

2 SIGAR OVERSIGHT



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U.S. taxpayers paid nearly \$500,000 to build a dry-fire training facility, or one that does not use live ammunition, for Afghan police in Wardak Province. It is being rebuilt because the original started disintegrating four months after it was finished. (National Police Training Center photo)

SIGAR OVERSIGHT ACTIVITIES

This quarter SIGAR issued 17 audits, inspections, alert letters, and other reports. SIGAR recovered a record \$53.7 million for the U.S. government through Civil Settlement Agreement payments, and saved the government another \$12 million through its investigative work. This quarter SIGAR also published its first High-Risk List and announced the creation of its Lessons Learned Program (LLP) to expand oversight of U.S. reconstruction funds.

In SIGAR's audit work this quarter, one performance audit found that although the Departments of Defense (DOD) and State and the U.S. Agency for International Development (USAID) reported gains and improvements in the status of Afghan women in fiscal years 2011 through 2013, there was no comprehensive assessment available to confirm that these gains were the direct result of specific U.S. efforts.

A second performance audit found that more than \$300 million in annual U.S. government funding for Afghan National Police (ANP) salaries is based on partially verified or reconciled personnel and payroll data. The MOI does not have sufficient controls in place to ensure that this data is accurate and that ANP personnel are receiving their intended salaries, increasing the risk that U.S. funding for salaries could be wasted or abused.

A third performance audit determined that DOD implemented more than 75% of SIGAR's 209 recommendations in a timely, successful manner, reducing the risk of waste, fraud, and abuse of Afghan reconstruction funds.

This quarter, SIGAR's financial audits identified nearly \$23.6 million in questioned costs as a result of internal-control deficiencies and noncompliance issues. To date, SIGAR's financial audits have identified more than \$106.7 million in questioned costs and \$198,368 in unremitted interest on advanced federal funds. Agencies have issued bills for collection for 21 of the completed audits in order to recover more than \$8.5 million in questioned amounts.

SIGAR published one inspection report on Phase II of the Afghan National Army (ANA) Camp Commando, which found that the generators were not synchronized and could only provide about 25% of the planned total power output; the fuel pumps at the fuel point had not been used; and the dining facility was built for 280 Afghan soldiers but was handling 1,600 soldiers. In that report, SIGAR expresses concern that the U.S. government issued a

AUDIT ALERT LETTER

- Audit Alert Letter 14-15-AL: TFBSO Pipeline

COMPLETED PERFORMANCE AUDITS

- Audit 15-24-AR: Progress on Programs Benefitting Afghan Women
- Audit 15-26-AR: Salary Payments to Afghan National Police
- Audit 15-29-AR: Status of SIGAR's Recommendations to DOD

COMPLETED FINANCIAL AUDITS

- Financial Audit 15-13-FA: Audit of Costs Incurred by Sayed Majidi Architecture and Design
- Financial Audit 15-16-FA: Audit of Costs Incurred by Private Agencies Collaborating Together, Inc.
- Financial Audit 15-19-FA: Audit of Costs Incurred by Cetena Group
- Financial Audit 15-20-FA: Audit of Costs Incurred by International Resource Group
- Financial Audit 15-22-FA: Audit of Costs Incurred by Pacific Architects and Engineers, Inc.
- Financial Audit 15-28-FA: Audit of Costs Incurred by ARD, Inc.

COMPLETED INSPECTIONS

- Inspection 15-25-IP: ANA Camp Commando Phase II
- Inspection 15-27-IP: Dry Fire Range

COMPLETED SPECIAL PROJECT PRODUCTS

- Special Project 15-17-SP: Response to USAID's Questioned Costs Response
- Special Project 15-18-SP: Light Air Support Aircraft Program
- Special Project 15-21-SP: State Public Affairs Section Grants
- Special Project 15-23-SP: TFBSO Operations

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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.

new contract that includes \$2.1 million to repair the power plant's electrical system, including replacing the original master control panel, which the U.S. Army Corps of Engineers stated was damaged by the ANA making an improper and unauthorized connection to a transformer, and repairing and synchronizing the generators to allow for parallel operation—all initially part of the Phase II work. In addition, even though the fuel point constructed in Phase II—at a cost of \$332,000—has never been fully used as intended, a second, larger fuel point was built by a new contractor under Phase III at a cost of approximately \$1 million. A second inspection report found that a dry-fire range built at a cost of nearly half a million dollars to the U.S. government disintegrated four months after construction was completed due to poor contractor performance and a lack of government oversight.

SIGAR's Office of Special Projects wrote inquiry letters to USAID, DOD, and the State Department to express concerns about decisions in which questioned costs were not fully recovered, the potential for training and maintenance problems with a Light Air Support aircraft program, a dramatic increase in State's public affairs grants, and allegations of mispending and mismanagement at TFBSO. Due to DynCorp International's prolonged failure to respond to a Special Project inquiry letter, SIGAR issued a subpoena this quarter. Subsequently, DynCorp produced the requested documents and promised continued cooperation.

SIGAR also announced the creation of its new Lessons Learned Program (LLP). The LLP will conduct a comprehensive analysis of the reconstruction effort in Afghanistan from 2001 onwards to identify best practices and lessons to help address systemic issues facing U.S. reconstruction efforts in Afghanistan. The LLP is a central component of SIGAR's legislative mandate to inform the Secretaries of State and Defense about: (1) problems and deficiencies relating to the reconstruction, and (2) the need for corrective actions. It also complements SIGAR's 2014–2016 strategic plan to provide recommendations and assistance to help stakeholders address systemic problems facing U.S.-funded reconstruction effort.

SIGAR published a High-Risk List this quarter to draw attention to program areas and elements of the U.S.-funded reconstruction effort in Afghanistan that are especially vulnerable to significant waste, fraud, and abuse.

During the reporting period, SIGAR recovered \$53.7 million for the U.S. government from Civil Settlement Agreement payments. SIGAR investigations saved the U.S. government more than \$12 million. Criminal investigations resulted in five arrests, six indictments, six convictions, a sentencing, the discharge of a U.S. military member and \$105,000 in fines, restitution, and forfeitures. In Afghanistan, 10 individuals were barred from U.S. military installations. SIGAR initiated 38 new investigations and closed 34, bringing the total number of ongoing investigations to 328. Savings to date from SIGAR investigations total over \$570 million. SIGAR's suspension

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and debarment program referred 12 individuals and five companies for suspension or debarment. Seven of these individuals were referred for suspension based upon criminal charges being filed against them for misconduct related to or affecting reconstruction contracting in Afghanistan. These referrals bring the total number of individuals and companies referred by SIGAR since 2008 to 564—encompassing 304 individuals and 260 companies to date.

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 three performance audits, two inspections, six financial-audit reports, and one audit alert letter. This quarter SIGAR also began four new performance audits, bringing the total number of ongoing performance audits to 13. The published performance-audit reports examined DOD, State, and USAID progress in implementing funding and efforts to support Afghan women; the risks to \$300 million in annual U.S. government payments to ANP salaries; and the status of SIGAR's recommendations to DOD. The performance audits made a total of eight recommendations; the inspections made six. The financial audits identified nearly \$23.6 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 a natural-gas pipeline repaired in part by TFBSO.

Audit Alert Letter 15-15-AL: TFBSO Pipeline

On November 3, SIGAR wrote to DOD regarding the safety of a natural gas pipeline in northern Afghanistan, which TFBSO helped repair. During the course of a SIGAR audit of U.S. efforts to develop Afghanistan's extractive industries, SIGAR was informed that the Sheberghan-Mazar pipeline had suffered years of corrosion and had been operating at low pressure between 2004 and 2011. Since 2011, TFBSO had been engaged in an initiative to rehabilitate the 89.1 km pipeline, but the project was not yet completed before TFBSO ceased its work in Afghanistan on November 21, 2014.

AUDIT ALERT LETTER

· Audit Alert Letter 14-15-AL: TFBSO Pipeline

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The Mazar-Sheberghahn pipeline was rehabilitated with the assistance of TFBSO. (GIROA photo)

A June 2004 report by Sofregaz, a France-based engineering company specializing in natural gas, presented the results of its evaluation of Afghanistan's gas transmission and distribution infrastructure. Sofregaz's report noted high leakage rates along the Sheberghan-Mazar pipeline resulting from "corrosion, poor design, low quality welding and a lack of proper pipe supports." According to Sofregaz, these deficiencies created the conditions for catastrophic failure, although the report noted that the danger of this happening was mitigated by the pipeline's low operating pressure. The Sofregaz report recommended an assessment of the Sheberghan-Mazar pipeline to identify the level of leakage and the condition of the pipeline, as well as the development of a repair policy and the replacement of heavily affected sections.

TFBSO analyzed data collected by Afghan Gas Enterprise (AGE) engineers to determine the extent of pipeline corrosion. While TFBSO determined that eventual replacement was warranted, they opted to procure only 15 km of pipe, which AGE would replace. However, AGE had connected only 12 km of the 15 km before TFBSO ceased field operations.

USAID and U.S. Embassy Kabul officials have expressed reservations about the rehabilitation project, pointing out that only a small number of discrete sites on the pipeline were tested for corrosion. Furthermore, there is concern that AGE lacks the capacity to complete the remaining 3 km replacement, incrementally increase pressure while checking for leakages, and perform future maintenance without continued support and guidance, concerns echoed by SIGAR.

According to TFBSO's response to these concerns, the 12 km of the pipeline that it replaced accounted for the majority of the leaks, and TFBSO notes that it successfully assisted the AGE in tying in two sections of pipeline with the AGE independently tying in four of five remaining sections. However, the final section has yet to be tied in because of security concerns and the departure of security forces from the area. Although TFBSO's response details a variety of capacity-building efforts, SIGAR remains concerned about the AGE's ability to properly survey the pipeline. TFBSO states in its response that the "entire 89.1 kilometer of pipeline is regularly surveyed for leaks by the AGE through direct assessment methods." However, TFBSO's response goes on to state that there are insecure areas that prevent AGE from conducting leakage surveys. Despite this, TFBSO expects AGE to survey the pipeline "as necessary and as security conditions allow." Regardless of the reason, AGE's inability to fully inspect the pipeline is cause for concern.

Performance Audit Reports Published

This quarter SIGAR published three performance audits that examined DOD, State, and USAID progress in implementing funding and efforts to support Afghan women; the risks to \$300 million in annual U.S.

COMPLETED PERFORMANCE AUDITS

- Audit 15-24-AR: Afghan Women: Comprehensive Assessments Needed to Determine and Measure DOD, State, and USAID Progress
- Audit 15-26-AR: Afghan National Police: More than \$300 Million in Annual, U.S.-Funded Salary Payments Is Based on Partially Verified or Reconciled Data
- Audit 15-29-AR: Department of Defense: More than 75% of All SIGAR Audit and Inspection Report Recommendations Have Been Implemented

government payments to ANP salaries; and the status of SIGAR's recommendations to DOD.

Audit 15-24-AR: Afghan Women

Comprehensive Assessments Needed to Determine and Measure DOD, State, and USAID Progress

Since 2001, the U.S. government has made improving the lives of Afghan women and girls a priority and has solidified its commitment through the U.S. Embassy Kabul Gender Strategy; funding designated for Afghan women; and programming to support this vulnerable group. However, despite reported improvements in conditions for Afghan women, U.S. agencies, the Congress, nongovernmental organizations, and members of Afghan civil society have expressed concerns that Afghan women still face challenges and that gains made since 2001 may be difficult to sustain.

This audit followed up on SIGAR's 2010 report on U.S. funding designated for Afghan women. Its objectives were to (1) evaluate the extent to which DOD, State, and USAID can identify and track U.S. funding and efforts to support Afghan women implemented from fiscal years 2011 through 2013; (2) determine the extent to which U.S. agency coordination has improved since SIGAR's 2010 report; and (3) evaluate the extent to which DOD, State, and USAID have assessed the overall impact of their efforts to support Afghan women, and are prepared to do so beyond 2014, in view of current and future challenges.

Although DOD, State, and USAID reported gains and improvements in the status of Afghan women in fiscal years 2011 through 2013, SIGAR found that there was no comprehensive assessment available to confirm that these gains were the direct result of specific U.S. efforts. Further, although the agencies monitor and evaluate most of their individual efforts at the program or project-level, none of the agencies has compiled this information into an agency-level assessment of the impact these efforts have had on the lives of Afghan women, in accordance with best practices in managing and assessing government programs, and as called for in the 2011 United States National Action Plan for Women, Peace, and Security, and the 2012 U.S. Embassy Kabul Gender Strategy.

Together, DOD, State, and USAID reported spending at least \$64.8 million on 652 projects, programs, and initiatives to support Afghan women in fiscal years 2011 through 2013. However, SIGAR found that the full extent of the agencies' efforts to support Afghan women was unclear. For example, State and USAID reported spending an additional \$850.5 million on 17 projects, but could not identify the specific amount of funds within these projects that directly supported Afghan women. This lack of accountability is primarily due to the fact that none of the three agencies has effective mechanisms for tracking the funding associated with these projects.

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SIGAR also found that agency responsibility for projects and programs to benefit Afghan women was fragmented. For example, multiple DOD commands and State bureaus and offices are responsible for implementing, tracking, and reporting on the departments' efforts relating to Afghan women. As a result, no single DOD or State office was able to readily identify the full extent of their department's efforts to support Afghan women. In addition, USAID officials told SIGAR that although gender equality and female empowerment policy goals are integrated into all of their programs, it was not possible to track funding by gender in the agency's financial management system, and its implementing partners did not separate funding by gender. The inability to identify the portion of the programs and related funding that specifically supports Afghan women could lead to inaccurate reporting of the agencies' efforts.

Since SIGAR's 2010 report on U.S. funding directed at supporting Afghan women, DOD, State, and USAID have taken steps to improve coordination of their efforts in this area. The Interagency Gender Working Group and the Afghanistan Gender Task Force—both established in late 2010—are the primary mechanisms for the U.S. agencies to exchange information and coordinate efforts within Afghanistan. The three agencies also coordinate their efforts with Coalition partners, Afghan ministries, and international and nongovernmental organizations in Afghanistan, although the mechanisms for doing so varied in method and frequency. Officials from all three agencies reported that although the number of projects, programs, and initiatives specifically intended to benefit Afghan women will be consolidated after 2014, their efforts to support Afghan women will continue and, in some cases, the funding for these efforts will increase. However, the lack of agency-level assessments of the impact of these efforts to date, combined with ongoing challenges to implementing efforts to support Afghan women and with the U.S. government's expected reduced visibility over activities, will make it difficult for agency leaders and the Congress to understand and make decisions on future programs and funding in support of Afghan women.

