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Communications towers sprout atop “TV Mountain” outside Kabul. (UN photo)

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This quarter, SIGAR issued 10 written products to help the United States strengthen program management, increase efficiency, and avoid waste, fraud, and abuse in four key areas of the U.S. reconstruction effort: security, governance, economic development, and the delivery of foreign assistance. Special Inspector General John F. Sopko presented testimony before two Congressional hearings on the risks of direct assistance to Afghanistan. Sopko also gave a statement for the record to the Senate Committee on Appropriations on how to reduce waste, improve efficiency, and achieve savings.

During this reporting period, SIGAR audits and inspections identified a number of issues, including poor planning, poor contractor performance, and a lack of sustainability. One audit report concluded that a lack of planning and poor contract management had marred U.S. Forces-Afghanistan (USFOR-A) and U.S. Agency for International Development (USAID) efforts to assist in the commercialization of Afghanistan's national power utility, resulting in wasted U.S. money. A second audit report found that two new USAID-funded hospitals are probably not sustainable and that existing hospitals are facing shortages in some crucial medical positions. Another audit report found weaknesses in the Department of Defense's (DOD) process for ensuring that contractors with links to enemy groups are identified and their contracts terminated. Three inspection reports identified issues with contractor performance and power facilities at an ANP facility in Kunduz; uncovered \$5 million spent for unused incinerators; and found a success story at the Qala-I-Muslim medical clinic. The local community was making effective use of the \$160,000 clinic and the Afghan government was maintaining it appropriately.

SIGAR investigations resulted in the arrest of two Afghan citizens for the failure to install culvert-denial systems that could have saved the lives of two American soldiers. SIGAR investigations also led to nine other arrests, seven criminal charges, and three sentences in Afghanistan as well as one arrest, one guilty plea, and four sentences in the United States. For the first time, a SIGAR Special Agent testified in an Afghan court, leading to an increased sentence for an influential Afghan contractor. Monetary savings brought by SIGAR this quarter include \$1.3 million in criminal fines and

TESTIMONY GIVEN

- Testimony 13-5T: Risks of Direct Assistance to the Afghan Government
- Testimony 13-10T: Challenges Affecting U.S. Foreign Assistance to Afghanistan
- Testimony 13-11T: Reducing Waste, Improving Efficiencies, and Achieving Savings in Afghan Reconstruction

COMPLETED AUDITS

- Audit 13-6: Contracting with the Enemy
- Audit 13-7: Afghanistan's National Power Utility
- Audit 13-9: Health Services in Afghanistan

COMPLETED INSPECTIONS

- Inspection 13-6: Kunduz ANP Road Security Company
- Inspection 13-7: Qala-I-Muslim Medical Clinic
- Inspection 13-8: FOB Salerno Incinerators

COMPLETED SPECIAL PROJECT REPORTS

- Letter SP-13-3: K-Span Structure Risks

restitution, \$1.1 million in savings, and a \$4.2 million civil settlement payment to the U.S. government. SIGAR opened 52 new cases out of a total of 298 open investigations. The agency referred 18 individuals and nine companies for suspension and debarment.

Finally, SIGAR's Office of Special Projects warned about the safety of structures the U.S. military has built for the Afghan National Army (ANA) after reporting that U.S. Army Corps of Engineers (USACE) officials have decided to continue using flammable materials linked to three fires.

SIGAR TESTIFIES TO SUBCOMMITTEE ABOUT DIRECT ASSISTANCE TO AFGHANISTAN

On February 13, 2013, Sopko testified before the House Committee on Oversight and Government Reform's Subcommittee on National Security, Homeland Defense, and Foreign Operations on the challenges of providing direct or on-budget assistance to Afghanistan.

At the hearing, Sopko said that the next two years and beyond would be the most critical period for reconstruction in Afghanistan. He brought the committee up to date on SIGAR's Afghan fuel audit, which he had previously testified about in 2012. The audit had found weaknesses in the U.S. Army's process for providing petroleum, oil, and lubricants to the Afghan army. Sopko said the audit also exemplified the risks inherent to direct assistance.

For one thing, the Afghan government does not appear to have the capacity to manage the money pledged by the international community in direct assistance. And funds provided through direct assistance are typically subject to less oversight than funds provided through projects implemented by U.S. and other donor government agencies. This lower level of oversight is especially problematic because of the pervasiveness of corruption in Afghanistan.

SIGAR has a number of ongoing and planned audits of direct assistance programs. But SIGAR's ability, like the ability of every implementing agency, to conduct on-site inspections, audits, and investigations may be hindered in the very near future by security restrictions. Recently in northern Afghanistan, SIGAR was prevented from visiting a site because it was too dangerous. As a result, 38 projects and over \$72 million in U.S. taxpayer money are beyond the agency's inspection.

SIGAR TESTIFIES TO FULL COMMITTEE ABOUT FOREIGN ASSISTANCE TO AFGHANISTAN

On April 10, 2013, Special Inspector General Sopko testified again about direct assistance to Afghanistan, this time before the full House Committee on Oversight and Government Reform. He was joined by witnesses from

TESTIMONY GIVEN

- Testimony 13-5T: Direct Assistance to the Afghan Government Presents Risks
- Testimony 13-10T: Challenges Affecting U.S. Foreign Assistance to Afghanistan
- Testimony 13-11T: Reducing Waste, Improving Efficiencies, and Achieving Savings in U.S. Reconstruction of Afghanistan

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DOD, USAID, the State Department, and the Special Inspector General for Iraq Reconstruction.

Sopko pointed out that the impending end of the U.S. combat mission does not mean that aid to Afghanistan for reconstruction is also waning. On the contrary, given the \$70 billion that the international community estimates the country will need through 2024 just to fill its budget gap, Afghanistan could remain the largest recipient of American foreign assistance for years to come. In 2012 alone, the United States provided more than \$16 billion for Afghan reconstruction. That was twice the amount made available to the next four top foreign assistance beneficiaries—Israel, Iraq, Egypt and Pakistan—combined. Additionally, roughly \$20 billion of the more than \$90 billion already appropriated by Congress for Afghanistan has yet to be obligated or disbursed.

On Sopko's last trip to Afghanistan, USAID and DOD officials told him the U.S. government will distribute a significant portion of the unspent funds through direct assistance and has committed to provide over 50% of all funds in the future through direct assistance. Direct assistance has potential benefits, but SIGAR's concerns about it had increased since it reviewed USAID's capability assessments of 13 Afghan ministries scheduled to receive direct assistance. After some difficulty in obtaining access to the assessments, SIGAR's preliminary review of them raised red flags about the ability of all 13 ministries to handle direct assistance. For example, one of the assessed ministries had questionable costs that exceeded the ministry's total budget. Its staff lacked minimal procurement training. Nor did it have any specific mechanism to check for ties to terrorists. In another ministry, the assessments found that computers were vulnerable, that salaries were paid in cash, exposing the ministry to risk of theft, and that it had no way to verify the background of outside employees.

SIGAR will continue its audit of these assessments to determine whether the Afghan government has the capability to handle direct assistance, and what, if anything, USAID is doing as a result of these shortcomings.

Corruption is another serious risk that must be considered when providing direct assistance. SIGAR has found that Afghan officials are still reluctant to prosecute corrupt officials, especially if they are high-ranking or well-connected. Corruption also erodes the hopes of honest Afghans and their loyalty to the central government. At a meeting that Secretary of State John Kerry recently had with Afghan businesswomen, the businesswomen told Kerry they fear they will be marginalized by corruption. One of them told *The New York Times* that contracts will go to "only a few people who are really connected with the government."

Sopko said direct assistance must be accompanied by mechanisms—established by the United States and other donors—to protect funds and provide vigorous oversight in order to ensure monies given to Afghan ministries go to the most qualified contractors and not to the corrupt cronies of



Special IG John F. Sopko, testifying before the House Committee on Oversight and Government Reform, April 2013. (House Committee on Oversight and Government Reform photo)

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Afghan politicians. Funding should be conditioned not just on meeting measurable outcomes, but also on providing the United States and international donors unfettered and timely access to books, employees, and records and, most importantly, to the projects and programs financed by U.S. assistance.

