

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 15-50 Inspection Report

Shorandam Industrial Park: Poor
Recordkeeping and Lack of Electricity
Prevented a Full Inspection of this
\$7.8 Million Facility



APRIL
2015



SIGAR

**Office of the Special Inspector General
for Afghanistan Reconstruction**

April 17, 2015

The Honorable Alfonso E. Lenhardt
Acting Administrator, U.S. Agency for International Development

Mr. William Hammink
USAID Mission Director for Afghanistan

This report discusses the results of SIGAR's inspection of the Shorandam Industrial Park in Kandahar province. Due to missing contract files and the lack of electricity at the time of our site visit, we were not able to fully inspect and assess whether construction met contract requirements. Despite that, we found that the industrial park was underutilized at the time of our site visit. In September 2010, the U.S. Agency for International Development (USAID) transferred the park to the Afghan government. About 3 months later, the Afghan government allowed the U.S. military to build a power plant on one-third of the park to temporarily provide electricity to Kandahar City. This caused entrepreneurs to shy away from setting up businesses at the park. Since the U.S. military withdrew from the park in mid-2014, we were told that at least four Afghan businesses have started operations and additional businesses have shown an interest in the park. We are not making any recommendations in this report.

We received written comments of a draft of this report from USAID, which we incorporated, as appropriate. As part of its comments, USAID stated there had been a strategic decision that the need for the power plant outweighed the temporary loss of business at Shorandam Industrial Park. USAID's comments are reproduced in appendix II.

This is the second of three planned inspections involving the construction of industrial parks throughout Afghanistan. We reported on our inspection of the Gorimar Industrial Park in Balkh province in January 2015, and plan to report on the third park, Bagrami Industrial Park in Kabul province, later this year.

SIGAR conducted this inspection under the authority of Public Law No. 110-181, as amended; the Inspector General Act of 1978, as amended; and in accordance with the *Quality Standards for Inspection and Evaluation*, published by the Council of the Inspectors General on Integrity and Efficiency.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

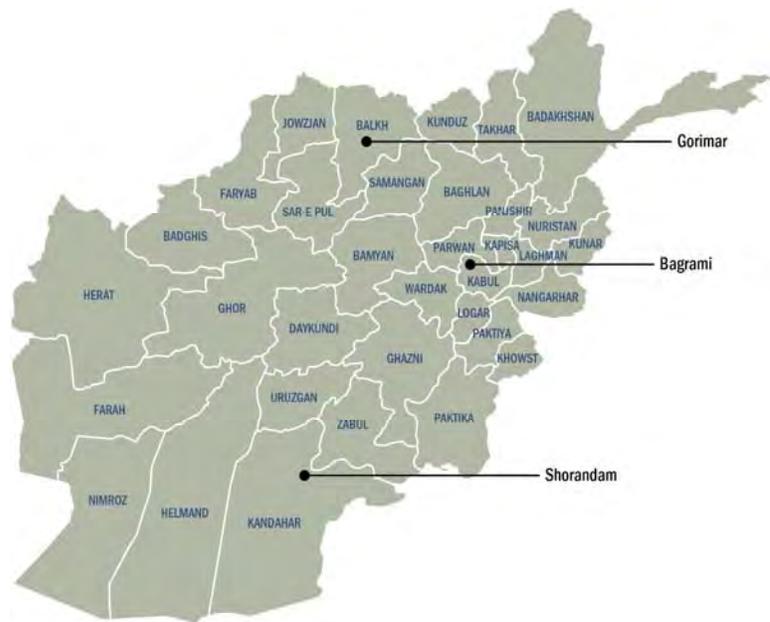
On May 24, 2004, the U.S. Agency for International Development (USAID) awarded a \$10 million firm-fixed-price contract to Technologists, Inc. (TI), headquartered in Falls Church, Virginia, for the development of three industrial parks: Shorandam Industrial Park in Kandahar province, Gorimar Industrial Park in Balkh province, and Bagrami Industrial Park in Kabul province.¹ (Figure 1 shows the location of these industrial parks within Afghanistan.) After 11 modifications, the contract's price increased to \$21.1 million. These industrial parks were built to promote economic growth and create employment opportunities for the local population.² For this inspection, we focused on Shorandam Industrial Park, which cost \$7.8 million and is located within a larger area designated as an industrial zone by the Kandahar provincial government.³ Shorandam Industrial Park consists of 37 acres within the industrial zone and is located 10 miles east of Kandahar City along the main road to Kandahar International Airport.

