only 10% complete and only \$1.4 million in costs had been incurred, the contractor has requested an additional \$4.2 million for a "fair and final settlement."

While trying to conduct its inspection of the new slaughterhouse project, SIGAR's work was complicated by limited documentation, the frequent rotation of military and civilian personnel, consolidation of commands, and changing responsibilities. In addition to requesting information to facilitate the completion of this inspection, SIGAR's inquiry letter also raises concerns about the \$4.2 million settlement requested by the contractor and the imminent danger of an improperly sealed water well, which could be filled with contaminants or poisons, impacting the water supply in the surrounding community.

Inquiry Letters 15-02-SP and 15-04-SP: Status of G222 Fleet

SIGAR has long been concerned with the \$486 million program to procure a fleet of 20 G222 (or C-27A) aircraft for use in Afghanistan, and wrote two

inquiry letters this quarter requesting additional information. For a detailed description of SIGAR's concerns and actions taken, please see the Quarterly Highlight on page 47.

Inquiry Letter 15-05-SP: USAID's Questioned Costs

On October 7, 2014, SIGAR wrote to USAID to express concerns regarding USAID/Afghanistan's recent decision not to collect from implementing partners all of the costs questioned in SIGAR's financial audits. These questioned costs represent taxpayer dollars that, if not used to support the reconstruction effort of Afghanistan as intended, should be returned to the U.S. government. While SIGAR acknowledges USAID's authority to determine the allowability and recovery of questioned costs, recent trends in decisions raise some concerns.

Specifically, SIGAR found in several instances that the contracting and agreement officer was providing implementing partners with what seems to be an inordinate amount of time and preference in justifying costs that SIGAR had questioned. After accepting millions of dollars to implement projects and programs on behalf of the U.S. government, implementing partners should be able to provide documentation to support an audit contemporaneously. Allowing implementing partners an inordinate amount of time to substantiate the costs incurred increases the risks that documentation may be falsified.

Inquiry Letter 15-06-SP: Contract Terminations Due to Security Changes

SIGAR wrote to USACE and USAID on October 7, 2014, to request information about a USACE contract with Perini Management Services (Perini) for work pertaining to the Southeast Power System (SEPS) program. SIGAR was informed by a USAID official that a request by Perini for an additional \$30 million to cover security costs may have prompted the termination of the contract. The impact of the Coalition troop drawdown on security and the reconstruction effort in Afghanistan has long been a concern. SIGAR will continue seeking information regarding how increased security costs may lead to the termination of contracts supporting reconstruction programs.

Inquiry Letter 15-08-SP: Disposition of U.S.-Owned Excess Equipment in Afghanistan

SIGAR wrote to DOD on October 14, 2014, to inquire about DOD's ongoing effort to dispose of excess equipment at U.S. military bases in Afghanistan. SIGAR is concerned about recent reports that equipment acquired at a cost of billions to U.S. taxpayers is now being resold to Afghan merchants for a fraction of its original cost. Furthermore, a 2012 GAO report indicated that DOD was unable to fully document how decisions regarding disposal of U.S. equipment in Afghanistan were made. Military services also could

SIGAR'S ONGOING CONCERNS ABOUT \$486 MILLION G222 PROGRAM

On a November 2013 visit to Afghanistan, Special Inspector General Sopko became aware of G222 aircraft abandoned at Kabul International Airport by the Department of Defense (DOD). Afterward, SIGAR's Office of Special Projects initiated a review of the \$486 million G222 program, which was terminated in March 2013 after sustained, serious performance, maintenance, and spare parts problems.

The program to provide 20 G222s to the Afghan Air Force began in 2008. The G222s are twin-propeller military transport aircraft built in Italy. In January 2013, a DOD OIG report indicated that the program office did not properly manage the effort to obtain the spare parts needed to keep the aircraft flight-worthy. The DOD OIG also pointed out that an additional \$200 million of ASFF might have to be spent on spare parts for the aircraft to be operational, and that the G222s only flew 234 of the 4,500 required hours



Abandoned G222s at the Kabul Airport. (SIGAR photo)

from January through September 2012. In March 2013, the G222 program was effectively ended when the announcement was made that the AAF would use an alternative aircraft to meet its long-term medium airlift requirement. Sixteen of the planes were grounded at the Kabul airport, while another four were transported to Ramstein Airbase in Germany.