SIGAR recommends that the Secretaries of Defense and State and the USAID Administrator take action, and report back to SIGAR within 90 days, to (1) develop and implement agency-wide mechanisms to track the number and funding—both obligated and disbursed—of projects, programs, and initiatives that, either wholly or in part, support Afghan women; (2) use existing program-level monitoring and evaluation data and reports to conduct an agency-wide assessment of each agency's efforts to support Afghan women, which can be used as benchmarks for future programming and assessments; and (3) develop a plan and timeframes for assessing each agency's efforts to support Afghan women on an ongoing basis that account for the changing operational environment in Afghanistan, and implement the plan going forward. In commenting on a draft of this report, DOD partially concurred with SIGAR's recommendations, stating that it has plans

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to track future spending on women in the Afghan National Security Forces (ANSF) and that its existing progress reports provide an overall assessment of women in Afghanistan.

Audit 15-26-AR: Afghan National Police

More than \$300 Million in Annual, U.S.-Funded Salary Payments Is

Based on Partially Verified or Reconciled Data

Since 2002, the U.S. government has provided more than \$15 billion to train, equip, and sustain the ANP. In 2002, the United States and other international donors established the Law and Order Trust Fund for Afghanistan (LOTFA), administered by the United Nations Development Programme (UNDP), to fund ANP salaries and other payroll costs. As of July 2014, the international community had contributed \$3.6 billion to the fund, with the United States contributing \$1.3 billion of the total.

In March 2014, the Combined Security Transition Command-Afghanistan (CSTC-A) reported that the ANP had 152,678 assigned personnel, filling 97% of the force's 157,000 authorized positions. Although the MOI and the ANP collect personnel and payroll data, CSTC-A and UNDP are required to verify this data. Accurate data is necessary for the Afghan government to ensure the security and stability of the country—for example, by providing police full and accurate salary payments—and for the United States and others to determine funding levels and transition strategy as the ANSF assumed control over security in Afghanistan at the end of 2014.

Despite 13 years and several billions of dollars in salary assistance to the Afghan government for the ANP, there is still no assurance that personnel and payroll data are accurate. Since 2006, U.S. government audit agencies have consistently found problems with the tracking and reporting of ANP personnel and payroll data. Although all entities involved—the U.S. and Afghan governments as well as the international community—have been working to develop effective ANP personnel and payroll processes, those processes continue to exhibit extensive internal control deficiencies. In a 2011 audit of the ANP payroll process, SIGAR found that many weaknesses—such as irreconcilable and unverified data, a lack of data reconciliation and verification procedures, and difficulties implementing electronic systems—continue to pose challenges to CSTC-A, the UNDP, LOTFA, and the MOI and MOF.

CSTC-A and UNDP rely on the MOI and the ANP to collect and accurately report personnel and payroll data. However, the ANP's process for collecting attendance data, which forms the basis of all ANP personnel and payroll data, has weak controls and limited oversight. ANP oversight officials are not generally co-located with the unit-level officer responsible for collecting attendance data. Further, neither CSTC-A nor UNDP officials are present to oversee the data collection and reported limited knowledge of and influence over the process. Also, a daily sign-in, sign-out system for



SIGAR personnel verify ANP identification cards and attendance as part of an audit of ANP payroll data and processes. (SIGAR photo by Matthew Miller)

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recording attendance was reportedly only used by officers and not enlisted personnel, so there is no documentation that unit commanders are accurately reporting subordinate personnel attendance. All these factors could result in personnel being paid for days not worked, either with or without knowledge of supervisory personnel.

SIGAR found that the two main electronic systems used for ANP personnel and payroll data—the Afghan Human Resource Information Management System (AHRIMS) and the Electronic Payroll System (EPS)—are not fully functional, cannot communicate directly with each other, and do not span all personnel and payroll data processes. This situation exists, in part, because MOI-issued ANP identification cards and identification numbers—intended to be the bridge between the two systems—are not consistently or effectively used for daily attendance, and some ANP personnel have not yet received an identification card. In addition, both systems contain thousands of personnel records with incorrect or missing identification numbers. As a result, controls—such as automated data transfers, the capability to reconcile personnel between systems, and reduced dependence on handwritten reports—are not in place, and the risks of relying on untimely, inaccurate, or falsified ANP personnel and payroll data persist.

Even if AHRIMS and EPS were fully integrated, SIGAR found that the systems would still have internal control weaknesses. AHRIMS (1) was unable to distinguish between active and inactive personnel, making it difficult for CSTC-A to determine what percentage of active ANP personnel had records in the system; and (2) did not yet contain data matching active ANP personnel records with the authorized position each person was filling. Similarly, EPS (1) was not fully functional at all provincial headquarters, leaving records for over half of ANP personnel subject to manual data entry; (2) did not prevent payments to more personnel per province than authorized; and (3) could not calculate or verify whether incentive payments or payroll deductions were accurate.

SIGAR found that nearly 20% of ANP personnel are at risk of not receiving their full salaries because they are paid in cash by an MOI-appointed trusted agent, a process that lacks documentation and accountability. CSTC-A and UNDP officials told SIGAR that there is limited oversight of trusted agents and a higher risk that funds may be subject to corruption. Further, CSTC-A reported that corrupt practices within the trusted agent system of salary payments “could take as much as 50 [percent] of a policeman’s salary.”

CSTC-A, UNDP, and the MOI are each supposed to be responsible for verifying ANP personnel and payroll data. The verifications that these organizations performed were ad hoc and uncoordinated, and no one has conducted a comprehensive verification to cover all ANP personnel and payroll processes. CSTC-A could not provide SIGAR with written procedures for how it validates ANP personnel totals and officials confirmed that over the past year they accepted, without question, all personnel totals provided

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by the MOI. Because CSTC-A does not conduct required reconciliation practices, the command is unable to independently verify that the correct number of ANP personnel is being reported and that they are the same personnel who are receiving U.S. and other donor-funded salary payments. CSTC-A noted that limited staffing prevented the implementation of a full audit program as required by its standard operating procedures. Of concern, the only audit CSTC-A conducted in 2013 of ANP payroll data identified serious deficiencies, including improper salary deductions and late payments. CSTC-A officials also reported that the Afghan government has not provided required monthly financial and data reports and that CSTC-A has not requested the documentation due to staff shortages.

UNDP has contracted with an independent monitoring agent to conduct regular verification of ANP payroll data and LOTFA expenditures. SIGAR found that the agent's sampling methodology for physically verifying personnel was not sufficiently detailed and documented in its monitoring plan or reporting, and was inconsistently applied. This inconsistent approach may have artificially inflated the percentage of successfully verified personnel from 59% to as much as 84%.

As U.S. and Coalition forces continue to draw down and transfer security responsibility to the Afghan government by the end of 2014, the U.S. government will have increasingly limited visibility over ANP data collection processes. As a result, the U.S. government will become even more reliant on the MOI's ability to verify the accuracy of the personnel and payroll data it collects, as well as UNDP's oversight of LOTFA funds. Unless the MOI develops the capability to ensure and verify the accuracy of ANP personnel and payroll data, there is a significant risk that a large portion of the more than \$300 million in annual U.S. government funding for ANP salaries will be wasted or abused.

SIGAR recommends the Commander, U.S. Forces-Afghanistan (USFOR-A)—in coordination with the MOI, UNDP, and other donors—implement five actions to improve oversight of the ANP personnel and payroll data collections processes; ensure that ANP incentive payments and salaries are accurate; and improve oversight of U.S. and other donor funding for the ANP provided through LOTFA. These actions include using fully operational and integrated electronic systems to track and report all ANP personnel and payroll data; implementing a process to verify that ANP personnel obtaining their salaries via trusted agent receive full, accurate payments; and ensuring the LOTFA monitoring agent develops and documents a sound methodology and consistently implements it when physically verifying personnel.

Audit 15-29-AR: Department of Defense More than 75% 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 DOD in all performance audits, financial audits, and inspections; and (2) review actions taken or planned by DOD to address any open recommendations.

To accomplish these objectives, SIGAR examined all 209 recommendations made to DOD from SIGAR's inception in January 2008 through June 2014, and conducted an analysis to determine the number of open, closed and implemented, and closed but not implemented recommendations.

In conducting the analysis, SIGAR categorized each recommendation by broad sector, recommended action, and intended outcome. Finally, SIGAR examined documentation that DOD provided for each recommendation to determine any quantifiable financial benefit in the form of cost savings or recovered funds.

SIGAR made 209 recommendations to DOD from SIGAR's inception in January 2008 through June 2014. Of the 196 recommendations that have been closed, DOD has implemented 161 of them to date. SIGAR conducted three separate analyses of the 161 recommendations and found:

- One hundred and five recommendations were designed to assist in efforts to build the ANSF and ensure the security of U.S. personnel and reconstruction sites.
- Eighty-four recommendations had intended outcomes of either ensuring accountability and oversight of contract funds, or ensuring that facilities are safely constructed and used as intended.
- Eighty-nine recommended that DOD, to achieve the intended outcomes, (1) conduct or improve assessments or reviews; (2) establish, improve, or follow existing procedures, policies, or other guidance; or (3) address concerns regarding facility construction that SIGAR identified.

DOD's implementation of these recommendations improved the accountability of U.S. funds spent on reconstruction activities in Afghanistan. For example, recommendations from seven audits resulted in up to \$1.1 billion in savings or funds put to better use. In one report, SIGAR found that DOD lacked a comprehensive basing plan for the ANSF that considered future reductions in personnel. As a result of SIGAR's recommendation, DOD's CSTC-A discontinued construction on all or part of 101 projects, achieving savings estimated at up to \$800 million. In addition, recommendations from two audits resulted in the sustainment or recovery of more than \$11.1 million of questioned costs or other potentially recoverable funds. Specifically, an audit of the U.S. Army Corps of Engineers' (USACE) Defense Base Act Insurance Program identified \$58.5 million of potentially recoverable funds.

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In response to SIGAR's recommendations, USACE identified and collected \$9.9 million owed to either the U.S. government or the contractors.

SIGAR closed an additional 35 recommendations as not implemented for several reasons:

- Fifteen recommendations were closed because DOD has not provided sufficient evidence of implementation.
- Seven recommendations were closed either because DOD did not concur with the recommendation and/or took no action on implementation, and SIGAR believed no further action would be taken.
- Seven recommendations were closed because DOD did not take timely action, which rendered the recommendations moot.
- Six recommendations were closed because planned audit work could supersede the recommendations.

Of the 13 recommendations that remain open, nine were made to U.S. Central Command (CENTCOM) subordinate commands, one to the International Security Assistance Force, one to USACE, one to Army Contracting Command, and one to the Office of the Secretary of Defense. SIGAR is monitoring the open recommendations to determine if DOD is taking appropriate steps to implement the recommendations.

This report contains no new recommendations.

New Performance Audits Announced This Quarter

This quarter SIGAR initiated four new performance audits. They will assess DOD's support to the ANA's Technical Equipment Maintenance Program (A-TEMP); DOD and State's progress made in completing FY 2011 Afghanistan Infrastructure Fund (AIF) projects; USAID's use of the Measuring Impacts of Stabilization Initiatives (MISTI) contract to measure agency progress in its stabilization programs; and U.S. government efforts to improve access to and the quality of primary and secondary education in Afghanistan.

Afghanistan Technical Equipment Maintenance Program (A-TEMP) for ANA Vehicle Maintenance and Capacity Building

In December 2010, Afghan Integrated Support Services JV (AISS) was awarded a nearly \$30 million firm-fixed-price maintenance and capacity-building contract to support the ANA's A-TEMP. As of October 8, 2014, the contract has been modified 46 times with the contract's value increasing to over \$303 million. In December 2013, SIGAR contracted with Mayer Hoffman McCann P.C. to audit \$31,886,195 in costs incurred by AISS under the contract. Mayer Hoffman McCann reported four internal-control deficiencies and five instances of noncompliance with the terms of the contract or applicable regulations, which prompted the auditors to question a total of \$2,651,664 in unsupported costs. In April 2014, DOD reported that,

NEW PERFORMANCE AUDITS

- Afghanistan Technical Equipment Maintenance Program (A-TEMP) for ANA Vehicle Maintenance and Capacity Building
- Afghanistan Infrastructure Fund (AIF) Follow-Up
- USAID's Measuring Impacts of Stabilization Initiatives (MISTI) Program
- U.S. Efforts to Improve Afghanistan's Primary and Secondary Education Systems

despite substantial progress, the ANSF continued to face several challenges during the reporting period. Specifically, it noted that the ANSF logistics and sustainment capabilities remained underdeveloped.

This audit will review DOD's support to the ANA's A-TEMP. Specifically, SIGAR plans to determine (1) the extent to which the ANA A-TEMP is meeting its stated goals, and (2) whether key ANA A-TEMP contract requirements are being met and, if not, assess the reasons why.

Afghanistan Infrastructure Fund (AIF) Follow-Up

Over the past decade, the U.S. government has spent billions of dollars in Afghanistan to build or rehabilitate key infrastructure for power generation, transmission, and distribution; dam improvements; and transportation improvements, among others. As part of these efforts, Congress has appropriated \$1.3 billion to the AIF since 2011 and authorized DOD and State to jointly develop, approve, and implement these types of large-scale infrastructure projects. USAID implements AIF projects for State, and USFOR-A implements AIF projects through USACE for DOD.

The National Defense Authorization Act for FY 2011 requires AIF projects to be jointly developed and approved by DOD and State, but implemented by State, in coordination with DOD. However, State and DOD may jointly determine that DOD should implement a project. For FY 2011, DOD and State identified seven projects that would receive AIF funding: five projects for improving the power sector, a road project, and a project to build or improve provincial justice centers.

