

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 14-82 Inspection Report

**Gereshk Cold and Dry Storage Facility: Quality of
Construction Appears To Be Good, but the
Facility Has Not Been Used to Date**



**JULY
2014**



SIGAR | Office of the Special Inspector General
for Afghanistan Reconstruction

July 16, 2014

Mr. Michael D. Lumpkin
Acting Under Secretary of Defense for Policy

General Lloyd J. Austin III
Commander, U.S. Central Command

General Joseph F. Dunford, Jr.
Commander, U.S. Forces-Afghanistan, and
Commander, International Security Assistance Force

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

This report discusses the results of SIGAR's inspection of the Gereshk Cold and Dry Storage Facility in Helmand province, Afghanistan—a \$2.89 million facility funded by the Department of Defense's Task Force for Business and Stability Operations (TFBSO). SIGAR was unable to make a site visit to this facility because of security concerns, but was able to review an extensive collection of contract and management documentation, including photos and site visit reports. Based on SIGAR's review of this information, the Gereshk Cold and Dry Storage Facility appears to be well constructed. However, the completed facility has never been used. The Afghan Ministry of Commerce and Industry (MoCI) continues to look for private sector investors to take over the facility. SIGAR recommends that as a lesson learned for successfully commercializing future TFBSO investment projects, it should ensure that before approving future investment projects of any kind, there are willing investor(s) capable of assuming ownership of and responsibility for maintaining constructed facilities; or, in the absence of investors, that the MoCI is willing and able to assume those responsibilities itself.

We provided a copy of the draft report to TFBSO, U.S. Central Command, U.S. Army Corps of Engineers, and U.S. Forces-Afghanistan for their review and comment. TFBSO partially concurred with our recommendation and provided written comments that are reproduced in appendix II. U.S. Central Command responded that the report was accurate and that it had no comments. U.S. Army Corps of Engineers and U.S. Forces-Afghanistan did not provide comments.

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.

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John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

In 2010, the Task Force for Business and Stability Operations (TFBSO) approved the reconstruction of a bombed cotton factory site in Helmand province owned by the Afghan Ministry of Commerce and Industry (MoCI).¹ At this site, TFBSO decided to build the \$2.89 million Gereshk Cold and Dry Storage Facility with the intention of it serving as a hub for agricultural development within the province. The project would construct separate cold and dry storage warehouses to store local produce, provide a location for sorting and packaging of produce, and serve as a transit point for trucks. Figure 1 shows the location of Gereshk on the main highway, the Afghan Ring Road, with access to nearby Kandahar and points east, west and north.

Since TFBSO was originally scheduled to cease operations on September 30, 2011,² TFBSO gave the U.S. Army Corps of Engineers (USACE) responsibility for awarding the construction contract and transferred project oversight responsibility to the International Security Assistance Force's Regional Command-Southwest (RC-SW).³ On September 7, 2011, USACE awarded an Afghan company the contract to design, build, and equip the facility. TFBSO's initial plans called for two cold storage warehouses with a contract option for two dry storage warehouses. However, due to limited funding, the final design was changed to one cold storage and one dry storage warehouse. The contract also included demolishing two structures; making road improvements; providing on-site prime power generation, an electrical distribution system, and a new water well; and the removal of mines and unexploded ordnances from the site.

Construction was completed in May 2013, and USACE approved the completed construction. The facility was transferred to the Afghan government in September 2013. The completed facility provides approximately 10,000 square feet of cold storage and 13,000 square feet of dry storage.

For this inspection, we assessed whether (1) construction was completed in accordance with contract requirements and applicable construction standards, and (2) the facility was being used as intended and maintained. Appendix I contains a more detailed discussion of our scope and methodology.

Figure 1 - Location of the Gereshk Cold and Dry Storage Facility on the Afghan Ring Road



Source: SIGAR analysis

¹ TFBSO was formed by the U.S. Department of Defense in 2006 and reports to the Under Secretary of Defense for Policy. Its mission is to promote economic opportunities by, among other things, encouraging investment in Afghanistan by U.S. and international businesses.

² The decision to cease TFBSO operations on September 30, 2011, was later reversed. The Secretary of Defense issued a Memorandum for the continuation of TFBSO through 2014.