Without adequate security for U.S. officials to manage and oversee Afghanistan reconstruction assistance, the United States runs the risk of wasting billions of taxpayer dollars.

SIGAR PROVIDES WRITTEN TESTIMONY ON SAVING U.S. FUNDS IN AFGHANISTAN

On April 18, 2013, at the request of the Senate Committee on Appropriation's Subcommittee on the Department of State, Foreign Operations, and Related Programs, Special Inspector General Sopko submitted a statement for the record on reducing waste, improving efficiencies, and achieving savings in the U.S. reconstruction of Afghanistan. Since the end of 2008, when Congress created SIGAR, its auditors and inspectors have completed 75 audit and inspection reports and made 245 recommendations that identify \$1.8 billion in questioned costs, funds that can be put to better use, and funds identified for potential recovery. But while recommendations in individual audit and inspection reports are useful for strengthening reconstruction programs and recovering funds for the U.S. taxpayer, they are primarily retrospective. In other words, once SIGAR has conducted an audit or inspection, found one or more problems, and recommended steps to address them, those problems have already occurred. That is why, in its January 2013 Quarterly Report to Congress, SIGAR laid out seven questions that decision makers, including Congress, should ask as they consider whether and how best to use remaining reconstruction funds:

- Does the project or program make a clear and identifiable contribution to our national interests or strategic objectives?
- Do the Afghans want it or need it?
- Has it been coordinated with other U.S. implementing agencies, with the Afghan government, and with other international donors?
- Do security conditions permit effective implementation and oversight?
- Does it have adequate safeguards to detect, deter, and mitigate corruption?
- Do the Afghans have the financial resources, technical capacity, and political will to sustain it?
- Have implementing partners established meaningful, measurable metrics for determining successful project outcomes?

Sopko suggested that congressional appropriators, including the appropriators on the Senate subcommittee, require State and USAID to answer, in writing, these seven questions before obligating appropriated funds

to new programs. If State or USAID cannot answer the questions in the affirmative, SIGAR proposes that they be required to provide a written justification explaining the purpose for proceeding with the obligation of appropriated funds.

AUDITS

Since its last report to Congress, SIGAR has issued three audit reports. This quarter, SIGAR also began six new audits, bringing the total number of ongoing audits to 15. The published reports, among other things, raised concern about contracting with the enemy, the commercialization of Afghanistan's national power utility, and Afghan health services. The audits made a total of 11 recommendations to ensure that contractors with links to enemy groups are identified and their contracts terminated; that the national power utility is able to go forward with commercialization; and that USAID develop a plan for making optimum use of the Gardez and Khair Khot hospitals currently being constructed.

Audit Reports Published

Audit 13-6: Contracting with the Enemy

DOD Has Limited Assurance that Contractors with Links to Enemy Groups Are Identified and Their Contracts Terminated

To reduce the risk of inadvertently contracting with individuals or entities that provide funds to groups opposing U.S. and Coalition forces, Congress included Section 841 in the FY 2012 National Defense Authorization Act (NDAA). Section 841 permits DOD to authorize a Head of a Contracting Activity (HCA) to restrict, terminate, or void a DOD contract, grant, or cooperative agreement with an entity or individual determined to be actively supporting an insurgency or otherwise opposing U.S. or Coalition forces in the U.S. Central Command (CENTCOM) theater of operations, including Afghanistan. As of January 18, 2013, CENTCOM has issued four notification letters identifying five companies and their associates as Section 841 designees. This audit describes the processes DOD has established to implement Section 841, assesses the extent to which DOD's process for implementing Section 841 has aided in identifying and preventing U.S. contracting funds from being provided to individuals and entities identified as actively supporting an insurgency or opposing U.S. or Coalition forces in Afghanistan, and lists some areas of the Section 841 legislation that could be strengthened to prevent contracting with the enemy.

FINDINGS

DOD has established a two-phase process to comply with Section 841. The first phase involves the targeting, reviewing, designating, and,

COMPLETED AUDITS

- Audit 13-6: Contracting with the Enemy: DOD Has Limited Assurance that Contractors with Links to Enemy Groups Are Identified and Their Contracts Terminated
- Audit 13-7: Afghanistan's National Power Utility: Commercialization Efforts Challenged by Expiring Subsidy and Poor USFOR-A and USAID Project Management
- Audit 13-9: Health Services in Afghanistan: Two New USAID-Funded Hospitals May Not Be Sustainable and Existing Hospitals Are Facing Shortages in Some Key Medical Positions

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ultimately, notifying the HCA of a Section 841 person or entity. U.S. Forces-Afghanistan's Task Force 2010 (TF 2010) currently administers the intelligence portion established by Section 841. Once a target has been identified, TF 2010 assembles an information package on the target and conducts preliminary intelligence and legal analyses. The Section 841 information package is routed through a series of coordinating agencies of International Security Force Assistance Force Joint Command for review and concurrence before it goes to CENTCOM for a final decision. Upon approval, the CENTCOM Commander prepares a Section 841 notification listing the entities identified, along with a request that the HCAs exercise the authority provided in Section 841 to restrict, terminate, or void contracts with those listed. CENTCOM then distributes the notification to the HCAs. In the second phase, the HCAs determine if they have any contracts with the person or entity listed in the CENTCOM notification. The process concludes when the HCA responds to CENTCOM with the actions taken on the contracts.

SIGAR has identified several weaknesses in DOD's process for implementing Section 841 that prevent the department from having reasonable assurance that U.S. government contracting funds are not being provided to persons or entities supporting the insurgency and opposing U.S. and Coalition forces. As a result, millions of contracting dollars could be diverted to forces seeking to harm U.S. military and civilian personnel in Afghanistan and impede the multi-billion reconstruction effort.

Specifically, SIGAR found:

- Some contracts did not (1) contain the required clause prohibiting contractors from entering into subcontracts with Section 841 designees or (2) notify contractors of HCAs' authorities. The agency's failure to include the clause in contracts may prevent contractors from knowing their legal requirement to avoid contracting with Section 841 designees and understanding the HCAs' authorities to restrict, terminate, or void their contracts if they fail to meet their legal obligations.
- Some HCAs did not receive CENTCOM's notification identifying supporters of enemy groups, which may make it difficult for HCAs to take necessary actions on any contracts issued to Section 841 designees.
- HCAs have not consistently informed their prime contractors of Section 841 designations, even though the most recent Section 841 notification requests that they do so. Furthermore, DOD has not developed a formal policy for all HCAs to disseminate or notify prime contractors of Section 841 designations, leaving it to the individual HCAs to develop their own. In the absence of a formal policy, HCAs and prime contractors may continue to contract with and award future contracts to Section 841 designees in violation of the law.
- CENTCOM began posting Section 841 designations on its public website in January 2013; however, contracting officers and prime contractors are not required to regularly review the information.

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- Because HCAs do not have full visibility over most subcontracts, they must rely on their prime contractors to identify subcontracts with Section 841 designees and take necessary steps to terminate, restrict, or void them. Currently, prime contractors are not required to formally certify that they do not hold any subcontracts with Section 841 designees. As a result, HCAs have little assurance that they are identifying all contracts with Section 841 designees.
- HCAs and prime contractors are at risk of legal challenges from Section 841 designees because DOD has not provided guidance addressing the consequences of and actions to take after exercising Section 841 authorities. Contracting officials also lack guidance for absorbing the financial costs—such as seeking a new contractor—associated with restricting, terminating, or voiding a contract with a Section 841 designee. Without such guidance, HCAs and prime contractors may not be able to formulate an appropriate response to current and future legal challenges.
- DOD does not centrally track actions taken pursuant to Section 841 authorities. Section 841 requires the Secretary of Defense to report annually to Congress in 2013, 2014, and 2015 on the use of authorities during the preceding year. Currently, both the Office of Defense Procurement and Acquisition Policy and CENTCOM are collecting this data, resulting in a duplication of effort.