TI's contract called for it to oversee solicitations and bids for the design, construction, and maintenance of the three industrial parks. However, the third modification to the contract required TI to construct the parks, rather than just simply oversee solicitations and bids. Contract requirements called for Shorandam Industrial Park to include (1) a power plant and electrical distribution system, (2) a water supply system, (3) a sewer system, (4) paved roads, (5) a communications system, and (6) flood channels. Afghan officials stated that the park contains 48 individual spaces, within a secure location, for entrepreneurs to establish businesses and create jobs.

In September 2010, following project completion, USAID transferred Shorandam Industrial Park "as is" to the Afghan Investment Support

Agency (AISA), which is the government agency responsible for developing businesses at and managing all industrial parks in Afghanistan. In the handover certificate, USAID stated that the power plant, consisting of 10 generators, was not installed and, as a result, was not included in the handover. The generators were not

Figure 1 - Location of the Three Industrial Parks



Source: SIGAR analysis

¹ The contract number is GS10F-0132N.

² An industrial park is an area zoned and planned for the purpose of industrial development. According to the contract, the three industrial parks in Afghanistan were intended to provide modern, strategically located, and well-regulated industrial sites where entrepreneurs could (1) enter new markets with reduced financial exposure; (2) forego delays related to site acquisition, zoning, and permitting; (3) immediately move into functioning facilities; (4) locate facilities that share suppliers, customers, and service providers; and (4) reduce up-front investment in land, buildings, and architecture/engineering services.

³ This is the second in a series of inspections involving the construction of three industrial parks throughout Afghanistan. We reported on our inspection of Gorimar Industrial Park, located in Balkh province, in January 2015 (see SIGAR Inspection 15-30-IP, *Gorimar Industrial Park: Lack of Electricity and Water Have Left This \$7.7 Million U.S.-Funded Industrial Park Underutilized by Afghan Businesses*, January 27, 2015). We plan to report on the inspection of the third park, Bagrami Industrial Park, later this year.

installed because, in 2009, they were damaged when the warehouse storing them was bombed. However, according to USAID officials, in December 2012, the USAID-funded generators had been installed and were transferred to Da Afghan Breshna Sherkat (DABS), the Afghan power utility company, in operable condition for use in providing power to Shorandam Industrial Park.

For this inspection of Shorandam Industrial Park, our objectives were to assess whether (1) construction was completed in accordance with contract requirements and technical specifications, and (2) the industrial park was being used as intended.

We conducted our work at Shorandam Industrial Park in Kandahar province and in Kabul, Afghanistan, and in Washington, D.C., from April 2014 through April 2015, in accordance with the *Quality Standards for Inspection and Evaluation*, published by the Council of the Inspectors General on Integrity and Efficiency. The engineering assessment was conducted by our professional engineer in accordance with the National Society of Professional Engineer's *Code of Ethics for Engineers*. Appendix I contains a more detailed discussion of our scope and methodology.

POOR RECORDKEEPING AND A LACK OF ELECTRICITY AT THE INDUSTRIAL PARK PREVENTED A COMPLETE ASSESSMENT OF WHETHER CONSTRUCTION MET CONTRACT REQUIREMENTS

We visited Shorandam Industrial Park on June 3, 2014, and found that all major infrastructure components—such as the power plant and electrical distribution system, roads, sidewalks, water supply system, and flood channels—had been constructed. We did not observe any major construction issues, such as cracks in the roadways or sidewalks, missing electrical transmission lines, poorly constructed flood channels, or missing generators. (Photo 1 shows the main entrance to Shorandam Industrial Park.)

Although we observed all of the complete major infrastructure during our inspection, we were not able to fully assess whether construction met contract requirements and technical specifications due to missing USAID contract files. Our inspections normally include the review of project design, planning, construction, quality assurance, and related documents. However, USAID officials were unable to provide the requested contract documents and could not explain their inability to locate the documents. Federal Acquisition Regulation (FAR) 4.805 states that agencies are required to retain contract documentation for 6 years and 3 months after final payment for construction contracts exceeding \$2,000. Although payment records for Shorandam Industrial Park, including

Photo 1 - Main Entrance to Shorandam Industrial Park



Source: SIGAR, June 3, 2014

the record of final payment, were among the missing contract documents, USAID provided us with an e-mail stating that final invoices were still unpaid as of March 17, 2010. Therefore, pursuant to FAR 4.805, USAID was required to retain contract documents for the park until at least June 17, 2016.