In July 2012, SIGAR identified concerns regarding these projects and recommended actions to help ensure that AIF projects achieved counterinsurgency goals. SIGAR also expressed concerns about the long-term sustainment of these projects. For example, the audit found inadequate sustainment or transition plans, a lack of identified or evaluated counterinsurgency benefits, and ongoing delays in project completion potentially having adverse effects on broader whole-of-government efforts.

Building on SIGAR's previous work, the overall objective of this audit is to evaluate the progress made in completing FY 2011 AIF projects. Specifically, SIGAR plans to determine the extent to which DOD and State (1) made progress in completing FY 2011 AIF projects and assessed the impact that project completion has had on other U.S. infrastructure priorities; (2) revised, measured, and achieved planned counterinsurgency objectives; and (3) developed project sustainment costs and addressed other sustainment challenges.

USAID's Measuring Impacts of Stabilization Initiatives (MISTI) Program

USAID has a multi-tiered monitoring and evaluation strategy for Afghanistan to include using independent, third-party contractors to

monitor and evaluate the agency's programs. In March 2012, USAID awarded a task order to Management Systems International Inc. for MISTI's implementation. USAID documents describe MISTI as a third-party monitoring and evaluation program designed to measure and map stabilization trends and impact in areas such as security, rule of law, and economic activity; build a community of practice for rigorous monitoring and evaluation of Afghan reconstruction programs; and communicate lessons learned for the transition to Afghan-led sustainable development. MISTI has three main objectives:

- Provide independent evaluation and impact assessment of USAID stabilization programs.
- Collect, synthesize, and analyze data at the district, provincial, and regional levels to track higher-order stabilization trends and inform U.S. and Afghan government policy and practice related to transition.
- Contribute to the larger body of knowledge on best practices and lessons learned related to the design, implementation, and assessment of stabilization activities within a counterinsurgency context.

This audit will look at USAID's use of the MISTI contract to measure agency progress in its stabilization programs. Specifically, SIGAR plans to (1) assess the extent to which the MISTI contractor provided third-party monitoring services in accordance with the terms of the contract; (2) assess the extent to which USAID considered MISTI program results in the planning and implementation of stabilization programs; and (3) identify challenges in MISTI, if any, with USAID using third-party monitoring to evaluate stabilization reconstruction programs, and the extent to which USAID has addressed those challenges.

U.S. Efforts to Improve Afghanistan's Primary and Secondary Education Systems

The Afghan government's Afghanistan National Development Strategy for 2008–2013 (ANDS) made improving primary and secondary education a development priority, and established goals to improve access to education; improve the quality of education, including teachers, facilities, and materials; and ensure the skills and knowledge students acquire in the education system are relevant to present-day needs. The National Education Strategic Plan for Afghanistan for 2010–2014 reiterates the goal in the ANDS for general education to provide equitable access to all school-age children to quality education so that they may acquire competencies needed for a healthy individual, family, and social life.

Since 2002, the U.S. government has implemented numerous programs to support Afghanistan's development goals in the primary and secondary education systems, such as building schools, developing curricula, and delivering textbooks. DOD, State, and USAID are the key U.S. agencies



Millions of Afghan girls are now enrolled in schools. SIGAR has initiated an audit to review USAID's efforts to improve Afghanistan's primary and secondary education systems. (USAID photo)

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involved in these efforts. For example, DOD has constructed and refurbished primary school facilities, State has funded programs to promote English-language skills at secondary schools, and USAID has printed and distributed primary school textbooks to students nationwide.

This audit will examine U.S. government efforts to improve access to and the quality of primary and secondary education in Afghanistan. Specifically, SIGAR plans (1) determine the extent to which DOD, State, and USAID have defined strategies and objectives to support primary and secondary education in Afghanistan; (2) evaluate the extent to which DOD, State, and USAID have identified and tracked U.S. government funding and efforts to support primary and secondary education in Afghanistan since 2002; (3) evaluate the extent to which DOD, State, and USAID have assessed the progress the United States has made in achieving its primary and secondary education development objectives in Afghanistan.

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's financial-audits program has completed a total of 37 financial audits with nearly \$3.1 billion in auditable costs and has another 30 financial audits ongoing with more than \$2.4 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 \$106.7 million in **questioned costs** and \$198,368 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 21 of the completed audits to recover more than \$8.5 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

TABLE 2.1

SIGAR'S FINANCIAL AUDIT COVERAGE (\$ BILLIONS)	
37 Completed Audits	\$3.1
30 Ongoing Audits	\$2.4
Total	\$5.5

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.

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issued financial audits. SIGAR's financial audits have also identified and communicated 159 compliance findings and 190 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.
- 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 \$23.6 million in questioned costs as a result of internal-control deficiencies and noncompliance issues. These deficiencies and noncompliance issues included, among other things, failure to provide contractually-required costs and GPS locations for contract project sites, unapproved equipment purchases, failure to account for and track assets purchased, rental expenses incurred and billed after the end of the period of performance, failure to follow competitive procurement procedures, personal use of company-purchased vehicles, business-receipts taxes erroneously charged to the U.S. government, incorrectly calculated currency exchange transactions, unauthorized overtime compensation, missing personnel timesheets, improper disposition of nonexpendable equipment, lack of documentation to support costs incurred, subcontract charges higher than approved subcontract amounts, and ineligible entertainment expenses.

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.

COMPLETED FINANCIAL AUDITS

- Financial Audit 15-13-FA: Department of State's Project for Architectural and Engineering Design of the National Museum in Kabul, Afghanistan: Audit of Costs Incurred by Sayed Majidi Architecture and Design
- Financial Audit 15-16-FA: USAID's Media Development in Afghanistan Program: Audit of Costs Incurred by Private Agencies Collaborating Together, Inc.
- Financial Audit 15-19-FA: Department of State's Afghan TV Content Production Manager Project and Nationwide Adult Literacy and Education Program: Audit of Costs Incurred by Cetena Group
- Financial Audit 15-20-FA: USAID's Afghan Clean Energy Program: Audit of Costs Incurred by International Resource Group
- Financial Audit 15-22-FA: Department of State's Afghanistan Justice Sector Support Program: Audit of Costs Incurred by Pacific Architects and Engineers, Inc.
- Financial Audit 15-28-FA: USAID's Afghan Sustainable Water Supply and Sanitation Project : Audit of Costs Incurred by ARD, Inc.

Financial Audit 15-13-FA: Department of State's Project for Architectural and Engineering Design of the National Museum in Kabul, Afghanistan

Audit of Costs Incurred by Sayed Majidi Architecture and Design

On June 12, 2011, State awarded a cooperative agreement to Sayed Majidi Architecture and Design (SMAD) in the amount of \$2.79 million. The agreement initially funded project management services for the architectural and engineering design of the new National Museum in Kabul, Afghanistan. Through five modifications that included adding a second project to plan and construct the exterior security upgrades, the value of the award increased to \$6.35 million. SIGAR's financial audit, performed by Mayer Hoffman McCann P.C. (MHM), reviewed \$6.35 million in expenditures charged to the cooperative agreement from July 15, 2011, through February 28, 2014.

MHM identified 10 internal control deficiencies and four instances of noncompliance in its audit of costs incurred by SMAD. For example, the two SMAD directors received unsupported compensation, which led to questioned costs of \$1.34 million. The project had budgeted \$3.39 million to pay salaries for seven full-time equivalent (FTE) employees. The two directors stated that due to a lack of resources, they had to divide the workload of the seven FTEs between them. Based on MHM's review of a sample of timesheets submitted during the audit period, the hours charged by both directors equated to 3.61 FTEs, or 52% of budgeted positions; however, the salaries paid to the two directors totaled \$2.69 million, or 79%, of the project's budget for personnel and staff salaries. The additional duties assumed by the directors—which also created a lack of separation of duties—resulted in inadequate internal controls that can raise the appearance or perception of fraud under the agreement.

As a result of these deficiencies and instances of noncompliance, MHM identified \$1,487,417 in total questioned costs, consisting of \$1,468,431 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval—and \$18,986 in ineligible costs—costs prohibited by the agreement, applicable laws, or regulations.

MHM reviewed the corrective actions SMAD has taken to address the findings and recommendations from prior engagements or internal audits. The auditors identified three internal control deficiencies that would have a material effect on the Special Purpose Financial Statement. Of the three deficiencies, the auditors determined that adequate corrective action had been taken on two of the deficiencies. For the third deficiency, however, they noted that some of SMAD's personnel files were still incomplete and not up to date. MHM rendered a qualified opinion on SMAD's Special Purpose Financial Statement due to the nearly \$1.49 million in questioned costs, which represents a material misstatement of the Special Purpose Financial Statement.

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

1. Determine the allowability of and recover, as appropriate, \$1,487,417 in questioned costs identified in the report.
2. Advise SMAD to address the report's 10 internal control findings.
3. Advise SMAD to address the report's four noncompliance findings.

Financial Audit 15-16-FA: USAID's Media Development in Afghanistan Program

Audit of Costs Incurred by Private Agencies Collaborating Together, Inc.

On July 27, 2006, USAID awarded a cooperative agreement, initially funded in the amount of \$6 million, to Private Agencies Collaborating Together Inc. (Pact) for the Media Development in Afghanistan Program. This program was designed to ensure that Afghanistan has an independent, pluralistic, and trustworthy media providing accurate news and information on a broad range of local and national issues. The program also aimed to reinforce USAID investment in Afghanistan media by assisting newly established media outlets to become mature, sustainable businesses and organizations. Subsequent modifications to the agreement increased the funding to \$20,644,984. SIGAR's financial audit, performed by Kearney & Company P.C. (Kearney), reviewed \$20,576,207 in expenditures charged to the agreement from August 1, 2006, through September 30, 2011.

Kearney identified three internal-control deficiencies and two instances of noncompliance in its audit of costs incurred by Pact. Pact lacked documentation to support its travel costs and its subcontracting costs. Specifically, Pact did not provide or retain adequate supporting documents in 59 instances of costs incurred in the Media Development in Afghanistan Program. The lack of adequate supporting documentation in these instances increases the likelihood that there are other instances of unsupported costs. The unavailability of records complicates oversight of the cooperative agreement and is not consistent with applicable record retention requirements.

As a result of the internal control deficiencies and instances of noncompliance, Kearney identified \$250,155 in total questioned costs, consisting of \$247,826 in unsupported costs and \$2,329 in ineligible costs. Kearney identified three findings in previous audits of Pact's subcontractor, Internews, that could have a material effect on Pact's Special Purpose Financial Statement. Kearney concluded that adequate corrective action had been taken on all three findings.

Kearney issued a disclaimer of opinion on Pact's Special Purpose Financial Statement because Pact was unable to provide sufficient and appropriate audit evidence to substantiate costs incurred for a material portion of the sub-grants line item in the financial statement. Because a majority of the total costs incurred were attributable to this line item,

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Kearney was unable to form an opinion on the financial statement taken as a whole.

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

1. Determine the allowability of and recover, as appropriate, \$250,155 in questioned costs identified in the report.
2. Advise Pact to address the report's three internal control deficiencies.
3. Advise Pact to address the report's two instances of noncompliance.



This quarter SIGAR published a financial audit report on the implementation of adult literacy programs in Afghanistan. (UNAMA photo)

Financial Audit 15-19-FA: Department of State's Afghan TV Content Production Manager Project and Nationwide Adult Literacy and Education Program

Audit of Costs Incurred by Cetena Group

On September 26, 2010, State awarded a cooperative agreement to Cetena Group (Cetena) in the amount of \$4,931,600. The initial period of performance was from October 1, 2010, through October 1, 2011. The agreement was modified two times to extend the period of performance through April 30, 2014. The project's purpose was to create content for Afghan television, the internet, and other media. In addition, on February 24, 2011, State awarded a grant to Cetena in the amount of \$2,402,800. The initial period of performance was from February 24, 2011, through February 19, 2012, but the grant was modified three times, increasing the total award amount to \$3,493,104 and extending the period through July 31, 2012. The grant's purpose was to support the Nationwide Adult Literacy and Education program. SIGAR's financial audit, performed by MHM, reviewed \$7,215,420 in combined expenditures charged to the cooperative agreement from October 1, 2010, through December 31, 2013, and to the grant from February 24, 2011, through July 31, 2012.

MHM identified seven internal-control weakness and three instances of noncompliance with terms of the cooperative agreement and grant. Specifically, MHM found that Cetena's new management did not ensure that documentation of costs incurred was properly retained when Cetena Consultancy acquired Cetena in March 2013. In addition, Cetena's previous management team did not have a formal records-retention policy in place, as required by the two State awards. Cetena could not provide records, or provided insufficient records, to support transactions for personnel, fringe benefits, travel, procurement of supplies, contractual costs, and other direct-cost categories. Cetena's management response indicated that the organization agreed with the findings because it could not provide documentation to support that the costs were reasonable, allowable, and allocable. As a result of these internal-control weaknesses and instances of noncompliance, MHM identified \$4,799,768 in total questioned costs, consisting of \$4,760,263 in unsupported costs and \$39,505 in ineligible costs.

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MHM also identified an outstanding fund balance of \$132,266. Cetena will use the outstanding fund balance to cover costs to be incurred during the remaining period of performance of the cooperative agreement. MHM did not identify any prior audit report findings with a direct and material effect on Cetena's Special Purpose Financial Statement.

MHM rendered a qualified opinion on Cetena's Special Purpose Financial Statement because of the material effects of the nearly \$4.8 million in questioned costs, which represents a material misstatement of the Special Purpose Financial Statement.

Based on the results of the audit, SIGAR recommends that State's Agreement/Grant Officer:

1. Determine the allowability of and recover, as appropriate, \$4,799,768 in questioned costs identified in the report.
2. Advise Cetena to address the report's seven internal control findings.
3. Advise Cetena to address the report's three noncompliance findings.

Financial Audit 15-20-FA: USAID's Afghan Clean Energy Program Audit of Costs Incurred by International Resource Group

On September 8, 2009, USAID signed a contract task order in the amount of \$13.0 million with International Resource Group (IRG) to provide long-term energy solutions in targeted areas of Afghanistan. The contract task order funded the Afghan Clean Energy Program (ACEP), whose purpose was to develop, install, and rehabilitate renewable energy systems in isolated areas and to promote energy efficiency. Through subsequent modifications to the contract task order, the value of the award increased to \$23.9 million. SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe Horwath), reviewed \$23.9 million in expenditures charged to the ACEP contract task order from September 8, 2009, through April 30, 2012.