Finally, SIGAR found areas where Section 841 could be strengthened. For instance, Section 841 only applies to contracts valued in excess of \$100,000, although a large number of contracts awarded in Afghanistan fall below that threshold. In addition, Section 841 will expire on December 31, 2014, putting in question the status of designations made under the section and relevant clauses included in contracts issued prior to this date.

SIGAR is addressing Department of State and USAID efforts to prevent contracting with the enemy in a separate review.

RECOMMENDATIONS

SIGAR is making seven recommendations to the Director of the Office of Defense Procurement and Acquisition Policy: five recommendations to improve visibility over active contracts in Afghanistan; one to formally determine, in coordination with the Commander of CENTCOM, which entity will be responsible for centrally tracking data on Section 841 actions, thus preventing duplication of effort; and one to ensure that HCAs have the information needed to respond to legal challenges and address any financial liabilities that may result from exercising their Section 841 authorities.

MATTERS FOR CONSIDERATION

SIGAR has also included matters for congressional consideration. To ensure all contracts in Afghanistan are subject to Section 841, Congress may wish

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to consider eliminating the \$100,000 threshold value for contracts. To provide DOD with greater clarity on the future of designations and efforts made under Section 841, Congress may wish to provide guidance on the status of the designations once the legislation expires on December 31, 2014. Lastly, if the intent is for Section 841 designations to expire with the legislation, Congress may wish to consider requiring contracting agencies to preserve information and intelligence gathered through the Section 841 process.

AGENCY COMMENTS

CENTCOM, USACE, and the Air Force Civil Engineer Center (AFCEC) provided technical comments, which SIGAR incorporated into its final report, as appropriate. DOD's Office of Defense Procurement and Acquisition Policy officials provided informal comments that generally supported SIGAR's recommendations for improving the process for notifying the DOD acquisition community and contractors of Section 841 designees, and stated that they will provide formal comments after the release of the final report.

Audit 13-7: Afghanistan's National Power Utility

Commercialization Efforts Challenged By Expiring Subsidy and Poor USFOR-A and USAID Project Management

Since 2008, the Afghan government has identified making improvements to its energy sector as a top priority, including increasing revenues and reducing power losses from generation through distribution. Collectively, these initiatives are referred to as commercialization. Since 2009, the U.S. government has obligated almost \$88 million to help the Afghan government commercialize Da Afghanistan Breshna Sherkat (DABS), its national power utility. DABS operates and manages electric power generation, import, transmission, and distribution services throughout Afghanistan.

U.S. government projects funded by USFOR-A and USAID focus on helping DABS increase cost recovery, reduce losses, and build its capacity to manage, operate, and maintain a national power system. To date, USFOR-A and USAID have focused their efforts in Kabul, Kandahar, and Helmand Provinces. The first objective focuses on the self-sufficiency of DABS-Kabul because there is a lack of reliable, available data for other directorates—such as data on revenues and losses. This report is the second of two reports on U.S. efforts to assist in the commercialization of DABS. SIGAR evaluated (1) the extent to which U.S. assistance contributed to DABS-Kabul's goal of becoming self-sufficient and (2) USFOR-A and USAID management of commercialization projects.

FINDINGS

Although USAID investments resulted in some commercialization successes for DABS-Kabul in recent years, it is not able to pay its bills without an Afghan government subsidy set to expire in 2014. For example, with the

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assistance of a \$53 million project funded by USAID to assist in the commercialization of DABS-Kabul, cash collections increased by nearly 60%. However, DABS-Kabul—one of the best-performing electricity directorates in all of Afghanistan—is still operating at a financial loss.

Further, USFOR-A and USAID have provided nearly \$88 million to assist in commercializing DABS in Kabul, Kandahar, and Helmand, but poor management of commercialization projects by the U.S. agencies hindered U.S. efforts. For example, USFOR-A approved eight Commander's Emergency Response Program (CERP) projects intended to help DABS decrease losses and increase revenues from electricity sold; these projects were designed to procure urgently needed electricity distribution equipment for Kandahar and Helmand. As identified in a SIGAR interim report in December 2012, almost \$12.8 million of the equipment purchased by the U.S. Army Corps of Engineers-Afghanistan Engineer District South (USACE-TAS) on behalf of USFOR-A as part of Kandahar commercialization efforts was sitting unused in U.S. government-controlled storage.

SIGAR also found no clear plans for the equipment's installation. Although this equipment, which was approved and funded by USFOR-A, arrived without an installation plan and was placed in storage, USFOR-A continued to approve projects for similar equipment without an installation plan. As a result, \$10.2 million of additional equipment for Helmand remains in storage without an approved plan for installation. Moreover, USAID's decision to approve an expanded scope of work on a sole-source basis may have inappropriately limited competition because there may have been other technically capable bidders.

Finally, although USAID required its contractor to implement a billing system in Kandahar that was consistent and coordinated with systems in Kabul, USAID did not enforce these contractual requirements, allowing a different system to be installed in Kandahar that was later deemed a failure by USAID and DABS. As a result, USAID wasted nearly \$700,000 to implement the Kandahar system, which will ultimately be replaced by the same system originally installed in Kabul.

RECOMMENDATIONS

SIGAR recommends that the Commanding General for USFOR-A Regional Command-Southwest work with DABS to finalize the installation schedule for the equipment. SIGAR also recommends that the USAID Mission Director for Afghanistan require that USAID-funded systems are coordinated with DABS Corporate and consistent nationwide.

AGENCY COMMENTS

USFOR-A concurred with SIGAR's recommendation that it should work with DABS to finalize the installation schedule for the Helmand equipment within the warranty period. USFOR-A outlined a series of actions it is taking



Unused electrical distribution equipment sitting in a Shoredam storage facility. (SIGAR photo)

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or plans to take to address the recommendation and “rectify the situation.” SIGAR will follow-up with USFOR-A after 90 days to ensure it has taken appropriate action.

In commenting on the draft of this report, USAID disagreed with several of SIGAR’s statements. Most notably, USAID disagreed with SIGAR’s statement that DABS-Kabul’s self-sufficiency is uncertain because of expiring subsidies. USAID stated that phasing out the subsidies was part of the agreement with the Ministry of Finance and DABS from inception, and removing the subsidies in favor of commercial viability is the goal of its partnership with DABS. To fill the revenue gap left by the planned reduction in subsidies, USAID also stated that increasing customer rates for energy consumption as well as further decreasing losses will eventually bring revenue in line with operational costs. While such efforts may result in revenue/costs alignment, SIGAR questions whether those positive results can occur before the subsidies expire in 2014 and, therefore, believes that the agency’s finding that the self-sufficiency of DABS is questionable remains valid.

USAID concurred with SIGAR’s recommendation that it should require any system funded by the Power Transmission Expansion and Connectivity program to be coordinated with DABS Corporate and consistent nationwide. USAID provided a copy of the “Request for Proposal” for DABS commercialization, which stated that mPower will be the billing system used as USAID expands commercialization efforts into Herat, Kandahar, Nangarhar, and Balkh. With appropriate contract management and USAID’s assurance that any additional expansion includes similar requirements, USAID’s actions will meet the intent of SIGAR’s recommendation.

Audit 13-9: Health Services in Afghanistan

Two New USAID-Funded Hospitals May Not Be Sustainable and Existing Hospitals Are Facing Shortages in Some Key Medical Positions

USAID is a primary provider of health sector assistance to the Afghan government, along with the World Bank and European Union.