³ RC-SW is one of six regional commands in Afghanistan under the International Security Assistance Force, a coalition force organized by the North Atlantic Treaty Organization. RC-SW's mission is to conduct counterinsurgency operations to protect the Afghan people, develop Afghan National Security Forces capabilities, and in conjunction with the Helmand Provincial Reconstruction Team and Afghan government, support improved governance and economic development.

GERESHK FACILITY APPEARS TO BE WELL CONSTRUCTED, ALTHOUGH A SIGNIFICANT DELAY OCCURRED IN COMPLETING THE PROJECT

We were not able to conduct an on-site inspection due to security concerns in the Gereshk area, and, therefore, we are unable to determine whether the project fully met contract requirements. Our inspectors attempted to visit the Gereshk storage facility on two occasions—January and March 2014. Although the site is within one of the “oversight bubbles”⁴ that allows civilian visits when security conditions are deemed to be safe, both visit requests were denied. International Security Assistance Force and RC-SW officials told us that the requests were denied because that area had high insurgent activity and was unsafe to visit.

However, based on interviews with agency officials and a thorough review of contract and management documentation, including photos and site visit reports, the Gereshk Cold and Dry Storage Facility appears to be well constructed. Photo 1 and 2 show the exterior and interior of one of the completed storage warehouses, and Photo 3 shows the water well in operation.

Although the quality of construction appears to be good, the project was completed 243 days after the date of completion required by the contract. The contractor attributed the delay to security concerns—including threatened and actual Taliban violence, difficulties transporting needed equipment across the border into Afghanistan, and difficulty getting experts on the installation and operation of the facility’s equipment to come to Afghanistan. To spur contractor performance, USACE sent 26 letters to the contractor, many of them expressing concerns regarding scheduling and delays in contractor performance. For example, on May 13, 2012, USACE sent the contractor a monthly progress evaluation report stating that construction activities in progress were behind schedule and needed careful attention. At one point, USACE considered terminating the

Photo 1 - Warehouse Storage Exterior, Including Loading Dock



Source: RC-SW; September 4, 2013

Photo 2 - Warehouse Storage Interior, Including Cooling Equipment and Shelving



Source: RC-SW; September 4, 2013

⁴ U.S. military officials have told us that they will provide civilian access only to areas within a 1-hour round trip, using air assets, of an advanced medical facility. This access area is referred to as the “oversight bubble.” SIGAR 14-4-SP, *Oversight Access Inquiry Letter to Department of Defense, Department of State and U.S. Agency for International Development*, October 10, 2013.

contract for default, but instead assessed liquidated damages of \$223,317 to keep the pressure on the contractor to complete the project.⁵

According to USACE documents, USACE was able to keep a local national quality assurance inspector on-site for part of the project to oversee the construction. In addition, USACE engineers and quality assurance personnel made 23 site visits during construction. According to the DD Form 1354,⁶ USACE listed several construction deficiencies associated with the storage facility including problems associated with (1) installing and painting steel shelving in the cold storage rooms, (2) testing and balancing documentation for operation of the refrigeration system, (3) videotaped training on all systems, and (4) delivering operations and maintenance manuals and as-built drawings. RC-SW officials provided us with photos showing that the contractor installed and painted the steel shelving, and USACE provided photographs and documents showing us that the contractor corrected the remainder of the deficiencies.

Photo 3 - Water Well in Operation



Source: RC-SW; September 4, 2013

GERESHK FACILITY IS NOT BEING USED OR MAINTAINED

TFBSO officials told us that they realized in the project planning phase that the key to the project's success would be operation, maintenance, and control of the completed project by an Afghan business. In fall 2011, after its 2010 approval of the project, TFBSO found a distribution and juice production company, Omaid Bahar, LTD, which was interested in expanding its activities from Kabul into Helmand province. Although the TFBSO discussed the Gereshk site with other investors, it determined that Omaid Bahar, LTD had the most comprehensive plan for using the facility. The MoCI had planned to transfer property ownership to Omaid Bahar, LTD, in August 2012. However, the company subsequently suffered extensive damage to its Kabul cold storage facility, and the planned repair expenditures kept it from expanding its business in the Gereshk area.