SIGAR was recently alerted that the Defense Logistics Agency (DLA) had scrapped the 16 aircraft that had been sitting idle at the Kabul International Airport. An Afghan construction company paid approximately six cents per pound for the scrapped planes for a total of

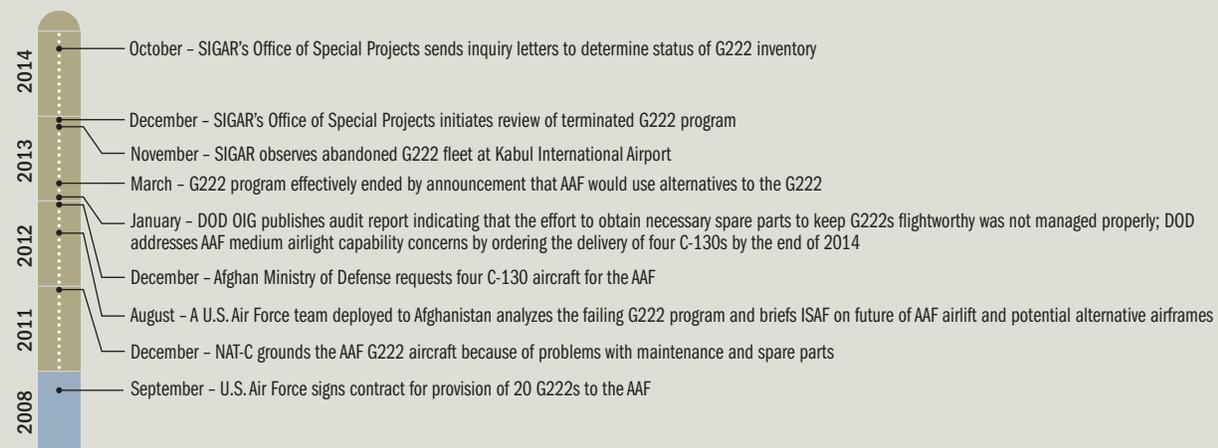


The 16 G222s at Kabul Airport were recently scrapped. (DLA photo)

\$32,000. This is a fraction of the funds expended on the program, and in an inquiry letter sent to the U.S. Air Force this quarter, SIGAR expressed concerns that the officials responsible for planning and executing the scrapping of the planes may not have considered other possible alternatives in order to salvage taxpayer dollars.

DLA has yet to make a final decision regarding the fate of the remaining four G222s in Germany. In another inquiry letter this quarter, SIGAR requested that DOD provide sufficient advance notice of any change in the status of the four remaining G222s to supplement SIGAR's ongoing review of the fleet.

Timeline of Significant Events in the G222 Program



Source: SIGAR SP-19, SIGAR 15-02-SP, and SIGAR 15-04-SP.

not provide cost-benefit analyses used to make the decision to destroy equipment, transfer it to other DOD locations, or transfer it to another U.S. agency or another country.



Communications trucks shipped to Afghanistan in July 2014 still sit covered in tarps and shrinkwrap as of September 2014. (State OIG photo)

Inquiry Letter 15-09-SP: State Department Communication Trucks

On October 15, 2014, SIGAR wrote to Secretary of State John Kerry regarding a State Department contract to purchase mobile television-production trucks for donation to various Afghan television networks. SIGAR is concerned that the trucks were delivered two years late, at an escalated price, and they are sitting under tarps in Kabul, still unused.

Special Report 15-10-SP: Poppy Cultivation in Afghanistan: After a Decade of Reconstruction and Over \$7 Billion in Counternarcotics Efforts, Poppy Cultivation Levels Are at an All-Time High

SIGAR issued a special report on October 14, 2014, to provide SIGAR's analysis of recent trends in opium-poppy cultivation in Afghanistan. According to the United Nations Office on Drugs and Crime (UNODC), Afghan farmers were tending an unprecedented 209,000 hectares of opium poppy in 2013, surpassing the previous peak of 193,000 hectares in 2007.

Affordable deep-well technology has turned 200,000 hectares of desert in southwestern Afghanistan into arable land over the past decade. Due to relatively high opium prices and the rise of an inexpensive, skilled, and mobile labor force, much of this newly arable land is dedicated to opium cultivation. Poppy-growing provinces that were once declared "poppy free" have seen a resurgence in cultivation. Furthermore, the UNODC estimates that the value of opium and derivative products produced in Afghanistan was nearly \$3 billion in 2013, up from \$2 billion in 2012—a 50% increase.

Despite spending over \$7 billion to combat opium-poppy cultivation and to develop the Afghan government's counternarcotics capacity, opium-poppy cultivation levels in Afghanistan hit an all-time high in 2013. With deteriorating security in many parts of rural Afghanistan and low levels of eradication of poppy fields, further increases in cultivation are likely in 2014.

SIGAR remains concerned about these troubling trends, as the narcotics trade poisons the Afghan financial sector and undermines the Afghan state's legitimacy by stoking corruption, sustaining criminal networks, and providing significant financial support to the Taliban and other insurgent groups.