Crowe Horwath identified six internal-control weakness and five instances of noncompliance with the terms of the contract task order. For example, the contract task order stated that the contractor must submit monthly construction schedules and develop a construction database that would track the project information. Crowe Horwath found that IRG inadequately tracked project costs. Specifically, IRG could not provide the cost, GPS location, or complete budget expenditures by site. This lack of supporting documentation prevented the verification of completed project work, leading Crowe Horwath to question the construction work due to an inability to verify that work was performed.

As a result of these internal control weaknesses and instances of non-compliance, Crowe Horwath identified \$16,207,400 in total questioned costs, all of it consisting of unsupported costs. Crowe Horwath did not identify any ineligible costs.

Crowe Horwath did not identify any audits, reviews, or assessments that contained findings with a potential material impact on IRG's Special



USAID is supporting electrification, here via photo-voltaic panels, in Afghanistan, through projects like ACEP, a program on which SIGAR published a financial audit report this quarter. (USAID photo)

Purpose Financial Statement. Crowe Horwath issued a disclaimer of opinion on IRG's Special Purpose Financial Statement, meaning that Crowe Horwath was prevented from expressing an opinion on the Statement's fair presentation and whether it was free from material misstatement. This was because Crowe Horwath could not determine if the costs presented in the Statement were used to meet the project objectives. In other words, Crowe Horwath was unable to determine what IRG spent \$16,207,400 on.

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, \$16,207,400 in questioned costs identified in the report.
2. Advise IRG to address the report's six internal control findings.
3. Advise IRG to address the report's five noncompliance findings.



State's justice-sector training program was the subject of a SIGAR financial audit report this quarter. (ISAF photo)

Financial Audit 15-22-FA: Department of State's Afghanistan Justice Sector Support Program

Audit of Costs Incurred by Pacific Architects and Engineers, Inc.

On March 31, 2005, the Department of State awarded a \$9.9 million task order to Pacific Architects and Engineers Inc. (PAE) to implement the Afghanistan Justice Sector Support Program (JSSP). The program's purpose was to build the capacity of Afghanistan's criminal-justice sector institutions by improving the professional staff's ability to deliver fair and effective justice services to the country's citizens. JSSP's activities included mentoring justice officials, developing legal training, and restructuring criminal-justice institutions. The award's initial period of performance had an estimated completion date of March 30, 2006, but due to 27 modifications, program funding increased to more than \$100.7 million and the period of performance was extended through May 30, 2010. SIGAR's financial audit, performed by Crowe Horwath, reviewed \$65.1 million in expenditures charged to the task order from March 31, 2005, through May 30, 2010.

Crowe Horwath identified eight material weaknesses and significant deficiencies in internal controls, and three instances of material noncompliance with laws, regulations, or the terms and conditions of the task order. For example, Crowe Horwath found instances in which PAE was missing employee billing records—such as timesheets, labor records, and summary reports—and had unreconciled differences in its payroll records. Crowe Horwath also noted missing qualification documentation for five JSSP employees.

As a result of these internal control deficiencies and instances of noncompliance, Crowe Horwath identified \$506,866 in total questioned costs, consisting entirely of unsupported costs. Crowe Horwath did not identify any ineligible costs. The auditor also determined that the U.S. government lost \$176 in interest because PAE drew more funds than required to meet its immediate cash needs.

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Crowe Horwath did not identify any prior reviews or assessments that pertained to PAE's implementation of JSSP or were material to the Special Purpose Financial Statement. Crowe Horwath issued an unmodified opinion on PAE's Special Purpose Financial Statement, noting that it presents fairly, in all material respects, revenues received, costs incurred, and the balance for the period audited.

Based on the results of the audit, SIGAR recommends that the Department of State Contracting Officer:

1. Determine the allowability of and recover, as appropriate, \$506,866 in questioned costs identified in the report.
2. Collect \$176 from PAE in interest payable to the department.
3. Advise PAE to address the report's eight internal control findings.
4. Advise PAE to address the report's three noncompliance findings.

Financial Audit 15-28-FA: USAID's Afghan Sustainable Water Supply and Sanitation Project

Audit of Costs Incurred by ARD, Inc.

On September 29, 2009, USAID awarded a \$51,863,898 task order, inclusive of two option periods, to ARD Inc. (ARD) to implement the Afghan Sustainable Water Supply and Sanitation Project. The project's purpose was to improve the long-term sustainability of potable water supply and sanitation services, improve the hygiene behaviors of poor and vulnerable populations in Afghanistan through a hygiene education campaign, and strengthen local community capacity for water-supply management. ARD incurred costs of \$42,517,360 over the course of the project, which spanned from September 30, 2009, through December 29, 2012, after USAID issued 13 modifications to the task order and exercised both option periods. SIGAR's financial audit, performed by Crowe Horwath, reviewed \$42,517,360 in expenditures charged to the task order from September 30, 2009 through December 29, 2012.

Crowe Horwath identified six material weaknesses, one significant deficiency in internal controls, and nine instances of noncompliance with laws, regulations, or the terms and conditions of the task order. For example, Crowe Horwath found instances of unauthorized overtime and sixth-day workweek charges for locally hired contract personnel and unapproved information technology (IT) equipment and software purchases. Because ARD did not separate the questionable overtime from other charges and did not provide specifics of IT purchases subject to approval, Crowe Horwath recommended that ARD conduct analyses of overtime, sixth-day workweek compensation, and the approval of IT equipment and software purchases, and provide the results to USAID.

As a result of these internal-control deficiencies and instances of non-compliance, Crowe Horwath identified \$330,105 in total questioned costs. However, this amount could change based on the results of ARD's analysis



This quarter, SIGAR published a financial audit report on the implementation of USAID's Sustainable Water Supply and Sanitation project, which promotes and institutionalizes hygiene education. (USAID photo)

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of overtime and IT equipment purchases. The \$330,105 in questioned costs consist of \$170,612 in unsupported costs and \$159,493 in ineligible costs. In addition, Crowe Horwath estimated that the U.S. government lost \$698 in interest because ARD submitted costs for reimbursement before they were eligible.

Crowe Horwath did not identify any prior reviews or assessments that pertained to ARD's implementation of the Afghan Sustainable Water Supply and Sanitation Project or were material to the Special Purpose Financial Statement. Crowe Horwath issued an unmodified opinion on ARD's Special Purpose Financial Statement, noting that it presents fairly, in all material respects, revenues received, costs incurred, and the balance for the period audited.

INSPECTIONS

Inspection Reports Published

This quarter SIGAR published two inspection reports. One report detailed an inspection of Phase II of the Afghan National Army Camp Commando, which found that the generators were not synchronized and could only provide about 25% of the planned total power output; the fuel pumps at the fuel point had not been used; and the dining facility was built for 280 Afghan soldiers but was handling 1,600 soldiers. A second inspection report found that a dry-fire range built at a cost of nearly half a million dollars to the U.S. government disintegrated four months after construction was completed due to poor contractor performance and a lack of government oversight.

Inspection 15-25-IP: ANA Camp Commando Phase II

Power Plant and Fuel Point Not Fully Operational Nearly Two Years after Project Completion

On July 1, 2009, the Department of Defense awarded the first of four contracts to construct and/or renovate facilities at the ANA's Camp Commando in Kabul, Afghanistan. The four contracts—corresponding to Phases I through IV of the work—were funded through the Afghanistan Security Forces Fund and totaled \$57.1 million over five years. The purpose of these contracts was to help establish an operating base for the ANA Special Operations Command Division Headquarters, the Commando School of Excellence, the 6th Special Operations Kandak, the Military Intelligence Kandak, and the Garrison Support Unit. In March 2010, USACE awarded the Phase II contract to Fazlullah Construction and Engineering Company/United Infrastructure Projects Joint Venture—Afghan and U.S. firms, respectively—for \$15.1 million. Following a series of modifications and amendments, the contract's price increased to approximately \$18.7 million. The Phase II contract—a mix of new construction, renovation of existing facilities, and completion of unfinished Phase I work—included a power

COMPLETED INSPECTIONS

- Inspection 15-25-IP: ANA Camp Commando Phase II: Power Plant and Fuel Point Not Fully Operational Nearly Two Years after Project Completion
- Inspection 15-27-IP: Afghan Special Police Training Center's Dry Fire Range: Poor Contractor Performance and Poor Government Oversight Led to Project Failure

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plant and electrical distribution system, fuel point, dining facility, barracks, roadways, site drainage, water and sewer distribution/treatment system, and communications network.

This inspection focused on Phase II because it involved the most recently completed facilities at the time of SIGAR's site visits on February 22 and April 27, 2014. SIGAR focused on three facilities—the power plant, fuel point, and dining facility—based on cost and complexity, as well as the potential for construction and usage problems. For this inspection, SIGAR assessed whether the (1) work was completed in accordance with contract requirements and technical specifications, and (2) facilities were being used as intended.

SIGAR found that all three facilities inspected—the power plant, the fuel point, and the dining facility—generally appeared to be well constructed, but a complete inspection was not possible because neither the power plant nor the fuel point were fully operating. On April 7, 2012, USACE transferred all three facilities to the NATO Training Mission-Afghanistan (NTM-A). The form completed for the transfer listed some deficiencies with the facilities, including the fact that testing and commissioning of the power plant's electrical system and the fuel point's fuel pumps had not been completed.

On February 17, 2013, USACE sent a letter to the contractor acknowledging that all work associated with Phase II had been completed and that all issues had been resolved. This letter also noted the final payment on the \$18.7 million contract would be \$130,467.45. However, SIGAR's site inspections—in February and April 2014—identified continuing deficiencies with the power plant and fuel point. For example, the power plant's master control panel and switchgear were not functioning as required for parallel operation of the generators. As a result, only one of the four primary generators could operate at a time. USACE stated that ANA personnel made improper and unauthorized connection to a transformer, resulting in damage to two transformers, several sections of medium voltage cables, and the main power distribution panel for the plant. With respect to the fuel point, although all of the components were provided and the fuel point was constructed, SIGAR found that the fuel pumps were not operational and, at the time of SIGAR's inspection, had not been tested and commissioned as the contract required.

The Phase II contract required the completion of a dining facility, including a dining room to seat 280 people. The dining facility's design and initial construction began in Phase I. However, the Phase I contract recognized that the contractor might not be able to complete construction during that phase, since it only had a 90-day period of performance. The contract noted that if the dining facility was not completed during Phase I, that the contractor would complete the facility during Phase II. Based on SIGAR's site inspections, as well as analysis of the Phase I construction drawings and statement of work, SIGAR found that the dining facility was generally



SIGAR's inspection found that generators, like those pictured, were improperly connected to a transformer, causing damage to two transformers. (SIGAR photo by Brian Flynn)

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completed according to the contract requirements in Phase II. Although the statement of work did not specify how many food storage units were to be provided, SIGAR found three units had been installed—two cold storage and one dry storage. Based on two site visits, SIGAR found that all three Phase II facilities—the power plant, the fuel point, and the dining facility—were being used. However, neither the power plant nor the fuel point was being fully used as intended. Specifically, the power plant’s generators were not operating as designed, and the pumps at the fuel point had never been used to fuel vehicles. The dining facility was being used and was serving more than five times the number of personnel for which it was designed.

User error and lingering construction deficiencies have resulted in the underutilization of the facilities constructed as part of Phase II work at Camp Commando. The power plant with five generators—meant to provide electricity to the ANA Special Operations Command Division Headquarters and the Commando School of Excellence, among other units—was in operable condition until the ANA made an unauthorized connection to a transformer and severely damaged the power plant’s master control panel. The damage limited the plant to only 25% of full power and caused soldiers to use as many as 19 smaller, portable generators. Meanwhile, the fuel point appears well built and the above-ground fuel tanks are used for storage, but the fuel pumps are not used. In addition, the dining facility was well built to serve 280 personnel, but now serves 1,600. As a result, the \$7 million plant was delayed in delivering full power for nearly two years until repair work was completed in May 2014. The fuel point does not fully serve its purpose; and the dining facility is likely receiving more wear and tear than planned.

SIGAR is also concerned that the U.S. government issued a new contract, which includes approximately \$3.1 million in Phase III to complete work on or make repairs to the camp’s power system and construct another fuel point. Specifically, CSTC-A is funding \$2.1 million to repair the power plant’s electrical system, including replacing the original master control panel and repairing and synchronizing the generators to allow for parallel operation—all initially part of the Phase II work. In addition, even though the fuel point constructed in Phase II—at a cost of \$332,000—has never been fully used as intended, a second, larger fuel point was built by a new contractor under Phase III at a cost of approximately \$1 million.

SIGAR recommends that the Commanding General and Chief of Engineers, USACE, direct the Commander, USACE Transatlantic Division, to take the following actions and report back to SIGAR within 90 days: (1) determine the amount paid to the Phase II contractor for required work that was not completed on the camp’s power plant and fuel point, and, where appropriate, recoup those funds; (2) provide documentation showing that the power plant’s electrical system has been fully tested and commissioned; (3) determine the reason(s) why the ANA has not used the Phase II fuel point to dispense fuel for vehicles, and, based on the results, decide

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whether steps should be taken to make it operational; and (4) determine the circumstances leading to the acceptance of the Phase II work as completed, with full payment made to the contractor, when known deficiencies existed. Based on the results, determine what disciplinary action, if any, should be taken against the contracting officer or contracting officer's representative.

Inspection 15-27-IP: Afghan Special Police Training Center's Dry Fire Range

Poor Contractor Performance and Poor Government Oversight Led to Project Failure

On May 2, 2012, the Regional Contracting Center (RCC) at Forward Operating Base Shank in Logar province awarded a \$456,669 firm fixed-price contract to Qesmatullah Nasrat Construction Company (QNCC)—an Afghan firm—to construct a dry-fire range (DFR) for the Afghan Special Police Training Center. This training center is co-located in Wardak Province with the larger National Police Training Center (NPTC). NTM-A requested the DFR's construction, which involved multiple adobe-style brick buildings within four discrete compounds. The U.S. government accepted the completed project on October 20, 2012. With RCC's payment of the final invoice on November 13, 2014, QNCC was paid in full for its DFR work.