In April 2014, TFBSO, RC-SW, and MoCI officials told us that the Gereshk Cold and Dry Storage Facility had never been used and was not being maintained. TFBSO officials told us that several other Afghan investors have expressed interest in the facility. However, final deals have never been reached. According to TFBSO officials, the investors told them that the Afghan district governor was asking for money from the investors and the construction contractor before leasing the property. MoCI officials confirmed that the facility is still not being used, but stated that there are some businesses interested in the facility. Unfortunately, as of April 2014, MoCI had not identified a business willing to lease the facility. MoCI's Deputy Minister told us that the ministry is continuing to look for private sector investors to lease the facility.

⁵ FAR 52.211-12, as incorporated in the contract to build the Gereshk facility, states that "If the Contractor fails to complete the work within the time specified in the contract, the Contractor shall pay liquidated damages to the Government in the amount of \$919.00 for each calendar day of delay until the work is completed or accepted."

⁶ DD Form 1354 is used in connection with the transfer of military real property between the military departments and other government agencies.

CONCLUSION

The Gereshk Cold and Dry Storage Facility could have been a success story. Because Afghan quality assurance personnel were on site for part of the project, multiple oversight visits were conducted by USACE engineers and quality assurance personnel. Moreover, because USACE actively took steps to hold its contractor accountable, the facility appears well built and ready for productive use. Such a facility would likely improve the ability of local Afghan farmers to preserve fruits and vegetables for sale to national and international markets, which could generate revenues far greater than selling their produce locally.

However, TFBSO has not achieved what it told us was the key to the project's success—the operation, maintenance, and control of the facility by an Afghan business. Although the failure by Omaid Bahar, LTD to expand its operations was beyond TFBSO's control, this potential investor was not identified until well after TFBSO approved the project and USACE awarded the contract. MoCI continues to seek private sector investors to lease the storage facility. And the greatest concern may revolve around insurgent activity in the Gereshk area. Unless that concern can be overcome, the United States may face yet another situation where taxpayers' money may have been wasted, in this case \$2.89 million.

RECOMMENDATION

As a lesson learned for successfully commercializing future TFBSO investment projects, we recommend that the Acting Under Secretary of Defense for Policy direct TFBSO to ensure that

- 1. Before approving future investment projects of any kind, there are willing investor(s) capable of assuming ownership of and responsibility for maintaining constructed facilities; or, in the absence of investors, that the MoCI is willing and able to assume those responsibilities itself.**

AGENCY COMMENTS

We provided a copy of the draft report to TFBSO, U.S. Central Command, USACE, and U.S. Forces-Afghanistan for review and comment. TFBSO provided written comments that are reproduced in appendix II. U.S. Central Command responded that the report was accurate and that it had no comments. USACE and U.S. Forces-Afghanistan did not provide comments.

TFBSO partially concurred with our recommendation to ensure that there are willing investors before approving investment projects. TFBSO stated that it identified Omaid Bahar LTD as a potential investor during the construction phase and submitted the company's name to MoCI for consideration. However, due to delays in construction and MoCI's decision not to approve an investor without a completed building, Omaid Bahar LTD withdrew from the project. Nonetheless, we maintain that the identification of investors or the expressed commitment of MoCI to assume ownership and responsibility for constructed facilities prior to investments will reduce the risk of wasted funds resulting from completed but unused facilities. Indeed, TFBSO acknowledged that until the MoCI comes to agreeable terms with an investor, the Gereshk facility will remain unoccupied—a situation that may be avoided in the future through the full implementation of our recommendation.

Nevertheless, TFBSO noted that it has been incorporating lessons learned, including the recommendation in this report, for the last several years. TFBSO also noted that, as it transitions projects and shuts down its organization, it will include this recommendation and other lessons learned for future consideration. TFBSO's comments are reproduced in appendix II.

APPENDIX I - SCOPE AND METHODOLOGY

This report provides the inspection results of the Gereshk Cold and Dry Storage Facility that was commissioned by the Task Force for Business and Stability Operations (TFBSO) in Helmand province, Afghanistan. To determine whether construction was completed in accordance with contract requirements and applicable construction standards and the facility was being used as intended and maintained, we

- reviewed relevant contract documents that were available to understand project requirements and contract administration;
- interviewed cognizant Afghan officials concerning the operation and maintenance of the completed facility; and
- interviewed TFBSO and Regional Command–Southwest officials concerning the operation and maintenance of the completed facility.