This is not the first time missing contract documents prevented us from conducting a full inspection of a USAID-funded facility. In January 2015, we reported that missing contract documents limited our inspection of Gorimar Industrial Park in Balkh province.⁴ In that report, we recommended that USAID determine why contract files for the industrial park were missing and ensure that contract files for all future projects contain critical project design, planning, construction, quality assurance, and related documents as required by the FAR. In response to that recommendation, USAID acknowledged file management errors, noting that record keeping at the time of the Gorimar Industrial Park project was not optimal. As a result, they could not determine why project contract files for Gorimar were missing. However, USAID has implemented additional processes and internal controls intended to prevent the problem from happening again.

In addition to missing USAID documents, we determined that the contract modification requiring TI to construct the three industrial parks contained only general requirements. For example, it provided guidance for selecting the sub-contractors and called for the construction and installation of the six broad infrastructure components: (1) a power plant and electrical distribution system, (2) a water supply system, (3) a sewer system, (4) paved roads, (5) a communications system, and (6) flood channels. However, there were no details describing actual construction requirements, such as the required thickness and composition of the paved roads, the type of sewers to be built, or the size and capacity of the power generators that were to be provided. In the absence of other requested, but unavailable, contract documents, we relied on available as-built drawings. These drawings illustrate what the contractor actually built at the site, but not what the approved design, planning, and construction documents required. Our inspection found that the general layout and the industrial park's infrastructure, such as the roads, sidewalks, and water supply system, were consistent with the as-built drawings.

Our inspection was also limited due to the lack of electricity to test the installed systems, such as the power distribution and water supply systems, which run on electricity. As a result, we could not test whether the park's internal electrical distribution and water systems were operable and safe, or whether those crucial systems, as well as roads, flood channels and other construction, met contract requirements. An Afghanistan Industry Association official told us that the lack of electricity at the time of our inspection was a temporary issue due to maintenance being performed on the USAID-funded generators.

SHORANDAM INDUSTRIAL PARK WAS UNDERUTILIZED BY AFGHAN BUSINESSES AT THE TIME OF OUR INSPECTION, DUE PRIMARILY TO THE PRESENCE OF THE U.S. MILITARY AT THE PARK

During our site inspection in June 2014, we found one active Afghan business—an ice cream packing facility—at the park, which was originally planned to accommodate 48 businesses. We also observed three vacant structures, which the Department of Defense's Task Force for Business and Stability Operations built to encourage business development, as well as a power plant constructed by the U.S. military in December 2010.^{5, 6}

⁴ See SIGAR Inspection 15-30-IP.

⁵ Task Force for Business and Stability Operations (TFBSO) was a temporary office of the Department of Defense established in 2006, to stabilize the post-invasion economies of Iraq and Afghanistan, reduce unemployment, and attract foreign investors. TFBSO ended operations in 2014.

The construction of the power plant at Shorandam Industrial Park impacted potential business development in two ways. First, the power plant took up about one-third of the park, removing that land from private development. Second, the Afghan Industrial Parks Development director reported that U.S. military security checkpoints established at the entrance and exit to the industrial park curbed Afghan business interest in the park.⁷ In commenting on a draft of this report, USAID noted that “a strategic decision was made by all parties involved that the importance of the additional power for the Kandahar area provided by these generators, and robust security for them was more important than the potential deterrent to businesses considering utilizing the park.”

At the time of our site visit in June 2014, one Afghan business was located in the park.⁸ However, the park became more attractive to businesses in the months after the U.S. military withdrew from the site. In February 2015, the Afghan Industrial Parks Development director told us that 13 businesses had committed to moving into the industrial park, and that at least 4 of the 13 were operational. The director said that the remaining eight businesses were in the process of building their facilities. Due to security concerns in the area and associated travel restrictions, we were not able to revisit the park to verify this information.

CONCLUSION

More than 4 years have passed since construction of Shorandam Industrial Park was completed with the goal of providing a site for 48 businesses and hundreds of Afghan employees. Only one Afghan business was operating in the park at the time of our inspection in June 2014. According to the Afghan Industrial Parks Development director, the low occupancy rate at the time was primarily due to the U.S. military presence in the park after the Afghan government allowed it to build a power plant there—a project that was crucial to temporarily providing electricity to part of the Kandahar City area during the refurbishment of Kajaki Dam. Following the U.S. military withdrawal from the park in mid-2014, the Afghan Industrial Parks Development director reported in early 2015 that new Afghan businesses have started operations and additional businesses have shown an interest in the park. The Afghan official stated that 13 businesses had committed to moving into the industrial park, with at least 4 of the 13 already operating there.