Review 15-14-SP: Direct Assistance: Review of Processes and Controls Used by CSTC-A, State, and USAID

SIGAR reviewed the systems used by DOD, State, and USAID for providing direct assistance to the Afghan government. For this review, SIGAR identified the processes and controls used by each agency to ensure the proper use of

SIGAR OVERSIGHT ACTIVITIES

direct assistance funds. SIGAR found that DOD, State, and USAID provide direct assistance through different processes using the Afghan public financial management and procurement systems. Specifically, DOD's direct assistance funds provided to support the ANA and ANP come from the Afghanistan Security Forces Fund and are disbursed to the Afghan government on quarterly or as required basis and overseen by CSTC-A. State, through its Bureau of International Narcotics and Law Enforcement Affairs, provides direct assistance to the Ministry of Counter Narcotics for the Good Performer's Initiative and Governor-Led Eradication program on cost reimbursement bases. USAID also uses a cost reimbursement method of disbursement to fund its four direct-assistance programs with the Afghan government.

SIGAR also found that agencies have instituted varying levels of controls to help ensure the appropriate use of those funds. Building the Afghan government's capacity to deliver better governance, economic development, and security for the Afghan people through direct assistance has been a priority of U.S. government agencies and international donors for years. However, providing direct assistance to institutionally weak Afghan government ministries remains a concern and requires U.S. agencies to institute a comprehensive control regime and conduct robust oversight to protect those funds from waste, fraud, and abuse.

INVESTIGATIONS

SIGAR investigations resulted in 14 arrests, three indictments, four **criminal informations**, two plea agreements, and one sentencing. Additionally, 24 individuals were barred from U.S. military installations and nine employees were terminated. SIGAR's suspension and debarment program referred 44 individuals and 13 companies for suspension or debarment based on evidence developed from investigations conducted in Afghanistan and the U.S. This marks the largest number of referrals made to date in any quarter since SIGAR initiated its suspension and debarment program. Ongoing SIGAR investigations saved the U.S. government over \$1 million. Criminal fines and restitution amounted to an additional \$25,000. SIGAR's investigations this quarter have brought the total U.S. Government savings to over \$500 million representing a significant milestone. SIGAR initiated 36 new investigations and closed 33, bringing the total number of ongoing investigations to 322, as shown in Figure 2.1.

Money Laundering Investigation Results in Conviction and Sentencing

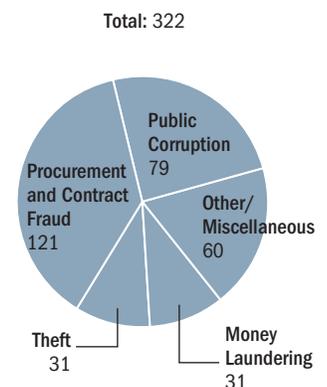
On July 16, 2014, in the Western District of Tennessee, Jerry Wayne Dennis pled guilty to a one-count criminal information for money laundering. Dennis was released on a personal-recognition bond pending his sentencing, scheduled for November 20, 2014.

Criminal Information: a written accusation made by a public prosecutor, without the participation of a grand jury. The function of a criminal 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 his being tried again for the same offense.

Source: *Black's Law Dictionary*.

FIGURE 2.1

SIGAR INVESTIGATIONS: NUMBER OF OPEN INVESTIGATIONS, AS OF SEPTEMBER 30, 2014



Source: SIGAR Investigations Directorate, 10/7/2014.

SIGAR OVERSIGHT ACTIVITIES

On September 8, 2014, in the Eastern District of Tennessee, James C. Pittman was sentenced to 12 months' incarceration, followed by one year of supervised release for money laundering. Pittman also satisfied a \$25,000 forfeiture order.

The investigation of James Pittman, Jerry Dennis, and Jimmy Dennis (who pled guilty in May 2014) focused on Afghan contractors bribing the three U.S. military members in return for government contracts associated with the Bagram Airfield Humanitarian Aid Yard (HA Yard). The HA Yard functions as storage for large quantities of clothing, food, school supplies, and other items available to military units, in support of humanitarian aid for the Afghan people.

U.S. Military Members Prosecuted Following Embezzlement Scheme

On June 30, 2014, U.S. Army Sergeant First Class (SFC) Cleo Autry and U.S. Army SFC Deric Harper were arrested at Fort Bragg Army Base in Fayetteville, NC. The subjects were transported to the U.S. Federal Courthouse in the Eastern District of North Carolina and on July 1, 2014, were subsequently arraigned on one count of theft of government property and one count of conspiracy to defraud.

On July 1, 2014, William Todd Chamberlain, retired from U.S. Army, turned himself in at the U.S. Federal Courthouse in the Eastern District of North Carolina. He was arraigned on one count of theft of government property and one count of conspiracy to defraud.

On July 7, 2014, in the Eastern District of North Carolina, a criminal information was filed against U.S. Army SFC Jeffrey Arthur Cook for conspiracy to defraud.

On September 8, 2014, U.S. Army SFC Barry Lee Walls appeared before a federal judge in the Eastern District of North Carolina and pled guilty to a criminal information filed July 7, 2014, for conspiracy in an illegal scheme to embezzle funds. His sentencing is scheduled for December 9, 2014.