For this inspection, SIGAR assessed whether (1) construction was completed in accordance with contract requirements and applicable construction standards, and (2) the DFR was being used as intended and maintained. This report focuses on the construction and warranty repairs made under the original construction contract overseen by RCC officials. SIGAR's inspections staff were not able to conduct an on-site inspection due to security concerns, which prohibited travel to the site. However, a SIGAR investigator was able to visit the site in April 2013.

The DFR was not constructed according to contract requirements, and SIGAR's analysis showed that, as a result, water penetration caused its walls to begin disintegrating within four months of U.S. government's accepting the project from QNCC. QNCC's use of defective construction methods and materials—as well as poor project planning and oversight—were responsible for the water penetration and subsequent damage to the range. SIGAR identified several instances of QNCC's noncompliance with contract requirements and building standards for the DFR. Analysis of available documentation showed that the contracting officer's representatives failed to identify any of the deficiencies.

After RCC transferred the facility to the Afghan government and the warranty period expired, ongoing maintenance for the facility became the Afghan government's responsibility. However, the NPTC commander noted that, to his knowledge, no provisions were made for routine maintenance at the facility. Based on SIGAR's engineering assessment—due to the range's



Defective materials and construction methods, as well as poor planning and oversight, were responsible for the exterior deterioration of the dry-fire range, which was caused by water penetration and required that the facilities be rebuilt. (NPTC photo)

SIGAR OVERSIGHT ACTIVITIES

fundamental structural deficiencies—routine maintenance would likely not have prevented its ultimate deterioration.

Within four months of the U.S. government spending nearly a half a million dollars to construct the Afghan Special Police Training Center’s DFR, the range’s buildings began to disintegrate. This disintegration or “melting” was caused by QNCC failing to adhere to contract requirements and international building standards, and using substandard bricks and other materials. Further, the DFR’s construction was plagued by poor government oversight throughout all phases of the contract. RCC failed to ensure proper design of the facility and failed to hold the contractor accountable for its work. In particular, RCC accepted work that did not fulfill the requirements of the contract, and then failed to hold the contractor fully accountable for correcting all of the range’s structural deficiencies before the contract warranty expired. Due to the fact that these deficiencies were not corrected, the range’s safety and its long-term sustainability were compromised. As a result, Afghan authorities demolished the DFR and are rebuilding it with funds from the MOI. Therefore, although this project may have been well intended, the fact that the Afghans had to demolish and rebuild the DFR is not only an embarrassment, but, more significantly, a waste of U.S. taxpayers’ money.

To ensure full accountability for the expenditure of government resources and help avoid future problems with contract oversight, SIGAR recommends that the Commander, U.S. CENTCOM, direct the Commander, Joint Theater Support Contracting Command, in coordination with the Commanding General, Combined Security Transition Command-Afghanistan, take the following actions and report back to SIGAR within 90 days: (1) determine the extent to which QNCC substituted building materials without authorization or did not complete work according to the contract requirements and, where appropriate, recoup those funds, and (2) identify the contracting officer and contracting officer’s representatives responsible for oversight of the DFR construction activities and determine why the range was not built according to contract requirements and acceptable construction standards, and what disciplinary action should be taken against these contracting officials for failing to provide adequate oversight.



Soldiers of the Afghan Air Force receive instruction prior to participating in hands-on urban operations training at the Air University at Kabul International Airport. (U.S. Air Force Photo)

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:

- Sheberghan Teacher Training Facility
- Gardez Hospital
- Afghan Air Force Air University

NEW INSPECTIONS

- Sheberghan Teacher Training Facility
- Gardez Hospital
- Afghan Air Force Air University

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 43 recommendations contained in 15 audit reports. Seven of the reports contained recommendations that resulted in the recovery of \$409,851 in ineligible or unsupported contract costs paid by the U.S. government. From 2009 through September 2014, SIGAR published 161 audits, alert letters, and inspection reports and made 485 recommendations to recover funds, improve agency oversight, and increase program effectiveness. SIGAR has closed over 84% 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 35 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 recently completed audits of the status of SIGAR recommendations made to DOD, State, and USAID. Specifically, the audits identified and assessed the status of SIGAR recommendations and reviewed actions taken or planned by the agencies to address them. In January 2015, SIGAR issued its report on the status of recommendations to DOD, identifying a more than 75% implementation rate. Previously, SIGAR issued final reports for State (identifying a nearly 75% implementation rate) and USAID (identifying a more than 80% implementation rate).

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.

COMPLETED SPECIAL PROJECTS

- Special Project 15-17-SP: Reply to USAID's Response to SIGAR's Questioned Costs Inquiry Letter
- Special Project 15-18-SP: Light Air Support Aircraft Program; Pilot Recruitment and Retention
- Special Project 15-21-SP: State Public Affairs Section Grants
- Special Project 15-23-SP: TFBSO Operations

Update on SIGAR Special Project 14-96-SP

On September 12, 2014, as part of its ongoing investigation of human trafficking issues at U.S. military bases in Afghanistan, SIGAR issued a letter of inquiry to DynCorp International regarding the company's efforts to address possibly improper and deceptive recruitment practices, in connection with work performed under the U.S. Military Logistics Civil Augmentation Program (LOGCAP) service contracts in Afghanistan. Specifically, the inquiry related to the prohibited payment of so-called recruitment fees of as much as \$4,000 by third-country nationals to labor brokers who supply workers to DynCorp and other LOGCAP contractors and their subcontractors. Despite repeated attempts to communicate with DynCorp representatives about securing the documents requested, DynCorp failed to provide any information in response to the letter for an extended period. As a result, SIGAR issued a subpoena to DynCorp International on December 9, 2014, demanding the documents described in the original September 12, 2014, inquiry letter. DynCorp International produced its first set of documents on December 23, 2014, and has promised continued cooperation.

SIGAR's Office of Special Projects wrote inquiry letters to USAID, DOD, and the State Department to express concerns about decisions in which questioned costs were not fully recovered, the potential for training and maintenance problems with a Light Air Support aircraft program, a dramatic increase in State's public affairs grants, and allegations of mispending and mismanagement at TFBSO. Furthermore, due to DynCorp International's prolonged failure to respond to a Special Project inquiry letter, SIGAR issued a subpoena this quarter, which resulted in DynCorp producing the requested documents and promising continued cooperation.

Inquiry Letter 15-17-SP: Reply to USAID's Response to SIGAR's Questioned Costs Inquiry Letter

On November 7, SIGAR wrote a letter to USAID, addressing the agency's October 29 letter to SIGAR concerning the recovery of questioned costs identified in several SIGAR financial audits. USAID's response stated that the agency's goal is to "seek an accurate accounting of taxpayer funds." SIGAR shares that goal, but also believes that USAID should take all actions necessary to fully recover questioned costs. The purpose of SIGAR's original inquiry letter was to make USAID aware of the trend—by highlighting several examples—of revised decisions where the amount of questioned costs was reduced and ultimately recovered.

Inquiry Letter 15-18-SP: Light Air Support Aircraft Program; Pilot Recruitment and Retention

On November 12, SIGAR sent a letter to the Secretary of Defense and Commanders of USFOR-A and CENTCOM to request information regarding the Light Air Support (LAS) aircraft program, which is intended to help develop the Afghan Air Force's advanced flight training, aerial reconnaissance, and air support capabilities. To date, a contract with a potential maximum value of \$950 million has been awarded in support of this program, and SIGAR is concerned that this program could be affected by training and maintenance problems similar to those identified by SIGAR in prior inquiries concerning programs to provide aircraft to the Afghan military. SIGAR has requested an on-site visit to the Air Force facility in Georgia which is managing the LAS program in order to be briefed about the planes and the training program for Afghan pilots who are being brought to the United States to learn to fly and maintain the aircraft. DOD responded on January 8 with answers to the questions posed in SIGAR's letter of inquiry, and agreed to arrange a near-term visit.

Inquiry Letter 15-21-SP: State Public Affairs Section Grants

SIGAR wrote to the Secretary of State on November 21 to request information about State's public-diplomacy grant program in Afghanistan. Under this program during FY 2007 through 2009, 177 grants were awarded at a value of approximately \$1.5 million. One year later, beginning FY 2010 through 2011, the numbers increased to 578 grants valued at \$111 million, the subject of a 2012 SIGAR audit. SIGAR's Office of Special Projects will conduct a preliminary review of grants and cooperative agreements awarded during FY 2012 through 2014 to assess whether gaps in management oversight exist that might lead to grant monies not being appropriately administered, used for their intended purpose, or used effectively. The State Department responded to the letter of inquiry on December 16, and SIGAR is examining documents provided.

Inquiry Letter 15-23-SP: Task Force for Business and Stability Operations

On December 10, SIGAR wrote to the Secretary of Defense to request more information about TFBSO. Between TFBSO's inception in 2010 and March 2013, TFBSO obligated nearly \$700 million in DOD funds to pursue its mission of economic stabilization in Afghanistan. SIGAR has received troubling allegations related to TFBSO practices involving imprudent spending, profligate travel by employees and contractors, and possible mismanagement. For example, SIGAR received allegations of mismanagement concerning seismic testing related to hydrocarbon exploration in western Afghanistan, matters which SIGAR plans to address in an upcoming audit of TFBSO support of Afghan extractive industries.

LESSONS LEARNED

SIGAR Launches New Lessons Learned Program

This quarter SIGAR announced the creation of its new Lessons Learned Program (LLP). The LLP will conduct a comprehensive analysis of the reconstruction effort in Afghanistan from 2001 onwards to identify best practices and lessons to help address systemic issues facing U.S. reconstruction efforts in Afghanistan.

LLP will conduct its analysis by working with DOD, State, USAID, Congress, academia, and other relevant stakeholders to gain insights into the evolution of key elements of the reconstruction effort. Through a series of reports focused on various aspects of the reconstruction, SIGAR will document what the U.S. government sought to accomplish through its reconstruction programs, assess what it achieved, and evaluate the degree to which these programs helped the United States reach its strategic goals in Afghanistan. The reports will contain actionable recommendations to

address the challenges stakeholders face in ensuring efficient, effective and sustainable reconstruction efforts in conflict zones, thereby helping to improve current and future reconstruction efforts. The LLP comprises subject-matter experts that have considerable experience working and living in Afghanistan, aided by a team of experienced research analysts. In producing its reports, the LLP also leverages the considerable skills and experience found throughout SIGAR in its Audits, Investigations, and Research and Analysis Directorates, as well as the Office of Special Projects.

The LLP is a central component of SIGAR's legislative mandate to inform the Secretaries of State and Defense about: (1) problems and deficiencies relating to the reconstruction, and (2) the need for corrective actions. It also complements SIGAR's 2014–2016 strategic plan to provide recommendations and assistance to help stakeholders address systemic problems facing U.S.-funded reconstruction effort.

The LLP announced two new projects this quarter, described below, and is planning two additional projects on counternarcotics and corruption.

NEW LESSONS LEARNED PROJECTS

- Interagency Coordination on Strategy and Planning
- U.S. Coordination with External Partners in Administering Aid

New Lessons Learned Projects

The LLP announced two new projects this quarter that will examine U.S. reconstruction efforts in Afghanistan from 2001 to 2014 to report on interagency coordination on strategy and planning and U.S. coordination with external partners in administering aid to Afghanistan.

Interagency Coordination on Strategy and Planning

Since 2001, the National Security Council (NSC), Office of Management and Budget (OMB), State, DOD, USAID, and other agencies have been engaged in planning and implementing the U.S. reconstruction effort in Afghanistan. These organizations have been faced with the enormous and complex task of reconstructing a country devastated by nearly three decades of war. To deal with this problem, the United States attempted to undertake a multidimensional strategy that integrated the activities of multiple agencies and actors.

To better understand how these agencies coordinated and cooperated to ensure unity of purpose and effort, this LLP project will trace the role that interagency and interdepartmental strategy and planning efforts played in the U.S.-funded reconstruction of Afghanistan.

This project will examine U.S. reconstruction efforts in Afghanistan from 2001 to 2014 to: (1) identify the statutorily defined roles of the National Security Council, Office of Management and Budget, State, DOD, and USAID in the interagency process for developing and implementing strategies and plans for reconstruction in Afghanistan; (2) identify and assess any gaps in those statutory authorities and/or in agency practices that may have impacted the effectiveness of interagency coordination of strategies and plans from 2001 to 2014; (3) identify critical decisions on the appropriation,

authorization and/or obligation of funds in support of interagency coordination on strategy that may have impacted the effective alignment of agency capabilities and the allocation of resources for reconstruction in Afghanistan; and (4) assess the sufficiency of strategies and plans relative to conditions on the ground in Afghanistan; and determine which variables most impacted the strength or weakness of interagency coordination of strategy and plans for reconstruction.

U.S. Coordination with External Partners in Administering Aid to Afghanistan

Afghanistan has been the world's leading recipient of official development assistance for the last three years tabulated by the World Bank—more than \$6 billion a year in 2010 through 2012. The United States has provided nearly half of that development aid, and vastly more in security assistance; total U.S. appropriations for Afghan reconstruction now exceed \$107.5 billion.

At least 45 nations have been aid donors to Afghanistan since 2001, and the international community has regularly held conferences on Afghanistan (Tokyo 2002, Paris 2008, London and Kabul 2010, Tokyo 2012, and London 2014) to discuss issues of mutual importance, to coordinate the development aid effort, and to establish commitments and mutual expectations. These conferences have resulted in a number of different strategies and structures to coordinate and administer aid, including the establishment of the Afghanistan Compact and the Joint Coordination and Monitoring Board, the development of the Afghanistan National Development Strategy and National Priority Programs, and efforts to strengthen accountability for aid spending and results through the Tokyo Mutual Accountability Framework.