Gardez hospital under construction. (SIGAR photo)

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Through its assistance, USAID has sought to expand access to the Afghan public health system by increasing the number of medical facilities and health professionals available to provide health-care services. This includes the Construction of Health and Educational Facilities (CHEF) program to build two new hospitals—in Gardez and Khair Khot—and the Partnership Contracts for Health (PCH) program to provide health services in 13 Afghan provinces, including the delivery of the Essential Package of Hospital Services (EPHS) in five provinces. Much of the funding for the PCH program is provided as direct assistance to the Afghan Ministry of Public Health (MOPH).

This report assesses whether (1) USAID has ensured that the Afghan government can sustain two hospitals currently being built with USAID funds, and (2) medical staffing required for the five provincial hospitals operated with USAID funds was being provided.

FINDINGS

The Afghan government may not be able to sustain two hospitals—Gardez in Paktiya province and Khair Khot in Paktika province—currently being built with USAID funds. USAID’s \$18.5 million investment in these new hospitals may not be the most economical and practical use of these funds. First, USAID did not assess MOPH’s ability to operate and maintain these new facilities once completed. Second, construction began on the new hospitals about one year before USAID coordinated the design plans with MOPH. USAID’s late coordination resulted in the construction of facilities that are larger—Gardez hospital is 12 times larger than the facility being replaced—than can be sustained, and increased estimated operating costs for the new facilities that are disproportionate to current costs.

SIGAR reviewed the two hospitals under construction as part of the CHEF program and found that their estimated annual operation and maintenance costs could be over five times the annual operating costs for the hospitals they are replacing. For example, the existing Gardez hospital has annual operating costs, including fuel, of about \$611,000, and USAID estimates that annual fuel costs alone for the new hospital could be as much as \$3.2 million. Similarly, the existing Khair Khot hospital has annual operating costs of about \$98,000 and USAID estimates that annual operation and maintenance costs alone for the new hospital will be about \$587,000. Neither USAID nor MOPH has committed to provide funding to cover the additional operating costs of the new hospitals.

SIGAR also found that some provincial hospitals are experiencing staffing shortages for certain key medical positions. Specifically, four of the five provincial hospitals that SIGAR reviewed to determine whether they met medical staffing standards reported persistent vacancies, some lasting several years, according to non-governmental organization (NGO) officials. The EPHS program specifies the minimum number of doctors required to

provide the basic level of health-care services and the higher, “advised” number of doctors needed to provide the full range of health-care services for provincial hospitals. SIGAR found that only one of the five hospitals met the minimum staffing standards for all five key positions reviewed. In addition, none of the five hospitals met the “advised” staffing standards, except for the general practitioner and pediatrician positions; and three of the five hospitals had no anesthesiologist, one had no pediatrician, and two had no obstetrician/gynecologist.

MOPH contracts require NGOs to implement the full range of health-care services—including staffing—at hospitals during the life of the contract. However, NGO officials stated that the limited availability of doctors in Afghanistan, combined with the low pay for doctors, make it difficult for them to staff key positions at provincial hospitals. Although MOPH submits semi-annual and annual performance reports to USAID, these reports do not include an evaluation of the program’s success in meeting the EPHS guidelines on required staffing levels.

RECOMMENDATIONS

SIGAR recommends that the USAID Mission Director, in coordination with the Afghan Ministry of Public Health, (1) develop a plan for making optimum use of the Gardez and Khair Khot hospitals currently being constructed, and (2) establish and monitor milestones for achieving the minimum and advised staffing levels at provincial hospitals and include information on meeting these milestones in annual program reviews.

AGENCY COMMENTS

At the time this report went to press, the agency was still preparing formal comments on a draft of the report. The final report contains the agency comments and response to the findings and recommendations (www.sigarmil).

NEW AUDITS

- Effect of the Transition from Private Security Contractors (PSCs) to the Afghan Public Protection Force (APPF) on USAID Reconstruction Projects
- Afghan Government’s Implementation of the Verified Payroll Program
- USAID Assistance to Afghanistan’s Water Sector
- Reliability of Afghan National Security Forces Personnel Data
- U.S. Government Reconstruction Transition Plan
- Assessments of Afghan Ministerial Capacity

New Audits Announced This Quarter

During this quarter, SIGAR initiated six audits. The audits will assess:

- the effect of USAID’s transfer of security functions from private security contractors to the Afghan Public Protection Force (APPF)
- the Afghan government’s Verified Payroll Program
- USAID’s water sector projects since FY 2010
- the reliability of Afghan National Security Forces (ANSF) personnel data
- the U.S. government’s plan for transitioning reconstruction activities
- USAID’s efforts to assess the ability of the Afghan government to manage and account for funds provided through direct or “on-budget” assistance

Transfer of Security Functions to APPF

SIGAR has initiated a follow-on audit to its June 2012 report that assessed the potential effects of USAID's transfer of security functions for its reconstruction projects in Afghanistan from private security contractors (PSC) to the APPF. In March 2011, President Hamid Karzai called for the dissolution of all PSCs and stated that security responsibility for development projects would transfer to the state-run APPF by March 2012. SIGAR's 2012 report highlighted concerns regarding USAID's transition to the APPF. USAID committed to closely monitor this transition and assess outcomes. This audit will identify (1) the cost of security services for selected USAID projects and any effect the transition to the APPF had on overall security costs for reconstruction projects, (2) USAID mechanisms to review security costs and oversee security services, and (3) the impact of the APPF transition on reconstruction projects. The audit will also determine whether USAID's implementing partners for selected projects were appropriately using companies licensed by the Afghan government.

Afghan Payroll Execution Capacity

SIGAR has initiated an audit of the Afghan government's Verified Payroll Program. The audit will focus on the government's implementation of the Verified Payroll Program and will determine the extent to which the government demonstrated the capability to make salary payments to its civil service employees for only authorized personnel, in accordance with approved salary structures, through direct deposit, and within established time frames according to program requirements and national law.

USAID's Water Sector Projects

The development of Afghanistan's water resources is an important goal of the U.S. reconstruction effort. Decades of conflict and persistent drought have resulted in damaged irrigation systems and other water infrastructure, insufficient water monitoring and storage, lack of access to safe and adequate drinking water, lack of reliable water-related data, and lack of skilled human resources in water management. Other issues include the need for strengthened water governance and regulation, and environmental stewardship.

The U.S. Government Accountability Office (GAO) reported on U.S. efforts to support the Afghan water sector in November 2010. GAO recommended that USAID, in coordination with DOD and relevant agencies, develop an implementation plan for the U.S. Inter-Agency Water Strategy for Afghanistan; designate a centralized database, and improve performance management. GAO also noted that the U.S. government planned to accelerate water-sector development, with estimates of \$2.1 billion needed to fund these efforts from FY 2010 through FY 2014.

The objectives of this audit are to (1) determine the extent to which completed, ongoing, and planned projects meet USAID's project goals and

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objectives and align with the 2010 U.S. Inter-Agency Water Strategy for Afghanistan and (2) identify and assess USAID plans for water-sector projects post-2014.

ANSF Personnel Data

As of December 31, 2012, Congress had appropriated more than \$51 billion to build, equip, train, and sustain the Afghan National Security Forces (ANSF) as it approaches its target strength of 352,000 by December 2014. However, SIGAR and others have reported that determining ANSF strength is fraught with challenges. U.S. and Coalition forces rely on the Afghan forces to report their own personnel strength numbers, which are often derived from hand-prepared personnel records in decentralized, unlinked, and inconsistent systems. Moreover SIGAR has reported that there is no viable method of validating personnel numbers. Accurate and reliable accounting for ANSF personnel is necessary to help ensure that U.S. funds that support the ANSF are used for legitimate and eligible costs. This audit will assess the reliability and usefulness of data for the number of ANSF authorized, assigned, and trained. It will also review the methodology for gathering data on ANSF personnel, including the extent to which DOD reviews and validates the information collected.