Despite requirements in the FAR that contract documents must be retained for 6 years and 3 months after final payment—or until at least June 17, 2016 in this case—USAID’s contract files are missing important documentation of the detailed requirements and specifications provided to its contractor for planning, designing, and constructing Shorandam Industrial Park. As a result, we could not test whether the park’s internal electrical distribution and water systems were operable and safe, or whether those crucial systems, as well as roads, flood channels and other construction, met contract requirements.

This was similar to what we found during our prior inspection of Gorimar Industrial Park. Much like that inspection, the missing documents made it impossible for us to determine whether the contractor fulfilled all of the contract requirements for constructing Shorandam Industrial Park and that its operating systems were built according to technical specifications. In our report on Gorimar Industrial Park, we recommended that USAID

⁶ The U.S. Army Corps of Engineers (USACE) installed 10 generators at Shorandam Industrial Park to provide electrical power to part of the Kandahar City area as part of DOD’s Kandahar Bridging Solution project. These were in addition to the USAID-installed generators, which were solely for park use. The USACE power plant provided power to the east side of Kandahar City and was built as a temporary solution to replace the electricity lost when Kajaki Dam transmission lines and substations were being refurbished, and a third turbine was being added to the dam’s power plant.

⁷ Afghanistan’s Industrial Park Development Department is responsible for planning and developing industrial parks across the country.

⁸ The power plant was transferred to DABS, the Afghan power utility company, on December 31, 2013, making its operation and maintenance DABS’s responsibility.

determine why contract files for the industrial park were missing and ensure that contract files for all future projects contain critical project design, planning, construction, quality assurance, and related documents as required by the FAR. USAID acknowledged that critical project documents were not retained for the Shorandam Industrial Park and said that, despite this deficiency, USAID Kabul is committed to complying with records management policies.

AGENCY COMMENTS

We provided a draft of this inspection report to USAID for review and comment. USAID stated that a strategic decision was made by all parties involved that the importance of additional power for the Kandahar area provided by the 10 USACE-installed generators at Shorandam Industrial Park, and robust security for them, was more important than the potential deterrent to businesses considering utilizing the industrial park. USAID's written comments are reproduced in appendix II.

APPENDIX I - SCOPE AND METHODOLOGY

This report provides the results of SIGAR's inspection of the infrastructure and supporting facilities at Shorandam Industrial Park. This is the second in a series of three inspections involving the construction of industrial parks, funded by the U.S. Agency for International Development (USAID), throughout Afghanistan.⁹

Our objectives were to assess whether (1) construction was completed in accordance with contract requirements and technical specifications, and (2) the industrial park was being used as intended. We requested contract documents, design submittals, and geotechnical reports to understand project requirements and contract administration. However, according to USAID officials, they were not able to locate and provide complete contract files for our inspection. Instead, we reviewed as-built drawings to determine completed construction. We also interviewed U.S. and Afghan officials regarding facility operation and maintenance. In addition, we conducted a physical inspection of the industrial park on June 3, 2014. However, our inspection of several of the park's major systems, such as testing the electrical distribution and water systems, was limited due to the lack of electricity.

We did not rely on computer-processed data in conducting this inspection. However, we did consider the impact of compliance with laws and fraud risk.

We conducted our inspection work at Shorandam Industrial Park in Kandahar province and in Kabul, Afghanistan, and in Washington, D.C., from April 2014 through April 2015, in accordance with *Quality Standards for Inspection and Evaluation*, published by the Council of the Inspectors General on Integrity and Efficiency. The engineering assessment was conducted by our professional engineer in accordance with the National Society of Professional Engineers' *Code of Ethics for Engineers*. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our inspection objectives. We conducted this inspection under the authority of Public Law No. 110-181, as amended; and the Inspector General Act of 1978, as amended.

⁹ We reported on our inspection of Gorimar Industrial Park, located in Balkh province, in January 2015 (see SIGAR Inspection 15-30-IP, *Gorimar Industrial Park: Lack of Electricity and Water Have Left This \$7.7 Million U.S.-Funded Industrial Park Underutilized by Afghan Businesses*, January 27, 2015). We plan to report on our inspection of the third park, Bagrami Industrial Park in Kabul province, later this year.