Between October 2008 and April 2012, the subjects of the investigation were deployed with the Special Forces Group under the Combined Joint Special Operations Task Force (CJSOTF) at Forward Operating Base (FOB) Jalalabad, Afghanistan. During their deployment, they conspired to embezzle funds from the Commanders Emergency Response Fund and from Army "1208" funds used by Special Forces Groups to support counterterrorism operations. Over time, they stole cash, purchased a substantial number of \$1,000 money orders, and sent the funds to their spouses, to electronic bank accounts, or to various vendors.

Former U.S. Military Member Charged for Fuel Theft Scheme

On August 25, 2014, a criminal information was filed against former U.S. Army Specialist Alexander Swim in the Eastern District of North Carolina.

Swim was charged with one count of theft and conversion of public property, and aiding and abetting.

From January 2012 until October 2012, Swim was deployed to Afghanistan under the command of CJSOTF at FOB Sharana. During his deployment, Swim served as an advanced operating-base mechanic with responsibility for overseeing the maintenance of vehicles and the distribution of fuel to special-operations forces. On multiple occasions during his deployment, Swim participated in a conspiracy to steal government-appropriated fuel from FOB Sharana by escorting Afghan national-operated fuel trucks on and off the installation. Because of these actions, the U.S. government suffered a loss of over \$400,000 in fuel.

Nine Arrested for Theft of Containers

Nine Pakistani nationals were arrested for theft on April 16, 2014, and nearly \$260,000 in U.S. government property was recovered.

Seven Maersk containers were stolen in transit from Pakistan to Bagram Air Field (BAF). The truck drivers were arrested just outside BAF and the containers were temporarily taken into the custody of the Bagram police department. It was determined that four of the containers belonged to the U.S. Transportation Command and three belonged to Army and Air Force Exchange Service. A subsequent inventory of the containers accounted for all items and confirmed their combined value to be nearly \$260,000.

On August 11, 2014, the ANP, Parwan Province, confirmed the arrest of the seven truck drivers, the company's administrative assistant, and another company employee. Based on the investigative effort, U.S. Army Colonel Stephanie Gradford, the garrison commander at BAF, issued **barment letters** to four of the drivers, which permanently ban them from all U.S. installations in Afghanistan.

Barment Letter: the administrative record presented to the person(s) prohibited from accessing any USFOR-A or ISAF facility in Afghanistan on the basis of activity that is criminal in nature or detrimental to good order and discipline. Exclusion from military installations via barment does not prevent the award of contracts.

Source: SIGAR Investigations Directorate.

Afghan Truck Drivers Arrested for Fuel Theft Scheme

Three Afghans involved in an elaborate fuel-theft scheme at BAF were arrested; the recovered fuel was valued at approximately \$76,000. In addition, four Afghan fuel trucks valued at \$81,500 were seized and turned over to Parwan officials.

On August 2, 2014, U.S. Army Chief Warrant Officer Brett Nelson, who serves as the responsible officer at the Defense Logistics Agency (DLA), reported to SIGAR that two truck drivers had utilized fraudulent documents in an attempt to steal fuel from the entry-control point at BAF.

Nelson noticed two sets of fraudulent documents utilized by Afghan drivers to upload and transfer fuel under the National Afghan Trucking contract. The fraudulent documents were duplicates of legitimate Transportation Movement Requests (TMRs) to upload trucks with 5,000 gallons of fuel. Prior to Nelson's discovery, one driver had successfully uploaded 5,000 gallons of fuel into his truck but had not yet departed.

Nelson was able to contact the fuel-upload site and cancel the upload on the second truck. Subsequently, SIGAR and the Defense Criminal Investigative Service seized both trucks and detained the drivers and a coconspirator. Parwan and Bagram law-enforcement personnel arrested and transported the subjects to the local detention center.

A SIGAR audit of DLA records for the months of May through July 2014 confirmed the theft of approximately 90,000 gallons of fuel, with a value of \$1.3 million, utilizing fraudulent TMRs. To date, 10 Afghan truck drivers were identified as having participated in the theft; barment letters were issued for each.

Contract Employee Pleads Guilty

On July 30, 2014, in Tucson, Arizona, Robert Bertolini pled guilty to one count of conspiracy to commit wire fraud and receive an illegal kickback. Bertolini also agreed to forfeit \$59,975, the sum of money involved in the crime. His sentencing is scheduled for October 27, 2014.

In December 2010, the U.S. Army Corps of Engineers awarded a contract to Lakeshore Engineering Services Inc. (Lakeshore) to design and construct FOB Rocco for the ANA in Kabul, Afghanistan. In March of 2011, Lakeshore awarded Shams Group International (Shams) a subcontract to provide materials, design services, equipment, labor and other subcontractor services for the FOB Rocco project. In January 2010, Lakeshore hired Bertolini to be the project manager for the FOB Rocco project. In May of 2011, Bertolini approved two modifications to Lakeshore's contract with Shams. The adjustment, which Lakeshore did not authorize, increased the project cost by nearly \$1.7 million. In return for the two modifications, Shams wired \$59,975 to an Ohio bank account belonging to Bertolini's son.