Transitioning Reconstruction Activities

In June 2011, President Obama announced that U.S. combat troops would be withdrawn from Afghanistan in 2014, and that the United States would remain committed to supporting the development of a sovereign Afghanistan. Given U.S. strategic goals and the resources already invested and expected to support Afghanistan in the future, it is critical that reconstruction assets and projects completed by the United States are maintained and used to meet their intended purposes. This audit will determine whether U.S. government agencies have a comprehensive, inter-agency plan in place and whether those plans address the asset-transfer process, the Afghan government's ability to maintain those assets, and the extent to which a comprehensive inventory of all U.S.-funded projects and assets has been developed and documented.

Ministerial Capacity to Accept Direct Assistance

From 2007 to 2010, USAID-Afghanistan completed pre-award assessments of the Afghan Ministries of Finance; Communications and Information Technology; Public Health; Agriculture, Irrigation, and Land; Education; and Rural Rehabilitation and Development. USAID's Office of Inspector General (OIG) assessed the reliability of these pre-award assessments in 2010 and found that they were not reliable. USAID OIG made a number of recommendations to USAID to strengthen its pre-award assessment process. In 2011, USAID contracted with accounting firms Ernst & Young and KPMG to assess

the capacity of Afghan government ministries to accept and manage direct or “on-budget” assistance. This audit will assess the USAID-funded assessments, summarize the firms’ findings, and evaluate how USAID is using and plans to use the ministerial capacity assessments in proceeding with direct assistance.

Ongoing Audits

USAID’S Southern Region Agricultural Development Project’s Partnership with International Relief and Development Inc.

USAID is funding the Southern Region Agricultural Development Project to combat regional instability, increase agricultural employment and income, and assist the region’s transition from an insecure area to one with a sustainable and prosperous agricultural economy. In February 2012, SIGAR received allegations that USAID’s implementing partner, International Relief and Development Inc. (IRD) had failed to coordinate sufficiently with the local government and military officials and was spending funds on solar panels and farm tractors without justification. SIGAR is conducting this examination to assess the basis for the acquisition and distribution of the solar panels and farm tractors, and to determine whether IRD’s expenditures complied with the terms of its strategic partnership agreement and the intended goals of the program.

Business Taxes Imposed by the Government of the Islamic Republic of Afghanistan on Contractors Supporting the U.S. Government in Afghanistan

The United States relies heavily on contractors and their subcontractors to implement U.S. reconstruction programs in Afghanistan. The Afghan government is charging business taxes and penalties on contractors supporting U.S. government activities. The objectives of this audit are to determine (1) the amount and types of inappropriate business taxes and associated penalties the Afghan government assessed and the amount paid and reported by contractors supporting U.S. government contracts in Afghanistan, and (2) the extent to which U.S. government agencies have taken steps to minimize the tax burden imposed by the Afghan government on these contractors.

U.S. Support for the Afghan Special Missions Wing

Despite efforts by the international community and the Afghan government to reduce poppy cultivation and illicit drug trafficking, Afghanistan still produces about 90% of the world’s opium. The illicit trade also supports the insurgency. The U.S. counternarcotics strategy strives to cut off the flow of funds to the insurgency through interdiction operations. These operations depend on U.S.-funded air-mobility support to U.S. and Afghan law enforcement officials. U.S. efforts to enhance the capabilities of the Afghan Special Missions Wing (SMW)—formerly known as the Air Interdiction Unit—are

ONGOING AUDITS

- USAID’s Southern Region Agricultural Development Project’s Partnership with International Relief and Development Inc.
- Tariffs, Taxes, or other Fees Imposed by the Government of the Islamic Republic of Afghanistan on U.S. Contractors Conducting Reconstruction Activities in Afghanistan
- Air Mobility Support for Afghan Drug Interdiction Operations
- State’s Financial Audit Coverage of Costs in Afghanistan
- Ongoing Construction Projects for the ANSF
- Afghan National Police Petroleum, Oils, and Lubricants
- \$230 Million in Missing Repair Parts
- Afghan National Security Literacy Training
- Training of Afghan Justice Sector Personnel

critical to sustaining counternarcotics operations. This audit will identify (1) the extent to which U.S. assistance has helped to develop a sustainable SMW that can independently perform its mission; and (2) the effectiveness of U.S. government oversight of contracts/task orders to provide support to the SMW.

State's Financial Audit Coverage of Grants and Cooperative Agreements in Afghanistan

Since 2002, the State Department has awarded \$315 million of Afghanistan reconstruction funds through 140 grants and cooperative agreements, each valued at \$1 million or above. Financial audits of funds expended under such awards provide State with independent assessments of how those funds were used. In 2012, SIGAR completed an audit of USAID's audit coverage for reconstruction efforts (SIGAR Audit 12-9). Now it is conducting a similar audit of financial audit coverage of costs incurred under State's reconstruction-related cooperative agreements and grants in Afghanistan.

Construction Requirements for the ANSF

As of June 30, 2012, the United States had 311 ongoing construction projects for the ANSF valued at about \$3.73 billion and an additional 244 planned projects valued at about \$2.4 billion. SIGAR will examine the Combined Security Transition Command-Afghanistan's (CSTC-A) justification and support for the project requirements. The audit will also assess: (1) the extent to which U.S. and Coalition basing plans for the ANSF reflect ANSF force strength projections; (2) whether CSTC-A fully considered alternatives to new construction; (3) whether CSTC-A developed and used appropriate criteria to ensure that current and proposed construction projects for the ANSF are necessary, achievable, and sustainable by the Afghan government.

Afghan National Police Petroleum, Oil, and Lubricants

In 2012, SIGAR published an audit of ANA logistics capacity for petroleum, oil, and lubricants (POL). SIGAR Audit 13-4 identified the need for controls over ANA POL to prevent fraud, waste, and abuse of more than \$1.1 billion in U.S. funds. Afghan National Police (ANP) POL is subject to the same short transition timelines and challenges as ANA POL, and SIGAR anticipates that similar issues will surface in the audit of ANP logistics capacity. The new audit will focus on the two main issues identified in regard to ANA POL: accuracy of fuel requirements, and accountability for fuel purchases.

\$230 Million in Missing Repair Parts

In September 2012, the Commander of the International Security Assistance Force's Advisory and Assistance Team—a military assessment team—reported that CSTC-A could not account for 474 out of 500 shipping

containers with \$230 million worth of repair parts for ANSF equipment. CSTC-A purchased the repair parts for the Afghan forces between 2007 and 2011. The team said their disappearance may have triggered a requirement that CSTC-A reorder additional repair parts at a cost of nearly \$137 million. The team issued a report recommending that SIGAR investigate CSTC-A's process for ordering and managing these repair parts. The report identified accountability issues throughout the entire logistics life cycle of the repair parts, including the shipment of parts into Afghanistan, acceptance of the parts by the U.S. government in Kabul, storage of the parts by ANSF contractors and subcontractors, and conveyance of the parts to the ANSF. The SIGAR audit will (1) assess the process CSTC-A uses to determine requirements and to acquire, manage, store, and distribute Class IX repair parts for the ANSF; and (2) evaluate the internal controls in place to determine if they are sufficient to account for Class IX repair parts and to prevent fraud, waste, and abuse.

ANSF Literacy Training

Illiteracy in the ANSF remains a major obstacle to effectively developing a capable and self-sustaining force that can operate independently and defend the Afghan people. The United States has funded three contracts, valued at \$200 million through 2015, to provide ANSF literacy training with the goal of significantly reducing its illiteracy levels. SIGAR will evaluate the implementation and oversight of the ANSF literacy training program under the three contracts. It will assess whether the contractors provide qualified instructors and services; the extent to which CSTC-A monitored the contractors' performance and training outcomes; and the extent to which the contracts are meeting the goal of providing basic, sustainable levels of literacy for the ANSF.

Training of Afghan Justice Sector Personnel

The United States has made it a strategic reconstruction priority to establish rule of law in Afghanistan and is providing assistance programs and funds to support justice-sector development. This audit will focus primarily on the Department of State's Judicial Sector Support Program. This program aims to train justice-sector personnel and build the overall capacity of the Afghan judicial system. SIGAR also plans to review DOD's Rule of Law Field Force-Afghanistan and USAID's Rule of Law Stabilization Program, both of which also seek to train justice personnel.

