



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

October 7, 2014

Lieutenant General Thomas P. Bostick
Commanding General and Chief of Engineers,
U.S. Army Corps of Engineers

Mr. William Hammink
USAID Mission Director for Afghanistan

Dear General Bostick and Mr. Hammink:

I am writing to inquire about the termination of a U.S. Army Corps of Engineers (USACE) contract with Perini Management Services (Perini) for services pertaining to the South East Power System (SEPS) program.¹ During my most recent trip to Afghanistan, I was told by a USAID official that a request by Perini for an additional \$30 million to cover security costs may have prompted termination of this contract.²

I have previously reported on the impact of the coalition troop drawdown on security in Afghanistan and on the reconstruction effort.³ Given the ongoing drawdown of military forces from Afghanistan, I am seeking information regarding how increased security costs may lead to the termination of this and other contracts supporting Afghanistan reconstruction programs funded by USACE or USAID. Therefore, please provide the requested information and answer the following questions:

- A copy of the terminated Perini contract, including copies of all documents relating to the termination and close out (including the final cost of the contract) as well as the reasons for the contract's termination.
- Did Perini receive any of the additional \$30 million dollars it requested for security?
- What portion of the work under the Perini contract remains uncompleted? What plans, if any, are there for completing the work by another contractor?
- What are USACE's and USAID's plans to cope with the likely increased costs of security resulting from the military drawdown? Will requests by contractors for additional security— or financial compensation for such security—be evaluated on a case-by-case basis, or are there established criteria or policies for evaluating such requests? If the latter, please provide copies of those written criteria or policies.
- What impact, if any, will termination of this contract have on the overall progress of SEPS?

¹"The South Electrical Power System (SEPS) serves Helmand and Kandahar Provinces. SEPS's power demand is 125 megawatts but the power supply is limited to 60 megawatts—30 from Kajaki Dam and 30 from costly diesel generator power plants. Delivery of low-cost grid power from NEPS to SEPS is a top priority for both Afghanistan and the United States." See *Frontlines online edition*, "Powering Up Afghanistan," January/February 2014.

² At the time of my June 2014 visit, the decision to terminate the project had been made and the contract termination process had begun. However, the process of officially terminating the contract had not been completed.

³ SIGAR Special Project 14-04- SP, *Oversight Bubble Inquiry*, October 10, 2013; SIGAR Special Project 14-28-SP, *USACE Projects & Kajaki Dam*, January 22, 2014.

Please respond no later than October 21, 2014. I am submitting this request pursuant to my authority under Public Law No. 110-181, as amended, and the Inspector General Act of 1978, as amended. Please contact Mr. Jack Mitchell, Director of Special Projects, at [REDACTED] or [REDACTED] should you have any questions.

Sincerely,

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

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

cc:

Dr. Rajiv Shah
Administrator
U.S. Agency for International Development



October 23, 2014

Mr. John Sopko
Special Inspector General for Afghanistan Reconstruction
1550 Crystal Drive, 9th Floor
Arlington, VA 22202

SUBJECT: United States Agency for International Development (USAID) and US Army Corps of Engineers (USACE), Transatlantic Division (TAD), Joint Response to SIGAR-SP-15-06 Inquiry Letter: Contract Terminations due to Security Changes, dated October 7, 2014

Dear Mr. Sopko:

Your inquiry about the termination of a USACE contract with Perini Management Services for services pertaining to the South East Power System program is being responded to in this letter jointly by USACE and USAID. We are responding jointly to your Special Projects Office since the letter was addressed to both the Department of Defense and USAID. We have also obtained contributions from US Forces-Afghanistan, the Joint Programs Integration Office/ Joint Engineers, Infrastructure Division.

Our joint response attachment provides detailed answers to your questions and will provide information you are seeking as to how increased security costs may lead to the termination of this and other contracts supporting Afghanistan reconstruction programs funded by USACE and USAID.

If you require further information, our individual points of contact for this response are USACE, Mr. Mike Hatchett, Internal Review Auditor, e-mail [REDACTED] or telephone [REDACTED]; USAID, Ms. Gina Even, Afghanistan Office of Financial Management, e-mail [REDACTED] or telephone [REDACTED] ext. [REDACTED].

Sincerely,

Charles Drilling
Director, Office of Economic Growth
And Infrastructure
USAID/Afghanistan

Richard Heitkamp
Colonel, U.S. Army
TAD, Chief of Staff

Enclosure: Joint Response to SIGAR-15-06-SP Inquiry Letter

Joint Response to SIGAR-15-06-SP Inquiry Letter: Contract Terminations due to Security Changes, Dated October 7, 2014

In response to SIGAR's questions, the following answers are provided by United States Agency for International Development and US Army Corps of Engineers Transatlantic Division:

1. A copy of the terminated Perini contract, including copies of all documents relating to the termination and close out (including the final cost of the contract) as well as the reasons for the contract's termination.

The attached documents and information below are provided to satisfy your request.

CURRENT CONTRACT COPY: Please find attached the Conform Copy of the Contract Task Order as it is modified to date, 12 October 2014. This conform copy captures all modifications to the task order in one contract document. This is not the final contract document.

FINAL CONTRACT PRICE: As this contract contains Cost Reimbursable Contract Line Items (CLINs) specifically for the security effort, the contract will not be closed out until a DCAA audit of the task order is complete. We do not have an estimated time frame for completion of DCAA's incurred cost audit.