Contractor Employee Arrested for Fraud

On July 6, 2014, the ANP arrested an Afghan employee of a USAID contractor, Maruf Lalzada, with assistance from SIGAR.

Chemonics, a contractor for a USAID-funded project, conducted an internal investigation of Lalzada. The investigation was based upon complaints lodged by other Chemonics employees that Lalzada had submitted false claims to Chemonics that overstated wages paid to Afghan workers, as well as claims related to "ghost" workers. His fraudulent activity resulted in an \$8,342 loss. The matter was referred to the Afghan Attorney General's Office (AGO) and after several attempts, Lalzada was arrested. After the arrest, Lalzada attempted to flee while being transported to an ANP station, but was apprehended by the ANP.

The AGO will provide future updates pertaining to Lalzada's prosecution.

\$150,000 Recovered from SIGAR Investigation

The Legal Aid Organization of Afghanistan (LAOA) was awarded a sub-grant from International Development Law Organization (IDLO), under an INL grant for justice-sector improvement in Afghanistan. A complainant reported to SIGAR that LAOA management was overcharging for expenses under the subgrant by generating fake invoices and presenting them to IDLO for reimbursement.

The investigation, along with an independent audit, confirmed allegations that funds had been misappropriated. On August 3, 2014, LAOA reimbursed IDLO \$150,000.

Fuel Theft Scheme Thwarted

SIGAR initiated an investigation in March 2014, after receiving information that excess fuel was being uploaded into trucks at BAF and subsequently removed and sold in the Afghan market.

When a truck was identified as having excess fuel, a series of interviews and interrogations ensued. During one interrogation, an Afghan national employee of Fluor International confessed to conspiracy to steal fuel. He implicated six other Afghan nationals and an Indian national, all Fluor employees. The individuals were subsequently terminated from employment and barred permanently from all U.S. military installations.

During the investigation it was discovered that bypass valves had been utilized to allow excess fuel to be uploaded without ever passing through a meter. Based on these findings, the Defense Contract Management Agency issued a letter of technical direction to Fluor demanding all bypass valves be disconnected. Additionally, the investigation recovered 1,350 gallons of fuel valued at approximately \$20,000.

An audit of DLA and Fluor fuel records covering the previous five-month period revealed that approximately 240,000 gallons fuel could not be accounted for. The value of the missing fuel is approximately \$2.4 million.

Undercover Operation Resulted in Three Arrests

An undercover operation at BAF resulted in the arrest of three Afghans, nine barmarts from U.S. military installations, and the suspension of a business.

On September 30, 2014, members of the International Contract Corruption Task Force (ICCTF) debriefed a third-country national (TCN) regarding his knowledge of criminal misconduct occurring at BAF. The information provided by the TCN pertained to small equipment theft as well as major fraud and corruption involving U.S. personnel. Among potential targets he identified was Aziz Abdulaziz, the owner of Aziz Restaurant and a bazaar, who was allegedly engaging in various criminal schemes on BAF, including vehicle thefts. The TCN advised that on previous occasions Aziz had approached him about obtaining stolen vehicles.



Cash seized from the Afghan owner of a restaurant on a U.S. base was delivered to the ANP in Parwan Province. (U.S. Army CID photo)

SIGAR OVERSIGHT ACTIVITIES



SIGAR special agents, with CID and DCIS agents, deliver cash seized from Aziz to members of the ANP in Parwan Province. (U.S. Army Photo)

Based on the information, the ICCTF initiated an undercover reverse operation during which a special agent acting in an undercover capacity would consummate the sale of a purported stolen vehicle to Aziz. The TCN telephoned Aziz and informed him of someone working at BAF who had a vehicle he wanted to sell. Aziz advised the TCN he would buy the vehicle for \$2,700. Subsequently, Aziz met the TCN and undercover special agent and paid \$2,500 for what he believed was a stolen government vehicle. Subsequent to the money exchange, members of the ICCTF detained Aziz and seized an additional \$15,813 he was carrying. Two other Aziz Restaurant employees who had accompanied Aziz were also apprehended, interrogated, and released to Afghan authorities.