Financial Audits

SIGAR's financial audit program uses a risk-based approach to identify and carry out audits of costs incurred under U.S.-funded contracts, grants, and cooperative agreements for Afghanistan reconstruction. The program was established after Congress and the oversight community expressed concerns

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about the growing backlog of financial audits for Overseas Contingency Operations contracts and grants. Through this initiative, SIGAR will:

- confirm that costs incurred by the recipients of U.S. contracts and grants for Afghanistan reconstruction are reasonable, allocable, and supportable;
- evaluate the internal control environment related to the contract or grant;
- in instances of noncompliance or weak internal controls, identify potential fraud or abuse; and
- follow up on findings and recommendations from prior audits.

SIGAR's first round of financial audits is nearing completion—11 of the 12 financial audits will be issued over the upcoming quarter. During this reporting period, SIGAR expanded its financial audit program by announcing 11 new financial audits, increasing the program to 23 audits with a combined estimated total of nearly \$1.8 billion in auditable costs. SIGAR will award the new audits to competitively selected independent audit firms in May 2013. A list of the new and ongoing financial audits can be found in Appendix C on pages 205–206.

INSPECTIONS

This quarter, SIGAR completed three inspections. The completed inspections identified issues with contractor performance and power facilities at an ANP facility in Kunduz; found a success story at the Qala-I-Muslim clinic; and uncovered \$5 million spent for unused incinerators.

Inspections Reports Published

Inspection 13-6: Afghan National Police Main Road Security Company, Kunduz Province Is behind Schedule and May Not Be Sustainable

In February 2012, the U.S. Army Corps of Engineers-Afghanistan Engineer District-North (USACE-TAN) awarded a \$1.7 million firm fixed-price contract to Bamic Global Construction Company to design and build facilities at the ANP Main Road Security Company compound in Kunduz province. SIGAR's inspection assessed whether construction was being completed in accordance with contract requirements and applicable construction standards, and whether any construction or design issues placed the facility's long-term sustainability at risk.

FINDINGS

SIGAR observed a soil-compaction process that puts the ANP Main Road Security Company compound at risk of future soil settlement and structural failure. Specifically, the contractor used a smooth steel-wheeled roller,

COMPLETED INSPECTIONS

- Inspection 13-6: Afghan National Police Main Road Security Complex, Kunduz Province Is behind Schedule and May Not Be Sustainable
- Inspection 13-7: Qala-I-Muslim Medical Clinic Serving the Community Well, But Construction Quality Could Not Be Fully Assessed
- Inspection 13-8: Forward Operating Base Salerno: Inadequate Planning Resulted in \$5 Million Spent for Unused Incinerators and the Continued Use of Potentially Hazardous Open-Air Burn Pit Operations

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A U.S. soldier provides security at the construction site of the ANP Main Road Security Company compound. (SIGAR photo)

rather than a properly loaded dump truck or pneumatic-tired roller for soil compaction. USACE officials stated that the contractor's excavation work to address collapsible-soil issues at the site met contract specifications. However, the process used by the contractor does not follow U.S. Army guidance and is a major concern due to collapsible-soil conditions at the site and surrounding Kunduz area.

The project is behind schedule and probably will not meet the May 18, 2013, completion date. Although 54% of the performance period had passed at the time of SIGAR's visit, only 15% of the work had been completed. The contractor vowed to take steps, such as doubling the work shifts, to improve the construction schedule. USACE officials noted that the contractor is operating for the first time as a prime contractor and that it has been somewhat overwhelmed by government procedures. The officials believe that the contractor's performance has improved.

SIGAR found that the facilities will be powered by one generator with no provision for a back-up generator or connection to the local power grid. Further, at the time of the inspection, no plans existed on who would be responsible for operation and maintenance of the facilities when the site is transferred to the Afghan government. Failure to address the soil-compaction, back-up power source, and operation-and-maintenance issues could place the \$1.7 million U.S. investment in this facility at risk.

RECOMMENDATIONS

SIGAR is making two recommendations to the USACE Commanding General and the NATO Training Mission-Afghanistan/Combined Security Transition Command-Afghanistan (NTM-A/CSTC-A) Commanding General

that address the need for a backup power source at the compound, and operation-and-maintenance costs.

AGENCY COMMENTS

SIGAR received formal comments from USACE and NTM-A/CSTC-A. As a result of their comments to a draft of this report, SIGAR revised the recommendations and made other revisions to the report as appropriate.



Post-natal room at the Qala-I-Muslim medical clinic. (SIGAR photo)

Inspection 13-7: Qala-I-Muslim Medical Clinic Serving the Community Well, But Construction Quality Could Not Be Fully Assessed

In September 2010, Joint Task Force Kabul, within U.S. Forces-Afghanistan, awarded a \$160,000 CERP contract to Zwakman Nabizai Construction Company. The contract involved building a medical clinic in the village of Qala-I-Muslim, Kabul Province. As part of its inspection program, SIGAR conducted a site inspection at the facility to determine whether construction was completed in accordance with contract requirements and applicable construction standards, and whether facilities were being used as intended and sustained.

FINDINGS

The CERP-funded construction of the Qala-I-Muslim medical clinic appears to be a success story. The community of 4,000 people supported the clinic's construction, a villager donated the land, and the facilities are being used daily. The clinic consists of three structures—a single-story, multiple-room medical clinic, a pharmacy, and a latrine—and primarily provides basic medical care for women and children, including immunizations. At the time of SIGAR's inspection, available records showed 1,565 outpatient consultations, 63 prenatal patients, and 63 newborn deliveries since the clinic opened in September 2011.

SIGAR's inspection also showed that the facilities are being well sustained. The MOPH signed an agreement as part of the project approval process to sustain the clinic upon completion and it has fulfilled its commitment to do so. The inspection showed that the heating system worked, floors were clean, bedding was plentiful and well kept, and the pharmacy was well stocked.

Although SIGAR did not observe any major construction deficiencies during its inspection, inspectors were not able to fully assess whether the clinic's construction met contract requirements and construction standards. The assessment was unattainable because more than half of the required project documents, such as blueprints and quality assurance reports, were missing from DOD's Combined Information Data Network Exchange (CIDNE) database. SIGAR has previously reported on the problem of

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missing CERP project documentation, and the missing documents for this project indicate that it is still a problem.

RECOMMENDATIONS

SIGAR recommends that the Commanding General, USFOR-A, direct the appropriate force elements to (1) ensure that project documentation related to CERP projects complies with CERP guidelines and (2) periodically review the CIDNE database to ensure that all required project files are uploaded.

AGENCY COMMENTS

USFOR-A command concurred with SIGAR's recommendations and noted actions it has taken to implement them. For example, consistent with SIGAR's recommendations, the Commanding General, USFOR-A, has directed that personnel ensure that documentation complies with CERP guidance and periodically review the CIDNE database.

Inspection 13-8: Forward Operating Base Salerno: Inadequate Planning Resulted in \$5 Million Spent for Unused Incinerators and the Continued Use of Potentially Hazardous Open-Air Burn Pit Operations

USACE awarded a \$5.4 million contract to construct solid-waste management facilities at Forward Operating Base (FOB) Salerno. The contract required installing two 8-ton capacity incinerators and supporting facilities such as an ash landfill and a management office. At the time of the award, the base was primarily using open-air burn pit operations to dispose of its solid waste. FOB Salerno stated it was moving to incineration for several reasons, including the possible health hazards to personnel from emissions



Solid waste incinerators constructed at FOB Salerno. (SIGAR photo)

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generated by open-air burn pit operations of solid waste. This report assesses (1) whether construction was completed in accordance with contract requirements and applicable construction standards, (2) whether the incinerators and supporting facilities were being used as intended and maintained, and (3) the status of open-air burn pit operations.