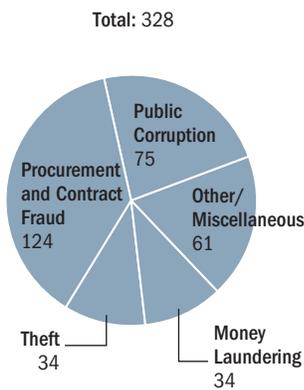
To better understand how United States coordinated with external actors, this LLP product will identify and analyze the coordination strategies, mechanisms and structures developed and employed by the United States, other donors, and the Afghan government to prioritize, plan, coordinate, and oversee aid administration in Afghanistan.

This project will examine U.S. reconstruction efforts in Afghanistan from 2001 to 2014 to (1) identify US goals and objectives in developing or engaging with strategies and structures to coordinate development aid with the Afghan government and the international community; (2) assess the effectiveness of US coordination with external partners in ensuring that aid was appropriately prioritized, planned, coordinated and overseen with reference to widely accepted international criteria for aid administration, U.S. objectives, and intended program results; (3) identify best practices and lessons learned for the effective coordination of development aid for future development efforts by the United States and the international community.

SIGAR OVERSIGHT ACTIVITIES

FIGURE 2.1

SIGAR INVESTIGATIONS: NUMBER OF OPEN INVESTIGATIONS, AS OF DECEMBER 31, 2014



Source: SIGAR Investigations Directorate, 1/12/2015.

INVESTIGATIONS

During the reporting period, SIGAR recovered a record \$53.7 million for the U.S. government from Civil Settlement Agreement payments. SIGAR investigations saved the U.S. government more than \$12 million. Criminal investigations resulted in five arrests, six indictments, six convictions, a sentencing, the discharge of a U.S. military member, and \$105,000 in fines, restitution, and forfeitures. In Afghanistan, 10 individuals were barred from U.S. military installations. SIGAR initiated 38 new investigations and closed 34, bringing the total number of ongoing investigations to 328, as shown in Figure 2.1.

Investigation Results in \$25 Million Civil Settlement

On December 5, 2014, a settlement agreement was entered into between the United States, acting through the U.S. Department of Justice and the United States Attorney's Office for the Southern District of Illinois on behalf of U.S. Transportation Command (USTRANSCOM), and Supreme Logistics FZE (Supreme), a third-party logistics provider for international transport of goods. According to the terms and conditions of the agreement, Supreme will pay \$25 million to the United States.

USTRANSCOM awarded a series of contracts collectively referred to as the "USC-06" contracts to three global transportation and logistics companies, Maersk Line Limited (MLL), American President Lines (APL) and Hapag-Lloyd (HL). Under various USC-06 contracts, MLL, APL, and HL transported food and cargo destined for U.S. troops in Afghanistan from the U.S. to Latvia or other intermediate ports in Europe. At that point, MLL, APL, and HL then arranged with various logistics vendors, one of which was Supreme, to carry the cargo the rest of the way to Afghanistan.

An investigation was initiated after MLL, APL, and HL provided a self-disclosure to the United States that they had overbilled the USTRANSCOM, as a result of actions by their shared common subcontractor, Supreme. According to the self-disclosure, Supreme falsely billed for higher-priced refrigerated trucks when it actually used lower-priced non-refrigerated trucks to transport the cargo, as well as transporting certain cargo containers to areas within Afghanistan with a lower USC-06 inland rate than the destination and inland rate booked and invoiced to the prime companies. MLL, APL, and HL relied on those false invoices and passed them along to the USTRANSCOM for payment. SIGAR and various members of the International Contract Corruption Task Force conducted an investigation, interviewing more than 25 key personnel, and analyzing more than 10,000 contract and audit documents.

As a result, the investigation revealed that Supreme submitted false claims to the prime USC-06 companies causing them to overcharge the U.S. government for refrigerated containers when Supreme was using dry good containers and transporting certain cargo containers to areas within

Afghanistan with a lower USC-06 inland rate than the destination and inland rate booked and invoiced to the prime companies.

Investigation Results in \$20 Million Civil Settlement

On December 8, 2014, in the Eastern District of Virginia, Supreme Site Services GmbH (Supreme) agreed to pay \$20 million to settle allegations of over-billing for fuel purchased by the Defense Logistics Agency at Kandahar under the NATO Basic Ordering Agreement (BOA).

In March 2012, SIGAR and members from the ICCTF initiated an investigation, after information was received from Task Force 2010 that an employee of Supreme had reported a significant amount of diesel fuel was being pilfered by Supreme drivers and later sold to customers at various locations on Kandahar Airfield (KAF). The investigation revealed Supreme delivery drivers routinely shorted deliveries to generators on KAF and personally profited by selling the “shorted” fuel to other customers.

In order to calculate the loss, the investigative team could not rely solely on the paperwork and interviews but had to determine the burn capacity rate for each generator and compare that to the available documents. This unique investigative tactic required agents to physically inspect the individual generators on KAF which received Supreme deliveries under the NATO BOA and to identify the make and model. With that information, the generator manufacturers were contacted in order to determine the actual burn rate capacity for each generator as if the generators were running 24 hours a day, seven days a week. Using the consumption data that was stored on computers housed within the actual generators, agents compared the consumption data on the Supreme delivery tickets during a specific time period to focus on the potential loss. To further define their analysis, agents compiled and compared the Supreme invoices on the NATO BOA during the same time period.

The comprehensive analytical approach revealed Supreme billed for more fuel than was delivered as evidenced by the generators, their burn capacity, consumption data, and invoices. The difference between the amount of fuel actually delivered and what Supreme billed for was calculated and used as a basis for the loss. In addition, during the course of the investigation, Supreme worked with the investigative team and designed and implemented a completely new way of tracking fuel deliveries using hand-held scanners to prevent future thefts by their delivery drivers.

Civil Settlement Results in \$8.7 Million Payment to U.S. Government

On October 30, 2014, a settlement agreement was entered into between the United States, acting through the U.S. Department of Justice on behalf of DOD, USTRANSCOM, and Maersk Line Limited (Maersk), a global transportation and logistics company. According to the terms and conditions of the

agreement, Maersk will pay \$8.7 million to the United States for an alleged failure of performance associated with a USTRANSCOM contract and alleged noncompliant shipments to military outposts in Afghanistan.

In April 2012, SIGAR and the International Contract Corruption Task Force (ICCTF) initiated an investigation at Camp Leatherneck (CLN), Afghanistan, after information surfaced regarding the theft of 38 shipping containers and their contents from CLN and Forward Operating Base (FOB) Shindand in Afghanistan. The containers belonged to American President Lines LTD (APL) and Maersk. The investigation revealed there were numerous false proof of delivery (POD) documents associated with each missing container, which allowed the contractors to be paid as if the containers reached their ultimate destination.

The investigation discovered numerous other missing containers belonging to APL and that Maersk may have had falsified PODs submitted for various locations throughout Afghanistan. In August 2012, the investigation of the container theft was combined with an ongoing civil investigation being conducted jointly by the U.S. Army Criminal Investigation Command (CID), U.S. Air Force Office of Special Investigations (AFOSI), and Defense Criminal Investigative Services (DCIS) in the Southern District of Illinois for the purpose of settlement negotiations with APL and Maersk.

As previously reported, in January 2013, a settlement agreement was entered into between the United States, USTRANSCOM, and APL. As a result of the settlement APL paid \$4.25 million to the United States government.

Investigation Results in \$806,000 Recovery for the U.S. Government

On October 04, 2014, Defense Finance and Accounting Services (DFAS) notified SIGAR that DFAS completed an \$806,672 debt collection process with an Afghan company, Unity Logistics and Supply Services (Unity), and collected the full amount of debt pursuant to a recent investigation.

The investigation was initiated in November 2012 when the KAF U.S. Army Regional Support Group reported that Unity was drawing fuel from the KAF fuel depot based upon U.S. government contracts that did not allow access to fuel. The investigation uncovered that Unity contractors had misappropriated U.S. government fuel and meal cards at KAF by using letters of authorization relative to a contract at another base as credentials.

A search warrant of the Unity office at KAF discovered 72 improperly issued meal cards and 10 improperly issued fuel cards. Based on the findings, the estimated potential loss to the U.S. government is nearly \$1 million.

On October 20, 2013, the Regional Contracting Center-South issued Unity a Debt Collection Demand Letter to remit \$806,672 to the U.S. government,

pursuant to the investigation. The debt-collection process continued until September 2014 when the complete debt of \$806,672 was finally collected.

Investigation Results in \$403,000 Savings to the U.S. Government

On November 26, 2014, a determination was made to deny payment to an Afghan construction company because of falsified invoices, representing a savings of over \$403,000 to the U.S. government.

In January 2011, USACE awarded a \$12.7 million contract to Awrish Builders to build troop housing at KAF. The contract was later terminated for convenience by USACE. After the contract was terminated, Defense Contract Audit Agency (DCAA) discovered two identical invoices reflecting two different dollar amounts.

In February 2014, DCAA contacted the U.S. Army CID Major Procurement Fraud Unit (MPFU) assigned to KAF regarding the invoices discovered in their audit. MPFU notified the ICCTF and SIGAR agreed to assist with the investigation.

Based on the findings of the investigation and the DCAA audit, the USACE contracting officer made the determination it would not pay the questionable invoices.

Former U.S. Military Member Pleads Guilty to Fuel Theft Scheme

On October 6, 2014, in the Eastern District of North Carolina, U.S. Army Specialist Alexander Swim pled guilty to theft and conversion of public property and aiding and abetting. In addition, Swim will be subject to forfeiture of assets.

From January 2012 until October 2012, Swim was deployed to Afghanistan under the Combined Joint Special Operations Task Force (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 onto the installation to be loaded with fuel, and then escorting them back off the base. Because of Swim's actions, the U.S. government suffered a loss of over \$400,000 in stolen fuel.

Swim was scheduled to be sentenced on January 6, 2015.

Three U.S. Military Members Plead Guilty to Embezzlement Scheme

On October 6, 2014, in the Eastern District of North Carolina, U.S. Army Sergeant First Class (SFC) Cleo Autry, SFC Deric Harper, and SFC Jeffrey

Arthur Cook each pled guilty to one count of theft of government property and conspiracy.

Between October 2008 and April 2012, the subjects of the investigation were deployed with the Special Forces Group under the CJSOTF at FOB Jalalabad in Afghanistan. During their deployment, they conspired to embezzle funds from the Commanders Emergency Response Program and from funds used by Special Forces Groups to support counter-terrorism 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.

The three individuals are scheduled to be sentenced in January 2015.

Two Arrested for Bribery in the United Kingdom

[REDACTED]

Agents from SIGAR, the Federal Bureau of Investigations (FBI), and DCIS participated in the two arrests and three associated search warrants at the request of the City of London Police. Their names were included in the affidavits provided by the City of London Police to a UK judge, and they were authorized to be present and participate in the arrests and subsequent interrogations.

The investigation is ongoing.

Former U.S. Army Sergeant Pleads Guilty to Bribery Scheme

On November 19, 2014, in the Eastern District of North Carolina, Enmanuel Lugo pled guilty to charges of bribery and conspiracy pertaining to his involvement in a theft scheme to sell government-appropriated fuel in July 2011.

On October 22, 2014, Enmanuel Lugo relinquished \$28,700 in U.S. currency to federal agents during a formal proffer session conducted at the offices of the Department of Justice in Washington, DC. According to Lugo, these funds were part of the proceeds gained from his illegal activities. The money was transported by SIGAR and FBI agents to a local bank where it was exchanged for a cashier's check made payable to the U.S. Marshal's Service.

The investigation was based on allegations that Lugo and co-conspirators collaborated to falsify Transportation Movement Requests (TMRs) to facilitate the theft of fuel at KAF that they sold on the black market in

neighboring towns in return for cash payments. The overall loss to the U.S. government because of this illegal scheme is approximately \$10 million.

\$10 Million Savings to the U.S. Government

On October 4, 2014, the Bagram Airfield (BAF) Contracting Officer reported that a SIGAR investigation resulted in a cost saving to the U.S. government of \$10 million. The savings related to two contracts with BNN Logistics (BNN), a large-scale Afghan trucking company that transports bulk material for the U.S. government at BAF.

During the summer of 2013, CENTCOM Joint Theater Support Contracting Command (C-JTSCC) ordered that all TMRs be administratively closed for work not performed on contracts. Since the work was no longer needed, no payment was made to the contractors. A period of time was allocated for the contractors to submit their TMRs for work performed on contracts prior to the C-JTSCC order. C-JTSCC had a meeting to explain this process and subsequently BNN submitted TMRs for administrative closure during the allocated time in 2013.

During August 2014, BNN submitted two binders of TMRs to the C-JTSCC for payment, some of which were similar to the ones BNN submitted for closure in 2013. SIGAR explained to BNN that it was suspicious that BNN submitted TMRs approximately a year after the C-JTSCC order, and at a time when new Contracting Officer's Representatives (CORs) were in a transition period. SIGAR recommended that BNN contact the COR to discuss what charges to the government would be acceptable for their work not previously reimbursed and then adjust the TMRs accordingly.

BNN and the COR came to a mutual agreement and subsequently BNN resubmitted TMRs at a significantly lower rate.

U.S. Contractor Sentenced for Bribery Scheme

On December 15, 2014, in the District of Arizona, Robert Bertolini was sentenced to three months of imprisonment followed by seven months of home detention, three years of probation upon release, and forfeiture of \$59,975 to the U.S. government. In July 2014, Bertolini, a former employee of Lakeshore Engineering Services Inc. (LES), a subsidiary of Lakeshore Toltest Corporation, pled guilty to one count of conspiracy to commit wire fraud and receive an illegal kickback.

In December 2010, USACE awarded a contract to LES to design and construct FOB Rocco for the ANA in Kabul, Afghanistan. LES hired Bertolini to be the FOB Rocco project manager and in March 2011, LES contracted with Shams Group International (Shams) to provide materials, labor, and other services.

In May 2011, without approval from LES, Bertolini approved two modifications to Shams' contract, increasing its value by over \$1 million.