As a result of the operation, it was disclosed that Aziz possessed a Bagram Access Memorandum which allowed him to move freely on and off base to deliver foodstuffs to his restaurant. Aziz had the memorandum in his possession when apprehended and his apparent intention was to use it to remove the stolen vehicle from BAF. At a follow-up meeting with the U.S. Forces-Afghanistan Director of Emergency Services/Program Management Office, the director advised he will brief the BAF garrison commander and

SIGAR and FBI Sign Memorandum of Understanding to Share Terrorist Identity Information

On October 3, SIGAR's Deputy Inspector General and Assistant Inspector General for Investigations, along with Investigations Directorate staff, met with the Federal Bureau of Investigation's (FBI) director of the Terrorist Screening Center (TSC), Christopher M. Piehota, and members of his staff. SIGAR and the FBI signed a Memorandum of Understanding (MOU) that will significantly enhance the U.S. government's counterterrorism efforts by preventing known or suspected terrorists from participating in or threatening Afghan reconstruction programs.

Since February 2014, SIGAR's Investigations Directorate has been working with the FBI's TSC to develop this MOU to enable information sharing between SIGAR's Investigations Case Management System (ICMS) and the Terrorist Screening Database (TSDB). The purpose of the MOU is to ensure that data gathered about individuals and companies that are the subjects of criminal investigations in Afghanistan is preserved and made available to relevant agencies tasked with vendor vetting, preventing threat finance, targeting international money laundering, issuing visas and other travel documents, as well as other governmental functions that utilize access to the TSDB. In addition, the MOU will allow SIGAR to screen individuals that it encounters as part of its investigative activities to

determine whether they have provided support to Afghan insurgent groups, narco-trafficking groups, or are affiliated with al-Qaeda and its subordinate organizations.



On October 3, SIGAR Deputy Inspector General Gene Aloise (seated right), FBI Terrorist Screening Center Director Christopher Piehota (seated left), and members of their staffs signed a memorandum of understanding (MOU) on sharing information to prevent known or suspected terrorists from participating in or threatening Afghan reconstruction programs. Douglas Domin, SIGAR Assistant IG for Investigations (standing fourth from left), helped negotiate the MOU. (FBI photo)

SIGAR OVERSIGHT ACTIVITIES

recommend Aziz and all nine employees be barred from all U.S. military facilities and that the restaurant operations be suspended.

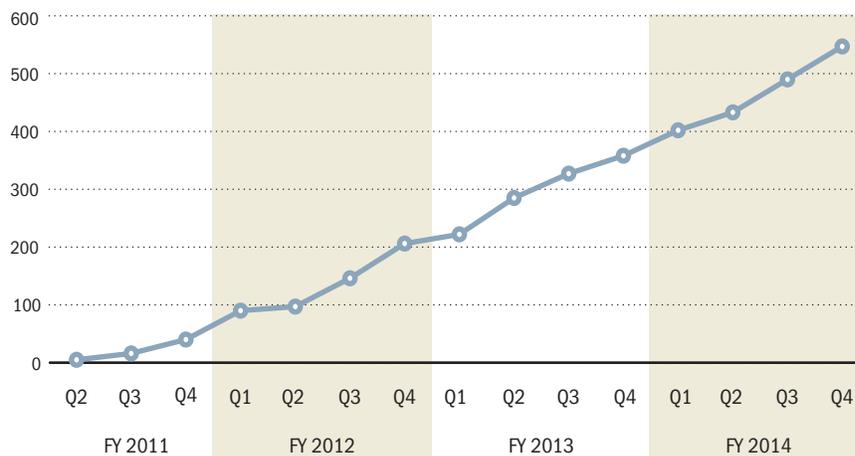
Suspensions and Debarments

This quarter, SIGAR's suspension and debarment program referred 44 individuals and 13 companies for suspension or debarment based on evidence developed as part of investigations conducted by SIGAR in Afghanistan and the United States. Of these 57 contractors, five individuals and six companies were referred for suspension or debarment based on allegations that they engaged in fraud and nonperformance as part of contracts valued at \$398,445,878. Eight other individuals were referred for suspension based upon criminal convictions resulting from SIGAR investigations into the theft of fuel from U.S. installations in Afghanistan. These referrals bring the total number of individuals and companies referred by SIGAR since 2008 to 547 encompassing 292 individuals and 255 companies to date, as shown in Figure 2.2.

As of the end of June 2014, SIGAR's efforts to utilize suspension and debarment to address fraud, corruption, and poor performance in Afghanistan have resulted in a total of 84 suspensions and 218 finalized debarments of individuals and companies engaged in U.S.-funded reconstruction projects. An additional seven individuals and companies have entered into administrative-compliance agreements with the government in lieu of exclusion from contracting.

FIGURE 2.2

SIGAR INVESTIGATIONS: CUMULATIVE REFERRALS FOR SUSPENSION AND DEBARMENT, Q2 FY 2011-Q4 FY 2014



Source: SIGAR Investigations Directorate, 10/7/2014.

SIGAR OVERSIGHT ACTIVITIES

Suspensions and debarments are an important tool for ensuring that 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 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 government's responses to these challenges through the innovative use of information resources and investigative assets both in Afghanistan and the United States.