FINDINGS

FOB Salerno spent \$5 million constructing incinerators and supporting facilities that it will never use. The two 8-ton capacity incinerators generally met technical specifications and were properly sized for the base's daily solid waste, assuming they could operate 24 hours a day. SIGAR found that the base's threat conditions would limit the incinerators' use to no more than 12 hours per day, allowing them to process only 50–57% of the daily solid waste. Therefore, if the incinerators were used, the base would still have to rely on other means—such as open-air burn pit operations—for its solid-waste disposal. However, there are health concerns with breathing the smoke emissions from open-air burning.

Although construction was never fully completed due to open “punch list” items, FOB Salerno officials accepted the facilities and USACE closed the contract. Also, due to lack of maintenance, the facilities have fallen into disrepair. In one case, stagnant water has formed in an area beneath the incinerators, thereby creating a potential health hazard from malaria-infected mosquitoes. All of these factors considered, plus the estimated \$1 million annually to operate and maintain the facilities, led FOB Salerno officials to decide not to use the incinerators and supporting facilities.

Absent the incinerators, FOB Salerno continues potentially hazardous open-air burn pit operations which violate DOD guidelines and a CENTCOM regulation. As part of closure, FOB Salerno officials are exploring options for disposing of the incinerators, but have not conducted a cost-benefit analysis to determine the best option for the U.S. government.

RECOMMENDATIONS

SIGAR recommends that the Commander, USFOR-A, (1) take appropriate measures to prevent the reoccurrence of stagnant water at the FOB Salerno incinerator facility; (2) expedite the contract for the base's trash removal; and (3) develop a list of disposition options for the FOB Salerno incinerators, determine the most cost-effective option for the U.S. government, and provide SIGAR the results within 60 days.

AGENCY COMMENTS

At the time this report went to press, the agency was still preparing formal comments on a draft of the report. The final report contains the agency comments and response to the findings and recommendations (www.sigarmil).

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 21 recommendations contained in 5 audit and inspections reports. From 2009 through March 2013, SIGAR published 73 audit and inspection reports and made 245 recommendations that identify \$1.8 billion in questioned costs, funds that can be put to better use, and funds identified for potential recovery. To date, SIGAR has closed about 70% 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.

Corrective actions taken for the closed audit recommendations this period include:

- revisions to the Afghanistan Energy Master Plan and the development of common technical standards on rural energy projects (Audit 10-4)
- recovery of over \$2.8 million in National Solidarity Program funds retained by a hawalla dealer (Audit 11-8)
- integration and coordination of U.S. capacity-building efforts, and improvements with measuring civilian-military progress made in building Afghan capacity (Audit 12-1)
- repair of noted construction and maintenance deficiencies with a vehicle-maintenance building and with the storm-drain system (Inspection 13-2)

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. This quarter, SIGAR continued to monitor agency actions on recommendations in 13 audit and 4 inspection reports. Three of the reports, which are over 12 months old, contain 17 significant recommendations that are pending resolution.

The three reports addressed either control weaknesses in systems used to track and disburse about \$45 million in salary supplements to Afghan government employees and technical advisors, the need to strengthen oversight over the flow of U.S. funds through the Afghan economy, or the ability to monitor the effect of \$654 million in Afghan First Initiative reconstruction contracts awards. Specifically,

- Audit 11-5, *Actions Needed to Mitigate Inconsistencies in and Lack of Safeguards over U.S. Salary Support to Afghan Government Employees and Technical Advisors*, was published on October 29, 2010. The 10 recommendations were directed to the U.S. Ambassador to improve accountability and consistency over U.S. salary support. SIGAR closed one recommendation when the U.S. Ambassador designated a representative to serve as a focal point for requests for salary support

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and to monitor salary support provided by U.S. agencies. The other nine recommendations remain open.

- Audit 11-13, *Limited Interagency Coordination and Insufficient Controls over U.S. Funds in Afghanistan Hamper U.S. Efforts to Develop the Afghan Financial Sector and Safeguard U.S. Cash*, was published on July 20, 2011. There were four recommendations. One was directed to the U.S. Ambassador to improve interagency coordination on financial-sector development programs. The other three were directed at the Secretaries of State and Defense to strengthen oversight over the flow of U.S. funds through the Afghan economy. All four recommendations remain open.
- Audit Report 12-6, *Afghan First Initiative Has Placed Work with Afghan Companies, but Is Affected by Inconsistent Contract Solicitation and Vetting, and Employment Data Is Limited*, was published on January 31, 2012. The four recommendations were directed at the Commander of USFOR-A and the U.S. Ambassador, in coordination with C-JTSCC, USACE and the USAID Mission Director to develop more systematic approaches for soliciting and vetting contracts, and collecting employment data. These recommendations also remain open.

While some recommendations for other audit and inspection reports remain open, there were some notable achievements in their resolution. In one example (Audit 11-15), SIGAR found that USACE contracting officers were unaware of refunds due the U.S. government where contractors had overestimated their labor costs. Pursuant to SIGAR's recommendations, USACE took immediate steps to have insurance refunds sent directly to the U.S. government. Thus far, the refund checks amount to \$11 million. Additionally, USACE implemented SIGAR's recommendation to establish a collection process to recover as much as \$58.5 million identified in the audit report as potential refunds due the government. In another example (Audit 11-10), the U.S. Ambassador resolved one of the recommendations by urging UNDP to reduce its management service fee to donors. The action represented a savings of \$5.5 million.



SIGAR Hotline public service announcement.

INVESTIGATIONS

This quarter, SIGAR investigations resulted in one arrest of a military member, one guilty plea, and four sentences in the United States. In Afghanistan, SIGAR's work led to the arrest of two Afghan citizens for failing to install culvert-denial systems that could have saved the lives of two American soldiers. It also resulted in nine other arrests, seven criminal charges, and three sentences under Afghan law for a range of crimes, including soliciting kickbacks, taking bribes, and stealing fuel. One notable

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feature of the quarter came when a SIGAR investigator testified for the first time in an Afghan court. His testimony resulted in an increased sentence for an influential Afghan contractor. SIGAR also broadened its efforts this quarter to raise public awareness of its Hotline, launching public service announcements broadcast on television and radio on Armed Forces Network, and revising and updating display ads that run in the Middle East edition of *Stars and Stripes*.

Monetary results for the quarter include \$1.3 million in criminal fines and restitution, \$1.1 million in savings to the U.S. government, and a \$4.2 million civil settlement payment made to the U.S. government.

During this reporting period, SIGAR initiated 52 new cases and closed 22, bringing the current number of active investigations to 298, as shown in Figure 2.1. SIGAR is the lead agency on 247 of these cases.

SIGAR Special Agent Testifies in Afghan Court for the First Time

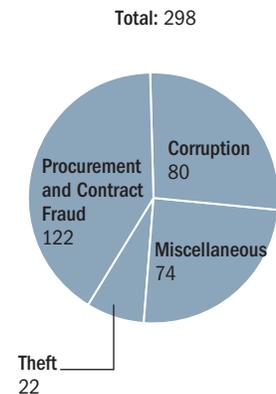
In March 2013, an Afghan court found an influential Afghan official guilty of bribery and sentenced him to three years in prison as a result of testimony by a SIGAR Special Agent. SIGAR's Special Agent testified that Ibrihim Ashna had paid him and a SIGAR informant bribe money. The trial marked the first time a SIGAR Special Agent has testified in an Afghan courtroom. The SIGAR testimony led to Ashna's sentence being increased from two to three years, a mark of the agency's success in establishing good working relations with Afghan law enforcement.