SIGAR UNDERCOVER OPERATION HELPS THWART SCHEME TO STEAL FIRE TRUCK AND OTHER U.S. GOVERNMENT PROPERTY WORTH OVER \$800,000

The U.S. Army Criminal Investigation Command (CID) received information that Krishna Kumar, an employee of Ecolog International, a subcontractor of Fluor Corporation, frequently discussed stealing U.S. government property from Bagram Airfield (BAF) for the purpose of resale. Kumar was responsible for the transport of excess goods such as heavy equipment and automobiles to the Defense Logistics Agency (DLA) and on numerous occasions had asked a source if he knew of potential buyers of the items to which he had access.

On December 9, 2014, Kumar approached the source and expressed interest in finding a buyer for a fire truck and an up-armored Ford F-150 pickup truck. Kumar said the two U.S. government-owned vehicles had to be sold within a few days; otherwise, he would have to transfer them to DLA. Upon receiving this information, CID requested assistance from the International Contract Corruption Task Force (ICCTF) and an undercover operation was initiated.

On December 12, 2014, the source and a SIGAR special agent, acting in an undercover capacity as an interested buyer, met with Kumar and his co-conspirator, Roop Singh, at the Fluor Materials Yard at BAF. During the 40-minute meeting, the special agent was equipped with a recorder hidden on his person in order to record the conversation regarding the illegal purchase of the fire truck and the F-150 up-armored pickup truck. They agreed to a price of \$40,000 and \$10,000 respectively. As the fire truck had a flat tire and could not be moved, and the pickup truck was inaccessible at the time, it was agreed that Singh would contact the source after he had an opportunity to retrieve the pickup truck and repair the tire on the fire truck.

That same day, Singh contacted the source and advised the vehicles were ready for pick-up. He agreed to a specified meeting time later in the day and reiterated that the full payment of \$50,000 would be required. Even though a recording of the initial meeting had already established culpability in the illegal sale, it was decided that the undercover agent and the source would be taken to the Fluor Materials Yard in order to further help identify the individuals involved in the scheme. With assistance from Fluor Corporate Investigations, all Fluor yard personnel were assembled in groups of ten so the agent and source could better identify the suspects with whom they



A SIGAR special agent goes undercover to help thwart a scheme to steal U.S. government property. (DOD photo)



Kumar tried to sell this U.S.-government-owned fire truck for \$40,000. (DOD photo)



Krishna Kumar, an employee of Ecolog International, frequently discussed stealing U.S. government property for the purpose of resale. (DOD photo)

had met earlier. The special agent and source identified Krishna Kumar and Raj Janak as participants in the scheme. Subsequently, Kumar and Janak identified Singh, and two other individuals, Vijay Kumar, and Sat Pal, as having been involved. All five men were transferred to Provost Marshals Office for interrogation. Krishna Kumar, Janak, and Singh each admitted to being involved in selling the two trucks, but denied involvement in any previous illegal activity. Vijay Kumar and Sat Pal denied any involvement, but it was established that Vijay Kumar had actually participated. The subjects' quarters were searched and the men were subsequently released to an Ecolog representative.

Because of the undercover operation, on December 14, 2014, Krishna Kumar, Raj Janak Roop Singh, and Vijay Kumar were barred from all USFOR-A and ISAF installations in Afghanistan by the U.S. Army Garrison. The garrison also coordinated with FLUOR and Ecolog to have the subjects deported from Afghanistan and returned to India. In cases involving third country nationals (TCNs), particularly when the TCNs are the subjects of the investigation(s), Afghan prosecutors typically decline prosecution. In this specific case, the chief Bagram prosecutor declined prosecution when he was advised all subjects were TCNs. Although the TCNs were not prosecuted criminally, suspension and debarment will be sought against them by SIGAR's suspension and debarment program.

As the true value of the fire truck and the up-armored F-150 pickup truck is approximately \$643,492 and \$159,000 respectively, the investigation prevented a potential loss of \$802,492.

Following the approval, Shams wired approximately \$59,975 to a bank account owned by Bertolini's son in Ohio.

Bertolini will report to the Bureau of Prisons on February 10, 2015.

U.S. Contractor Indicted for Fraud

On December 16, 2014, in the Eastern District of Texas, George E. Green was arrested subsequent to a five count federal indictment for violations of conspiracy to commit wire fraud and structuring financial transactions.

The investigation was initiated after USAID received allegations that Green, an employee of International Relief Development (IRD), had solicited and received kickbacks in exchange for contract awards for the USAID Southern Regional Agriculture Development (SRAD) program, with a contract value of \$65 million. An Afghan employee of IRD wired \$20,000 to Green's U.S. bank account and several Afghan contractors wired \$25,000 to Green's bank account and to an antique-auto dealer in Italy. Green bought \$16,000 in jewelry in Dubai as a means to launder money and he arranged for his wife to transport over \$30,000 to the United States from Italy upon her return from their vacation together.

U.S. Contractor Pleads Guilty to Theft of U.S. Government Property

On December 12, 2014, in the Northern District of Illinois, Timothy Maurer, a former Raytheon employee, pled guilty to a criminal information charging him with theft of government property.

The investigation was initiated following reports of systemic theft of U.S. government-owned computer equipment at Shindand Air Base during 2013 and 2014. Evidence revealed that Maurer shipped 11 packages containing stolen computer equipment to individuals residing in the U.S. who were later determined to be eBay re-sellers. Maurer admitted to stealing over \$200,000 worth of equipment.

U.S. Military Member Arrested and Indicted

On December 3, 2014, in the District of Puerto Rico, U.S. Army Staff Sergeant Luis Casellas was indicted on charges of bulk cash smuggling, false statements, theft of government property, smuggling goods into the U.S., and wire fraud. Casellas was arrested on December 4, 2014, with assistance from a FBI SWAT Team.

On August 16, 2013, at the Customs and Border Protection (CBP) United Parcel Service (UPS) hub facility in Louisville, Kentucky, CBP officers interdicted \$41,750 from a parcel originating from KAF, Afghanistan. The parcel was sent by Casellas to his spouse in Puerto Rico. On August 21, 2013, CBP interdicted a second parcel sent by Casellas with an additional \$20,800 concealed in equipment items contained inside. The investigation uncovered

that the equipment was stolen property belonging to the U.S. Military LOGCAP in Afghanistan.

In September 2013, FBI San Juan, Puerto Rico, responded to the law offices of a private attorney representing an anonymous source who wanted to turn in \$46,500 in abandoned currency and items from Afghanistan. Upon recovering the abandoned cash and items from the attorney, the FBI discovered the tools were marked with LOGCAP numbers and passed the information onto agents at KAF. The items were stolen U.S. government-owned property and the theft was traced back to Casellas.

In addition to stealing approximately \$115,000 in currency and materials, Casellas received Overseas Housing Allowance payments from the Army as he fraudulently claimed he was paying rent and utilities for a residence owned by his wife. The fraud constitutes a \$96,950 loss to the U.S. government.

U.S. Military Member Discharged

U.S. Army Staff Sergeant Charles Edward McElveen was discharged from the U.S. Army under Chapter 10 of the Uniform Code of Military Justice in lieu of trial by court martial. McElveen was discharged “other than honorable” from the military for the sale and distribution of alcohol while deployed to Afghanistan from 2012 until 2013. McElveen also faces suspension and debarment proceedings.

The investigation was initiated upon receipt of allegations that Crystal Construction Company (CCC) filed false claims in connection with a contract to deliver 450 barriers used to fortify bases in Afghanistan to FOB Salerno during 2012. Additional information surfaced involving McElveen, the COR on the contract, who allegedly received kickbacks and wired the proceeds to family members in the United States. The investigation uncovered that McElveen and Desean Denny, a private contractor working at FOB Salerno, wired thousands of dollars back to the United States while in Afghanistan.

McElveen and Denny were interviewed and both confessed to the smuggling and distribution of alcohol while stationed at FOB Salerno. However, there was no evidence of kickbacks in connection to the CCC contract. Denny was terminated and suspension and debarment proceedings are pending. McElveen returned to the United States to face court-martial proceedings involving the smuggling and distribution of alcohol.

Contractor Barred from Military Installations

On October 21, 2014, Christopher McCray was served with a barment letter at BAF. McCray had previously admitted to soliciting and receiving kickbacks while employed by Berger-Cummins, a contracting firm at BAF. McCray has also admitted to stealing copper wire from Berger-Cummins and facilitating its removal from BAF through abuse of his escort authority.

Consequently, McCray is permanently barred from U.S. military installations in Afghanistan.

U.S. Government Property Worth \$103,000 Recovered

On February 14, 2014, ATL, a National Afghan Trucking (NAT) carrier, while hauling an armored pickup truck from Camp Phoenix, Kabul, to Gardez, Paktiya, was detained at a National Directorate of Security (NDS) checkpoint. NDS officials seized the truck after discovering the carrier did not have an armor license. Immediate efforts by the transportation company, the U.S. Army, and SIGAR, to take back possession of the vehicle were unproductive.

The vehicle was eventually located at the Kabul NDS logistics compound. After traveling to the compound and meeting with NDS officials on several occasions, SIGAR arranged for NDS to release the truck to a U.S. military contractor, SEK. On November 6, 2014, the truck, valued at \$103,000, was released by NDS, and SEK took possession of it for return to its rightful owner.

Suspensions and Debarments

This quarter, SIGAR's suspension and debarment program referred 12 individuals and five companies for suspension or debarment based on evidence developed as part of investigations conducted by SIGAR in Afghanistan and the United States. Seven of these individuals were referred for suspension based upon criminal charges being filed against them based on misconduct related to or affecting reconstruction contracting in Afghanistan. As shown in Figure 2.2, these referrals bring the total number of individuals and companies referred by SIGAR since 2008 to 564, encompassing 304 individuals and 260 companies to date.

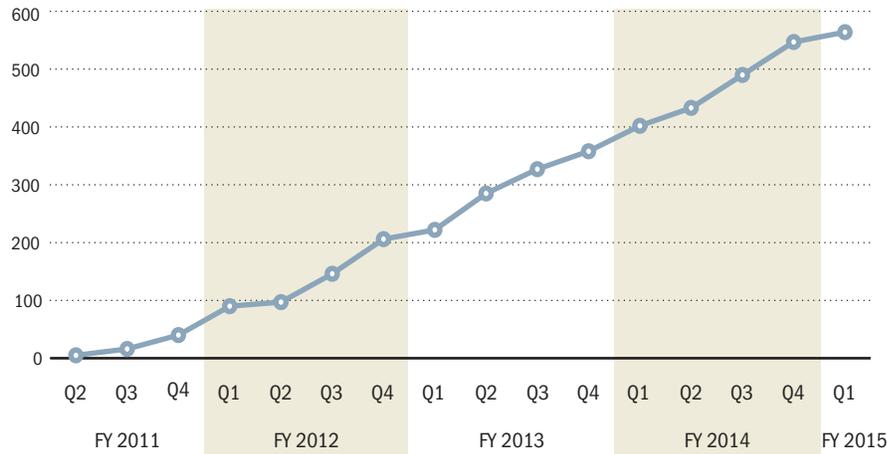
As of the end of December 2014, the efforts of SIGAR to utilize suspension and debarment to address fraud, corruption, and poor performance in Afghanistan have resulted in a total of 91 suspensions and 295 finalized debarments of individuals and companies engaged in U.S.-funded reconstruction projects. An additional 14 individuals and companies have entered into administrative compliance agreements with the Government in lieu of exclusion from contracting since the initiation of the program. During the first quarter of 2015 alone, SIGAR's referrals resulted in seven suspensions and 74 finalized debarments of individuals and entities by suspension and debarment officials at the Departments of the Army and Air Force.

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.

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FIGURE 2.2

SIGAR INVESTIGATIONS: CUMULATIVE REFERRALS FOR SUSPENSION AND DEBARMENT, Q2 FY 2011–Q1 FY 2015



Source: SIGAR Investigations Directorate, 1/8/2015.

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 that SIGAR participates in. 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 on multiple occasions for consideration by agency suspension and debarment officials.

SIGAR’s emphasis on suspension and debarment is exemplified by the fact that of the 564 referrals for suspension and debarment that have been made by the agency to date, 535 have been made since the second quarter of 2011. During the 12-month period prior to January 1, 2015, referrals

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by SIGAR's suspension and debarment program resulted in the exclusion of 176 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 nearly \$845 million.

In October 2014, SIGAR's Suspension and Debarment Team was honored with a Special Act Award for Excellence by the Counsel of the Inspectors General on Integrity and Efficiency recognizing its efforts to identify contractors engaged in fraud and poor performance on Afghanistan reconstruction contracts since the program's inception in 2011.

Debarment of 20 Individuals Participating in Fraudulent Linguist Certification Testing

The efforts of SIGAR's investigators and its suspension and debarment program resulted in the debarment of 20 individuals as the result of a discovery of a fraudulent test-taking scheme designed to process unqualified linguists for deployment to Afghanistan under the 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 perpetuate 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 U.S. government at that time. Based upon the initial allegations in SIGAR's referral and research by the Army Procurement Fraud Branch, on November 4, 2014, 20 individuals were debarred for a three-year period, ending on September 17, 2017.

Debarment of Five Companies and Two Individuals for Overbilling \$900,000 for Cancelled Tents

As a result of SIGAR's investigation into the cancellation of a contract for the expansion of Camp Deh Dadi II in Mazar-e-Sharif, Afghanistan, five companies and two individuals were debarred for overbilling the U.S. government \$900,000 for maintenance tents that were part of contract that was terminated for the convenience of the government. These tents were originally requested as part of contract W919QA-10-C-0073 in support of the expansion of Camp Deh Dadi II, awarded to Atlas Sahil Construction Company (ASCC) on September 27, 2010. As originally conceived, the contract required that ASCC deliver nine large area maintenance tents, construct multiple billeting facilities, level an area to serve as a logistics hub,

construct the logistics hub, and install a power-distribution system, generators, and an electronic sustainment system with a total value of \$10,881,800. Due to the retrograde of U.S. Forces from the Mazar-e-Sharif area, the contract was terminated on March 17, 2012. As part of the termination of this contract, ASCC submitted a claim for payment of \$1,647,400 for the nine large maintenance tents based on an invoice received from its subcontractor, Sambros International. As part of a review of the costs submitted for reimbursement, it was determined that Sambros International had only paid \$747,000 for purchase of the tents from its supplier. Following the initiation of an investigation by SIGAR, it was determined that ASCC and Sambros International had knowingly submitted invoices to the Government which claimed costs of \$171,000 for each tent, instead of \$71,000 actually paid to the supplier, resulting in a \$900,000 fraudulent claim for payment. Based on the information provided by SIGAR, on November 15, 2014, the Army debarred ASCC, Sambros International, the owners of both companies and three affiliated subsidiaries of Sambros International located in the United Kingdom for a period of approximately three years, ending on August 5, 2016. This period includes the period in which the entities were excluded from contracting after placement in proposed debarment status on August 5, 2013.