SIGAR conducted its inspection work in Kabul, Afghanistan, and in Helmand province from December 2013 through June 2014. We were unable to make a site visit to the Gereshk Cold and Dry Storage Facility because of security concerns, but were able to review an extensive collection of contract and management documentation, including photos and site visit reports. Our work was performed 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 professional engineers in accordance with the National Society of Professional Engineers' *Code of Ethics for Engineers*. We did not rely on computer-processed data in conducting this inspection. However, we considered the impact of compliance with laws and fraud risk.

We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our inspection objectives. SIGAR conducted this inspection under the authority of Public Law No. 110-181, as amended, and the Inspector General Act of 1978, as amended.

APPENDIX II - COMMENTS FROM THE TASK FORCE FOR BUSINESS AND STABILITY OPERATIONS



DEPARTMENT OF DEFENSE
Task Force for Business and Stability Operations
1801 S Bell Street, Ste 409
Arlington, VA 22202



July 11, 2014

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

Dear Mr. Sopko:

Enclosed please find the Task Force for Business and Stability Operation's (TFBSO) response to the Special Inspector General for Afghanistan Reconstruction (SIGAR) Draft Audit, "Gereshk Cold and Dry Storage Facility: Quality of Construction Appears to be Good, but the Facility Has Not Been Used to Date." After careful review TFBSO concurs, in part, to the SIGAR's recommendation.

SIGAR's recommendation focuses on ensuring the availability of willing investor(s) capable of assuming ownership or control of a project before it is approved. In the case of the Gereshk cold storage facility, there was in fact a willing investor. However, due to delays in construction and a Ministry of Commerce and Industry (MoCI) decision to not approve an investor without a completed building, the investor withdrew from the project. The MoCI is still looking for an investor for this facility. To prevent recurrence of this problem, the TFBSO has adjusted the project discussion and approval model to provide more time for considering available investors.

As the TFBSO prepares to transition projects and shut down the organization, we will ensure that the SIGAR's recommendation becomes part of its lessons learned files.

Respectfully,

A handwritten signature in black ink, appearing to read "Joseph Catalino".

Joseph Catalino
Acting Director

Enclosures: As stated

TFBSO DRAFT REPORT RESPONSE
**“Gereshk Cold and Dry Storage Facility: Quality of Construction Appears to be Good, but
the Facility Has Not Been Used to Date”**
(SIGAR Draft Inspection Report I-013)

In response to your recommendation, the Task Force for Business and Stability Operations (TFBSO) submits the following response:

1. Recommendation 1:

Before approving future investment projects of any kind, there are willing investor(s) capable of assuming ownership of and responsibility for maintaining constructed facilities; or, in the absence of investors, that the MoCI is willing and able to assume those responsibilities itself.

a. TFBSO Response:

Partial Concur. As noted in SIGAR’s report, the TFBSO identified an investor, Omaid Bahar LTD, to take over the Gereshk cold storage facility. Omaid Bahar LTD was identified as a potential investor during the construction phase of the facility, and its name was submitted to the Ministry of Commerce and Industry (MoCI) for consideration. However, Omaid Bahar LTD withdrew from the project due to construction delays when the MoCI would not approve Omaid Bahar without a completed building. The TFBSO continued to search for a replacement tenant. However, the MoCI, and not the TFBSO, has final authority on a lease. The MoCI has not been able to come to terms with an investor. Until the MoCI comes to agreeable terms with an investor, the cold storage facility will remain unoccupied. Security around Gereshk has also presented a problem for the TFBSO, and as a result, TFBSO personnel have been unable to travel to the site for more than one year.

As a small, flexible organization, the TFBSO has been incorporating many lessons learned, including the recommendation outlined in this report, for the last several years. Today, almost all TFBSO investment facilitation projects have focused on reducing transaction costs and allowing private investors, rather than the government, to take the lead, resulting in investments that are both commercially driven and sustainable. As the TFBSO transitions projects and shuts down its organization, we are capturing these lessons for future consideration.

APPENDIX III - ACKNOWLEDGMENTS

Scott Harmon, Senior Inspections Manager

Brian Flynn, Senior Audit Manager

Angelina Johnston, Senior Auditor

Ron Snyder, P.E., Engineer

This inspection report was conducted
under project code SIGAR-I-013.

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:

- improve effectiveness of the overall reconstruction strategy and its component programs;
- improve management and accountability over funds administered by U.S. and Afghan agencies and their contractors;
- improve contracting and contract management processes;
- prevent fraud, waste, and abuse; and
- advance U.S. interests in reconstructing Afghanistan.

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