Moreover, a final cost is not yet known for this task order. The contract value shown is not reflective of what the final paid amount will be under this contract task order. The contractor did not perform all required work, and as such the final amount of material and work performed will be subject to negotiations by a closeout specialty team located at Transatlantic Middle East District in Winchester, VA.

Additionally, the contractor was in the process of procuring several million dollars' worth of long lead material items from the U.S. and other countries. These items had been ordered prior to the termination, and it was determined that while performance under the contract was Terminated for the Convenience of the Government, it was in the Government's best interest to allow the contractor to deliver all items that had been ordered under the task order terms prior to termination. Costs already incurred to place orders along with future use of the material were two considerations for making this decision. Please reference the termination letter for specific direction given to the contractor at Termination. The last of these materials were being delivered to Kandahar as late as October 2014, approximately 150+/- days after termination. As such, the contractor has not yet submitted a final settlement proposal for this task order. This settlement proposal has been requested, and the contractor will submit their proposal when delivery of long lead items is complete.

Also note, these materials are now being provided as Government Furnished Equipment (GFE) on the Re-procurement contracts for this project.

2. Did Perini receive any of the additional \$30 million dollars it requested for security?

ADDITIONAL SECURITY PAYMENT: The contract task order W912ER-11-D-0014-0004 was terminated prior to any additional security funding being sought for the effort. The contractor received no additional funding to continue with the task order performance relating to this request in their Serial letter 200-H-130. In the contractor's letter, they requested an additional \$32 million for security, and that an estimated total for security on the project would be about \$60 million dollars. The work effort was about \$80 million dollars, based on the \$30 million security already in the \$110 million dollar task order. Estimated Security Costs would near 75 percent of the cost of the construction project itself. That estimate is what in part led to the decision to Terminate the Contract for the Convenience of the Government.

3. What portion of the work under the Perini contract remains uncompleted? What plans, if any, are there for completing the work by another contractor?

RE-PROCUREMENT: All work that remained to be completed for the SEPS projects as a result of this Termination was re-procured and the subject contracts were awarded in August and September 2014, to Afghanistan owned construction companies.

4. What are USACE's and USAID's plans to cope with the likely increased costs of security resulting from the military drawdown? Will requests by contractors for additional security—or financial compensation for such security—be evaluated on a case-by-case basis, or are there established criteria or policies for evaluating such requests? If the latter, please provide copies of those written criteria or policies.

Although the original Perini contract was terminated in May 2014, USAID in partnership with USFOR-A, moved forward with a course of action to develop activities to complete this crucial project. The work will be accomplished by USACE off-budget activities and USAID On-Budget Activities with DABS.

USACE has awarded two activities. On 24 September 2014, the SEPS civil works facilities associated with the substations was awarded and the SEPS transmission line rehab from Sangin to Durai Junction (base) to Lashkar Gah (option 1) was awarded on 25 September 2014. Both of these SEPS contracts were awarded to qualified Afghan firms using funds from the SEPS Completion Phase I. It should be noted that both contracts were awarded for far less than the official government estimate.

USAID intends to assist DABS on-budget with the development of a scope of work and procurement to install the equipment for the approximately 80km 110kV T/L in Kandahar from Kandahar East to Maiwand. This will result in a new single circuit 110kv monopole transmission lines for the Maiwand Sub Station (SS) to Pushmul SS-Breshna Kot, SS-Kandahar East SS and Sanguin North SS – Kajaki SS transmission lines. This also includes the installation of the Sanguin South, Sanguin North, and Kajaki substations.

The Afghan companies and DABS are better positioned to hire local laborers and sub-contract portions of the project to local companies, engage the local communities and along with the lack of international contractor presence, will help to reduce the security threat and related

costs. The contractors will provide their own security for their respective contracts and general security and other arrangement will be provided by the Afghan National Security Forces (ANSF) and Afghan National Police (ANP).

5. What impact, if any, will termination of this contract have on the overall progress of SEPS?

Utilizing direct contracting (off-budget) using local Afghan Construction Firms and through On-Budget implementation by the Afghanistan national Electric Utility company, Da Afghanistan Breshna Sherkat (DABS) represents what we consider the best course of action to complete the SEPs system and mitigate the security costs.

The planned and newly awarded projects are designed to take up where the terminated contract with Perini left off. The equipment purchased by Perini will be utilized reducing long lead time equipment times along with mitigating security costs utilizing On-Budget implementation with DABs and off-budget contracting with Local Afghan construction firms.

Our goal and objective remains the same after the termination of the Perini Contract. We want to complete SEPS to restore full functionality of the system to deliver power fairly, efficiently, and sustainably to population centers in the Helmand and Kandahar Provinces. As with any termination of a contract of this scale, one of the impacts to the SEPS activity will be the time it takes to complete. However, since the termination, our close coordination of effort helped to mitigate the increased time and quickly adapted to develop the combination of activities between USACE and USAID necessary to complete the activity.

Enclosures:

W912ER-11-D-0014 0004 Conform Contract 10 Oct 2014

W912ER-11-D-0014 0004 Notice of Termination for the Convenience of the Government
and Acknowledgement

Contractor Letter 200-H-127 NOTICE – Potential Impact to Security Situation

Contractor Letter 200-H-130 Additional Extension of Security Services