Debarment of Lakeshore Toltest Corporation and 28 Affiliated Companies Due to Failure to Pay Subcontractors and Filing of Bankruptcy

On December 10, 2014, as a result of a referral made by SIGAR, the Army Suspension and Debarment Official debarred Lakeshore Toltest Corporation and 28 affiliated companies in the United States and overseas, based upon the corporation's failure to pay Afghan subcontractors for claims made as part of reconstruction contracts and the company's filing of Chapter 7 bankruptcy in the U.S. Bankruptcy Court for the District of Delaware on May 2, 2014. Prior to its bankruptcy, Lakeshore Toltest Corporation had been ranked the 16th largest international engineering and construction contractor in the United States during 2013, based on approximately \$436 million in revenues from overseas projects during 2012 and the 110th largest construction contractor in the United States, with approximately \$537.5 million in revenues from both domestic and overseas contracts and 70% of its work coming from general construction contracts. During 2013 and 2014, SIGAR received hotline complaints from Afghan subcontractors of Lakeshore Engineering & Construction Afghanistan Inc., a subsidiary of Lakeshore Toltest Corporation, stating that the company had failed to pay for nearly \$59.8 million in goods and services it had accepted as part of the performance of reconstruction contracts. Included in these complaints were claims for non-payment related to the construction of the Afghan National Security University, including facilities housing the Afghan

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National Defense University, the Joint Services Academy, the Legal Branch School, and the Religious and Cultural Affairs School, as well as construction of ANA garrisons in Ghazni, Kunar, and Laghman Provinces. Based upon its bankruptcy filing and its history of failing to meet its financial obligations to subcontractors in Afghanistan, Lakeshore Toltest Corporation and 28 of its affiliates were debarred for a period of three years, ending on August 13, 2017. This period includes the period in which the entities were excluded from contracting after placement in proposed debarment status on August 12, 2014.

Debarment of Customs Official Based on Offer to Conceal Shipments of Goods to Afghanistan via Iran

As the result of a joint investigation by SIGAR, the Department of State Inspector General and the ICCTF, the Air Force Suspension and Debarment Official debarred Abdul Masoud Walizada based on his offers to prepare fabricated customs documents for goods shipped into Afghanistan from Iran. Walizada, a government employee working in the Surface Deployment and Distribution Command's office at the U.S. Embassy Kabul, had been previously identified as having accepted bribes to prepare paperwork that identified shipments into Afghanistan as destined for use by the U.S. military and therefore exempt from Afghan customs duties. Walizada was subsequently contacted by undercover investigators seeking assistance in shipping goods into Afghanistan and he offered to not only prepare the fictitious customs paperwork but to assist in shipping the goods through Iran, in violation of U.S. law. Walizada was subsequently terminated from his employment at the embassy, his special immigrant visa was terminated and he was debarred for a period of three years, ending on August 21, 2017.

OTHER SIGAR OVERSIGHT ACTIVITIES

Congress Acts on Issues Highlighted by SIGAR

SIGAR regularly briefs members of Congress and their staff on its audits, inspections, investigations, special projects, and other reconstruction oversight work in Afghanistan. This quarter, Congress addressed many issues highlighted by SIGAR through provisions in FY 2015 legislation, including the Consolidated and Further Continuing Appropriations Act and the National Defense Authorization Act.

Consolidated and Further Continuing Appropriations Act

The Consolidated and Further Continuing Appropriations Act and the accompanying Joint Explanatory Statement, which provides additional explanatory detail for the legislative text of the underlying bill, both

included various provisions highlighting SIGAR's reconstruction oversight, including:

- A section prohibiting DOD from using funding the bill provides to transfer additional C-130 aircraft to the ANSF until DOD provides a report to Congress on the Afghan Air Force's (AAF) medium airlift requirements. A July 2014 SIGAR alert letter to DOD called for a similar review prior to providing additional C-130 aircraft to the AAF.
- Language restricting direct government-to-government assistance to foreign governments, including Afghanistan, until various conditions are met. Among them is a requirement that implementing agencies and ministries be assessed and considered to have the systems required to manage assistance. In the case of Afghanistan, SIGAR has reported on the risks of providing direct government-to-government assistance to the Afghan government and called for placing conditions on such assistance.
- A provision prohibiting the use of Economic Support Fund (ESF) and International Narcotics Control and Law Enforcement (INCLE) funding on programs, projects, or activities in Afghanistan that are not subject to regular oversight, including site visits, by the Department of State or USAID. Over the last year, SIGAR has reported on the increased risk of waste, fraud, and abuse for reconstruction projects that cannot be accessed for oversight.
- Language requiring that ESF and INCLE funding for Afghanistan only be used for programs that the Afghans can sustain. SIGAR has reported on numerous occasions its concerns about unsustainable reconstruction programs and projects implemented by the Department of State and USAID.

National Defense Authorization Act

Likewise, the National Defense Authorization Act, which authorizes funding and programs administered by DOD for Afghanistan reconstruction, contained provisions relevant to SIGAR's oversight work, such as:

- Language requiring the Secretary of Defense to review DOD's compliance with current law concerning the disposal of covered waste in burn pits and to report to the congressional defense committees on the results of this review. SIGAR reporting has highlighted the limited operation of solid-waste incinerators at U.S. military facilities in Afghanistan and called attention to the continued use of open-air burn pits, which can expose U.S. personnel to toxic smoke.
- A section making further improvements to the Section 841, or "No Contracting with the Enemy," process to prevent the enemy from accessing U.S. government contracting funds. SIGAR's reporting has identified ways in which U.S. agencies and Congress can improve the Section 841 process.

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- A provision requiring the Secretary of Defense, in coordination with the Secretary of State, to submit a report to the congressional defense committees containing a plan for sustaining the ANSF through the end of fiscal year 2017. SIGAR has frequently highlighted the myriad sustainability challenges confronting the ANSF, including the Afghan government's lack of domestic revenue to financially sustain it.
- A section prohibiting the use of funds authorized by the bill for construction projects in Afghanistan in excess of \$1 million that cannot be audited and physically accessed by U.S. government personnel or their designated representatives. The Secretary of Defense can waive this requirement by submitting a report to the congressional defense committees that, among other things, determines the project clearly contributes to U.S. national interests or strategic objectives; the project has been coordinated with the Afghan government, other implementing agencies, and international donors; and arrangements have been made to sustain the project. SIGAR has reported frequently on oversight access restrictions for infrastructure projects in Afghanistan and the need to make basic determinations when planning and implementing reconstruction programs and projects to prevent waste, fraud, and abuse.

SIGAR Publishes High-Risk List

SIGAR published the High-Risk List in December 2014. Its role is to call attention to program areas and elements of the U.S.-funded reconstruction effort in Afghanistan that are especially vulnerable to significant waste, fraud, and abuse. SIGAR's goal is to help SIGAR as well as others such as the new Afghan government to focus attention and corrective/preventive efforts on systemic rather than idiosyncratic problems facing reconstruction efforts. The list will also highlight program areas in which SIGAR believes implementing agencies are failing to mitigate risks in their areas of operation, and will help generate actionable and substantive recommendations for executive agencies, Congress, and the new Afghan government.

SIGAR aims to mitigate risks, not prevent them or eliminate them entirely. Even in countries at peace, there is no such thing as a risk-free project. But in the conflict zone that is Afghanistan, the risks of waste, fraud, and abuse multiply. The problem is that American taxpayer dollars and strategic and humanitarian interests in Afghanistan are being placed at unnecessarily high levels of risk by widespread failure to track results, anticipate problems, and implement prudent countermeasures. And, unlike in countries at peace, those problems can lead to lives lost and U.S. national security objectives hindered or denied.

The SIGAR High-Risk List was inspired by the Government Accountability Office's (GAO) similarly named project that calls attention to federal programs that are at risk of waste, fraud, abuse or mismanagement. Like the GAO list, SIGAR's will be a work in progress, with issue

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areas and agency assessments changing over time—or staying constant, if no improvements occur. Department of Defense contract management, for example, has been on GAO’s list since 1992.

SIGAR’s topic-selection criteria also resemble GAO’s. SIGAR does not want to encourage devoting scarce human and technical resources to low value-added or non-mission-critical areas. Therefore the list of high-risk areas was developed by focusing on those that are:

1. essential to the success of the reconstruction effort;
2. at risk of significant and large-scale failure due to waste, fraud, or abuse;
3. part of ongoing or planned reconstruction efforts; and
4. subject to the control or influence of the U.S. government.

Applying that screening protocol gave SIGAR a list of seven high-risk areas:

1. Corruption/Rule of Law
2. Sustainability
3. ANSF Capacity and Capabilities
4. On-Budget Support
5. Counternarcotics
6. Contract Management and Oversight Access
7. Strategy and Planning

Each of the seven discussions in the SIGAR High-Risk List cites numerous points from SIGAR and other agencies’ work to illustrate the nature and severity of the risk. Each of the seven risk areas is a potent threat to the reconstruction mission. But because corruption is so pervasive and so destructive in every area of Afghan life, it leads the list of high-risk areas.

SIGAR also discuss the sources of risk, often a critical factor in deciding how to address the threat. The SIGAR High-Risk List notes that sources of risk for the reconstruction effort in Afghanistan include:

- limited institutional and human-capital capacity in Afghan institutions
- operational demands and constraints imposed by an active insurgency
- widespread corruption in Afghan society and government entities
- Afghan reluctance or inability to impose accountability, especially on the wealthy or well connected
- poor record keeping and data retention by U.S. agencies and Afghan entities
- frequent personnel turnover and loss of U.S. agencies’ in-country institutional memory
- U.S. oversight personnel’s noncompliance with existing rules and regulations
- lack of adequate, coordinated, context-sensitive planning to guide program conduct

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- failure to give due weight to sustainability in considering projects for Afghan control
- limited visibility into Afghan records

These points of failure illustrate the vast amount of work that an oversight agency like SIGAR faces in Afghanistan. And the challenge is growing. The drawdown of U.S. troops and the consequent reduction in security, transportation assets, and access has led other federal oversight agencies to reduce or remove their employee strength in Afghanistan.



Special IG Sopko speaks with Sarah Chayes at a December event at the Carnegie Endowment for International Peace. (SIGAR photo by Jaryd Bern)

Special Inspector General Sopko Speaks at Carnegie Endowment for International Peace

On December 10, Special Inspector General Sopko announced SIGAR's recently released High-Risk List and spoke about the corrosive effects of corruption on Afghanistan's reconstruction at the Carnegie Endowment for International Peace. Sopko said that while SIGAR welcomed President Ghani's steps to tackle corruption, more was required. He concluded his speech by emphasizing the importance of continued vigilance of reconstruction programs in Afghanistan.

Special Inspector General Sopko Speaks at NATO Conferences

In November and December 2014, Sopko spoke at two NATO Building Integrity conferences. The first conference focused on raising awareness of corruption in the defence and security sector, promoting good practice and practical tools to strengthen transparency, accountability, and integrity, and exploring the role that Members of Parliament could play in addressing these challenges. Sopko discussed the threat corruption poses to the reconstruction effort, and pointed out the opportunity to focus on corruption at the London Conference. The second conference emphasized transparent and sustainable support to the ANSF. At that conference, Sopko described the concerns that SIGAR, and others, have raised with ensuring that transparency and sustainability, given the military drawdown and the increased reliance on Afghan self-reported data to track reconstruction programs.

SIGAR Helps Conduct First All-Female Judicial Training

In January, at the request of the U.S. Department of Justice (DOJ), SIGAR's Lindy Savelle and U. S. Army Colonel Martha Foss, Resolute Support Mission senior rule-of-law attorney, provided the first all-female training to 21 Afghan judges, prosecutors and investigators at the Afghanistan Supreme Court in Kabul, Afghanistan.

The training focused on the seven-step investigative process developed by the DOJ. In the three years the DOJ has taught this course, this was the

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first time all attendees were female. In addition, the two personal security detail team members inside the training room providing security support throughout the training were also female.

Brigadier General Hekmat Shahi from the Ministry of Interior's (MOI) Director for Gender Affairs and Human Rights attended the graduation and provided remarks, highlighting the importance of cooperation in criminal cases between the court, police and the prosecutors. She and others stated this training was a historical event in the careers of female law enforcement and legal personnel as it paved the way for similar future training.

The training reinforced the importance of cooperation and coordination amongst the MOI, Ministry of Justice, Attorney General's Office and the Afghanistan Courts. Savelle and Colonel Foss emphasized to the participants how teamwork is essential in bringing about resolution on investigations, as each individual unit or component of the legal community is part of a larger overall judicial system throughout Afghanistan. During the training, time was provided to allow for coordination and networking between the participants.



SIGAR's Lindy Savelle helped provide the first all-female training to 21 Afghan judicial personnel in January. (U.S. Air Force photo by Captain Nicole R. White)

SIGAR BUDGET

SIGAR received a budget of \$56.9 million for FY 2015 in the Consolidated and Further Continuing 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 count remained steady since its last report to Congress with 200 employees on board at the end of the quarter. At the end of the quarter, there were 31 employees at the U.S. Embassy Kabul and six other employees in Afghan locations outside the U.S. Embassy. SIGAR staff members were stationed at three locations across the country, including Kandahar and Bagram airfields 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 supplements its resident staff with personnel assigned to short-term temporary duty in Afghanistan. This quarter, SIGAR had eight employees on temporary duty in Afghanistan for a total of 140 days.

“A stable and a peaceful Afghanistan that is at peace with its neighbors is in the interests of all of us, and we all expect and hope for sure that the authorities in Kabul will make good on their promises.”

—*U.S. Secretary of State John Kerry*