APPENDIX II - COMMENTS FROM THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



MEMORANDUM

DATE: April 13, 2015

TO: John F. Sopko
Special Inspector General for
Afghanistan Reconstruction (SIGAR)

FROM: William Hammink, Mission Director *WH*

SUBJECT: Mission Response to Draft SIGAR Report titled
"Shorandam Industrial Park: Poor Recordkeeping and Lack
of Electricity Prevented Full Inspection of this \$7.8 Million
Facility" (SIGAR Report 15-XX under Code I-019)

REF: SIGAR Transmittal email dated 03/31/2015

USAID thanks SIGAR for the opportunity to review SIGAR's draft Inspection Report titled, "Shorandam Industrial Park: Poor Record keeping and Lack of Electricity Prevented Full Inspection of this \$7.8 Million Facility." USAID expresses appreciation to SIGAR for working collaboratively and cooperatively with USAID personnel.

When USAID arrived in Afghanistan in 2002, one of the first priorities after responding to the humanitarian crisis was to identify ways to jump-start the economy. The lack of public infrastructure was a key impediment to economic growth by Afghan and international businesses. Within just two years after USAID operations began in Afghanistan, the Agency initiated a program to establish industrial parks that could become centers for job creation in key areas around the country. The goal was to develop centers that would include basic infrastructure such as reliable, affordable power, access to sewage and potable water systems, and clear title to land. These services would be especially important for Afghan businesses to attract partnerships with international business partners.

Within four to six years after initiating the project, between 2008 and 2010, USAID successfully established four industrial parks— one outside each of the

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country's four major cities: Kabul, Kandahar, Mazar-i-Sharif, and Jalalabad. In keeping with established sustainable development practice, USAID turned the management of parks over to the Afghanistan Investment Support Agency (AISA).

It was noted by SIGAR that the Inspection of Shorandam Industrial Park (SIP) was limited in scope due to the absence of electricity at the time of SIGAR's visit to the Park, as AISA was conducting a routine maintenance on the generators. We regret that AISA and SIGAR were unable to coordinate timing for the visit and routine maintenance such that power would have been available. Nevertheless, SIGAR was able to assess all major infrastructure components of SIP including the power plant and electrical distribution system, roads, sidewalks, water supply system, and flood channels and was able to conclude that no major construction issues existed, thus confirming the construction performed by USAID was in full compliance with the project specifications and requirements in place at the time.

In regard to presence of the U.S. Military at the SIP, the U.S. Army Corps of Engineers (USACE) installed 10 generators at Shorandam Industrial Park to provide electrical power to part of the Kandahar City area as part of DOD's Kandahar Bridging Solution project. A strategic decision was made by all parties involved that the importance of the additional power for the Kandahar area provided by these generators, and robust security for them was more important than the potential deterrent to businesses considering utilizing the industrial park.

The issue of recordkeeping at USAID/Afghanistan is the same as that discussed in SIGAR's Report of the Inspection of Gorimar Industrial Park, and not a new issue related to recordkeeping. In response, USAID acknowledged the missing documents and responded that, to ensure the contract files retained critical project documents, USAID supported a compliant records management program by establishing the Communications and Records section under the Office of Management. Currently USAID Kabul is fully committed to being in compliance with the Records Management retention policies based on ADS Chapter 502.

Cc: U.S. Embassy/Kabul Coordination Directorate

APPENDIX III - ACKNOWLEDGMENTS

Brian Flynn, Senior Inspections Manager

John Dettinger, Auditor-in-Charge

Warren Anthony, Senior Auditor

Ronald Riach, P.E., Engineer

Ronald Snyder, P.E., Engineer

This inspection was conducted
under project code SIGAR-I-019.

SIGAR's Mission

The mission of the Special Inspector General for Afghanistan Reconstruction (SIGAR) is to enhance oversight of programs for the reconstruction of Afghanistan by conducting independent and objective audits, inspections, and investigations on the use of taxpayer dollars and related funds. SIGAR works to provide accurate and balanced information, evaluations, analysis, and recommendations to help the U.S. Congress, U.S. agencies, and other decision-makers to make informed oversight, policy, and funding decisions to:

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- improve contracting and contract management processes;
- prevent fraud, waste, and abuse; and
- advance U.S. interests in reconstructing Afghanistan.

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