SIGAR makes referrals for suspensions and debarments—actions taken by U.S. agencies to exclude companies or individuals from receiving federal contracts or assistance because of misconduct—based on completed investigations in which SIGAR participates. In most cases, SIGAR's referrals occur in the absence of acceptance of an allegation for criminal prosecution or remedial action by a contracting office, and are therefore the primary remedy to address contractor misconduct. In making referrals to agencies, SIGAR provides the basis for a suspension or debarment decision by the agency 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. Based on the evolving nature of the contracting environment in Afghanistan and the available evidence of contractor misconduct and/or poor performance, on occasion SIGAR has found it necessary to refer individuals or companies multiple times for consideration by agency suspension and debarment officials.

SIGAR's emphasis on suspension and debarment is illustrated by the fact that of the 547 referrals for suspension and debarment that have been made by the agency to date, 461 have been made since the second quarter of 2011. During the 12-month period prior to October 1, 2014, referrals by SIGAR's suspension and debarment program resulted in the exclusion of 237 individuals and companies from contracting with the government. SIGAR's referrals over this period represent allegations of theft, fraud, poor performance, financial support to insurgents, and mismanagement as part of reconstruction contracts valued at approximately \$938,908,042.

Debarment of 15 Companies and Individuals in Connection with the Fraudulent Award of \$53.5 Million in Afghan National Army Training Contracts

During the previous quarter, referrals from SIGAR's suspension and debarment program resulted in debarment of U.S. Army Lieutenant Colonel David Andrew Young, Christopher Harris of the American International Security Corporation, and 12 other affiliated companies and individuals. The debarments were based on the fraudulent award of five contracts in 2007 for the training of ANA commandos regarding the management of supplies and

equipment stocks provided as part of reconstruction effort, collectively valued at approximately \$53.5 million.

Specifically, in exchange for the provision of procurement-sensitive information, Young and multiple companies affiliated with him were paid kickbacks of approximately \$9.4 million by American International Security Corporation via the company's country manager, Harris. On December 13, 2013, Young's guilty plea in the U.S. District Court for the District of Utah to violation of the Procurement Integrity Act and money laundering was accepted and he was sentenced to 42 months confinement. On December 9, 2013, also in the U.S. District Court for the District of Utah, Harris pled guilty to conspiracy to commit government procurement fraud and conspiracy to commit money laundering and was sentenced to 24 months' confinement.

Based on this conviction the Army suspension and debarment official debarred Young, American International Security Corporation, and 12 other affiliated companies and individuals for a period of six years and four months, ending on December 13, 2020. Harris was also debarred for a period of five years, ending on June 23, 2019.

Proposed Debarment of 22 Individuals Participating in Fraudulent Linguist Certification Testing

During the previous quarter, the efforts of SIGAR's investigators and its suspension and debarment program resulted in proposed debarment of 22 individuals due to the discovery of a fraudulent test-taking scheme designed to process unqualified linguists for deployment to Afghanistan under the U.S. Army's linguist contract. Specifically, the evidence revealed that linguist recruiters working for FedSys Inc., a subcontractor to Mission Essential Personnel LLC, hired test takers to take and pass the oral proficiency language test for new linguists in order to advance them to Mission Essential Personnel's pre-deployment processing center. To perpetrate the scheme, recruiters provided test takers with the personal information of prospective linguists, allowing them to take the oral-proficiency language test on their behalf. Following the receipt of a passing score, the actual prospective linguists would be deployed to Afghanistan as part of the contract. The scheme was discovered by FedSys and Mission Essential Personnel in June 2012, and was disclosed to the government at that time. Based upon the initial allegations in SIGAR's referral and research by the Army Procurement Fraud Branch, the Army proposed all 22 individuals for debarment on September 17, 2014, resulting in their exclusion from contracting. A final debarment decision on this matter is currently pending with the Army.

OTHER SIGAR OVERSIGHT ACTIVITIES THIS QUARTER

SIGAR Recognized with Five CIGIE Awards

As part of its 17th annual inspector-general community awards ceremony, the Council of the Inspectors General on Integrity and Efficiency (CIGIE) presented SIGAR with five awards—the most SIGAR has ever received.

Special Agent Jeffrey Millslagle accepted the Sentner Award for Dedication and Courage (see box below). The SIGAR team who contributed to the publication of SIGAR Audit 13-8, *Taxes: Afghan Government Has Levied Nearly a Billion Dollars in Business Taxes on Contractors Supporting U.S. Government Efforts in Afghanistan*, accepted the Award for Excellence-Audit. The team who contributed to the publication of SIGAR Audit 13-13, *Afghan Special Mission Wing: DOD Moving Forward with \$771.8 Million Purchase of Aircraft that the Afghans Cannot Operate and Maintain*, also accepted the Award for Excellence-Audit. SIGAR's Suspension and Debarment team received the Award for Excellence-Special Act in recognition of excellence in developing and implementing a comprehensive suspension and debarment program, resulting in hundreds of referrals and debarments over a three-year period. The Research and Analysis Directorate also received the Award for Excellence-Special Act recognizing their quarterly reports, which provide the comprehensive data and timely analysis needed by Congress to oversee Afghan reconstruction.

Special Agent Jeffrey Millslagle Receives CIGIE Award

SIGAR Special Agent Jeffrey Millslagle received the Sentner Award for Dedication and Courage in recognition of the courage, uncommon selflessness, and dedication to duty he displayed during an insurgent attack on the Herat Consulate in September 2013. The blast killed several guards and heavily damaged the consulate. After the explosion, a group of armed insurgents tried to storm the compound. Millslagle immediately jumped into action to help the Regional Security Officer. He 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 held a weapons position covering the blown-open entrance to the consulate.



SIGAR Special Agent Jeffrey Millslagle boards a helicopter after conducting an armed sweep of the Herat Consulate. (U.S. government photo)

Deputy Inspector General Aloise Speaks at CIGIE Federal Audit Executive Council Annual Conference

In September, Deputy IG Aloise spoke in Alexandria, Virginia, at the CIGIE annual Federal Audit Executive Council Conference. Aloise highlighted the aspects of SIGAR that are unique, including a temporary but broad-reaching mission, and the fact that the agency is truly independent of any other federal agency. The temporary nature of SIGAR, Aloise explained, has encouraged the agency to adopt an innovative approach to oversight, including initiatives like the Office of Special Projects, which quickly issues letters and reports and letters, not bound by GAGAS, to help decision-makers enact changes before additional damage occurs. Other innovative methods include working to seize assets held in Afghanistan, using international firms to conduct financial audits of reconstruction contractors, and making numerous referrals for suspension and debarment of bad actors and poor performers. Aloise also emphasized SIGAR's commitment to transparency, and its strategy of pursuing publicity to increase the positive impact of the agency's reports. Finally, the speech discussed SIGAR's role in the future of Afghan reconstruction, noting that there is still much oversight work to be done to protect taxpayers' investment.

Inspector General Sopko Speaks at Georgetown University

Special Inspector General Sopko spoke in September at Georgetown University about the lessons SIGAR has learned from Afghanistan. The speech provided background on the massive reconstruction effort in



In September, Special Inspector General Sopko spoke at Georgetown University. (Georgetown University photo)

SIGAR OVERSIGHT ACTIVITIES

Afghanistan, and discussed SIGAR's mission and structure. Sopko also articulated three major inter-agency challenges that are crucial for reconstruction success: sustainability, corruption, and narcotics trafficking. Additionally, the speech highlighted why oversight must be mission critical, explained SIGAR's approach to oversight and publicity, and discussed how to improve the reconstruction effort.

SIGAR Participates in Annual Afghan Arts and Culture Festival

On October 12, 2014, SIGAR participated in the annual Afghan Arts and Culture Festival held in Rosslyn, Virginia. SIGAR hosted a booth featuring SIGAR publications and handouts in Dari and English. SIGAR personnel manned the booth and provided information to attendees, including handouts featuring Hotline and Facebook contact information for SIGAR. Many of the event's 2,500 to 3,000 attendees stopped by the SIGAR booth. Investigative Analyst Shokoor Siddiqi was interviewed by the Voice of America and explained SIGAR's mission and the benefit of having SIGAR attend the festival.



SIGAR staff participate in the annual Afghan arts and culture festival in Virginia on October 12. (SIGAR photo by Jamol Brathwaite)

SIGAR OVERSIGHT ACTIVITIES

SIGAR BUDGET

SIGAR received a budget of \$49.65 million for FY 2014 in the Consolidated Appropriations Act from Congress. The budget supports SIGAR's oversight activities and products by funding SIGAR's five directorates: (1) Audits and Inspections, (2) Special Projects, (3) Investigations, (4) Management and Support, and (5) Research and Analysis.

SIGAR STAFF

SIGAR staff remained steady since its last report to Congress with 197 employees on board at the end of the quarter. At the end of the quarter, there were 29 employees at the U.S. Embassy Kabul and eight other employees in Afghan locations outside the U.S. Embassy. SIGAR staff members were stationed at four locations across the country, including Kandahar and Bagram airfields, Mazar-e-Sharif, and the U.S. Embassy Kabul. SIGAR employed three local Afghans in its Kabul office to support the Investigations and Audits directorates. In addition, SIGAR supports its work with staff assigned to short-term temporary duty in Afghanistan. This quarter, SIGAR had 14 employees on temporary duty in Afghanistan for a total of 165 days.

“As Afghanistan enters this new chapter in its history, the United States looks forward to deepening its enduring partnership with a sovereign, unified, and democratic Afghanistan.”

—*U.S. Secretary of State John Kerry*