Ashna, who provided and brokered fuel deliveries to U.S. military installations at Camp Jordania and Camp Marmal in Balkh province, was arrested and charged with bribery and theft on October 21, 2012. SIGAR agents working out of SIGAR's new base in Mazar-e-Sharif assisted the Afghan Attorney General's Office (AGO) in making the arrest. SIGAR had uncovered Ashna's large-scale fuel-theft scheme targeting U.S. military installations. Ashna had been submitting forged or altered "Transportation Movement Requests" (TMR) that falsely reported the delivery of fuel to a local fuel depot. Ashna then charged the U.S. government for fuel that was never delivered. During the course of the investigation, Ashna paid bribes to a U.S. service member, a SIGAR confidential informant, and an undercover SIGAR Special Agent to falsely show that fuel had been delivered, thereby avoiding the \$75,000 penalty charged by the U.S. government for "no show" fuel missions. He also drove four trucks with stolen fuel in their tanks off the base.

On January 8, 2013, a SIGAR investigator, along with an Afghan national interpreter and representatives of the NATO/U.S. Rule of Law team, attended the final day of Ashna's trial in Balkh Province, Afghanistan. During the trial, the judge questioned SIGAR's Special Agent about the evidence gathered against Ashna during SIGAR's investigation. The court acknowledged the \$42,000 in bribe payments Ashna made to the

FIGURE 2.1

SIGAR INVESTIGATIONS: NUMBER OF OPEN INVESTIGATIONS, AS OF MARCH 31, 2013



Source: SIGAR Investigations Directorate, 4/8/2013.



For first time, Afghan appeals court hears testimony from a SIGAR Special Agent. (SIGAR photo)

investigator in exchange for his “correcting” failed fuel delivery TMRs. However, the court did not recognize Ashna’s part in orchestrating the fuel theft on the day he was arrested by SIGAR agents. At the conclusion of the trial, Ashna was pronounced guilty of bribery in accordance with the Afghan Penal Code of 1976 and was sentenced to serve two years in Balkh Prison located in Mazar-e-Sharif. The theft charges were removed.

Ashna was tried again on March 16, 2013, at an appeal hearing in Balkh Province Afghanistan Appellate Court. This time SIGAR’s Special Agent took the stand. The Special Agent testified that Ashna had paid him and the SIGAR informant bribe money, in exchange for the alteration of TMRs and for assistance with the theft of U.S. government-owned fuel. At the conclusion of the hearing, the chief appellate judge issued a new verdict which reinstated the theft charges removed during the criminal trial. The sentence increased Ashna’s prison time from a maximum of two years to three years. The judge also imposed a \$42,000 fine to be paid in addition to the \$42,000 Ashna previously forfeited to the court upon his arrest, for a total fine of \$84,000.

Over the course of the complex investigation, SIGAR agents uncovered the various methods employed by Ashna to defraud the U.S. government. The investigation led to over \$1 million in contract cost savings and stolen government-property seizures. This case also underscores the importance of SIGAR’s recent decision to create a new base at Mazar-e-Sharif to address potential fraud at the military facilities in that region.

Two Contractors Arrested for Failure to Install Culvert Denial Systems

This quarter, two Afghan citizens were arrested after an investigation determined that they had failed to install culvert-denial systems that could have saved the lives of two American soldiers. U.S. military personnel concluded that failure to adhere to contract specifications led to the creation of an “IED engagement zone” along a critical stretch of the highway in Ghazni province.

Abdul Anas Sultani, the president of Afghan Mercury Construction Company (AMCC), was arrested on fraud and negligent death charges by the AGO in Kabul on January 27, 2013, after AMCC failed to install grates aimed at preventing insurgents from planting IEDs. Hamidullah, a subcontractor to AMCC, also was arrested on fraud charges by the AGO prosecutor in February 2013.

The two soldiers were killed on July 2012 in Ghazni province when their vehicle passed over a culvert, triggering an embedded IED. A subsequent investigation revealed that AMCC had submitted falsified claims and taken misleading photos indicating that a denial system had been built at the location where the incident occurred. Instead, AMCC and its subcontractor had improperly installed 122 culvert-denial systems along Highway 1. Rather than using concrete to anchor the grates as specified in its contract, AMCC and its subcontractor used spot welding, making it possible for insurgents



SIGAR agents and U.S. Army forces conduct culvert-denial systems survey in eastern Afghanistan. (SIGAR photo)

IOWA NATIONAL GUARDSMEN HELP SIGAR THWART FUEL THIEVES

SIGAR's oversight of U.S. spending in Afghanistan could not be as effective as it is without the cooperation and initiative of many others, among them an officer and a non-com of the 1034th Combat Sustainment Support Battalion (1034th) of the Iowa Army National Guard.

Lieutenant Colonel Wesley Golden and Sergeant First Class George Toubekis took on responsibility for fuel distribution at Camp Marmal in Regional Command-North (RC-North) near Mazar-e-Sharif, Afghanistan, in October 2012. Their duties included oversight and quality assurance for the Fuel Systems Supply Point at the camp, overseeing all fuel operations in RC-North, and supporting seven major bases and various smaller sites. Their work entailed managing deliveries and shipments, fuel levels, fuel forecasting, resupply, and daily and monthly reports and audits.

The Guardsmen quickly learned that large and costly thefts of fuel from the supply point were a threat to accountability and operations throughout the command region. About 340,000 gallons of fuel were found to be missing from Camp Marmal just for the month of October 2012. Given the Army's cost of \$15 a gallon to procure, move, store, and distribute fuel in Afghanistan, that was a \$5 million issue.

LTC Golden and SFC Toubekis began collaborating with SIGAR Special Agents to attack problem areas identified in the fuel-distribution process. They assigned soldiers to accompany all fuel trucks and observe fuels downloads and uploads to limit opportunities for theft. Input from several quarters led to operator training on fuel-accountability systems, proper gauging techniques, and correct reporting. LTC Golden and SFC Toubekis streamlined the reporting process so each fuel site reported directly



Fuel-theft fighters: Iowa Army National Guard soldiers Golden (l) and Toubekis (r) accompany Special IG John Sopko at their post in northern Afghanistan. (SIGAR photo)

to the 1034th while copying their own headquarters. Now established as a single point of contact and data consolidator, the 1034th enforced standards for gauging and reporting, spot-checking trucks, and applying security seals to trucks carrying loads of fuel.

The result of LTC Golden's and SFC Toubekis's work is that fuel thefts in RC-North have plummeted to minimal levels, saving taxpayers millions of dollars. Meanwhile, SIGAR cooperated with the Army and Afghan authorities to bring about the identification, arrest, and punishment of fuel thieves. (For more information, see Section 2.)

After learning of the Guardsmen's efforts during a trip to Afghanistan, Special Inspector General John Sopko sent letters commending LTC Golden and SFC Toubekis to Brigadier General Scottie Carpenter, commander of the Army's 311th Expeditionary Sustainment Command based at Kandahar Airfield. Sopko praised the men for "commendable initiative and remarkable leadership qualities," adding that their actions "have made a great contribution to the fulfillment of our mission to combat waste, fraud, and abuse in Afghanistan."

to tamper with them. The workers also left gaps around the edges of the rebar grills used to prevent the emplacement of IEDs.

This investigation is ongoing and additional arrests are anticipated.



Special IG Sopko examines fuel pumping at FOB Salerno. (SIGAR photo)

Four Arrested and \$1.1 Million in Fuel Saved

This quarter an investigation by SIGAR and the U.S. military saved U.S. Army FOB Salerno \$1.1 million in fuel theft and led to the arrest of one Afghan interpreter and three Afghan fuel truck drivers who were observed stealing fuel from the base.

The investigation began in November 2012, when the commander at FOB Salerno asked for SIGAR's help in disrupting an ongoing fuel-theft scheme that was causing a loss of about 53,000 gallons a month. In coordination with base personnel, SIGAR investigators quickly determined that a large number of Afghan fuel delivery trucks arriving at the FOB Salerno fuel depot had actual fuel loads that were short 600 to 2,400 gallons from the amounts listed on their manifests. Investigators noted that fuel truck security seals and delivery paperwork revealed no apparent alteration or forgery. The investigators found no involvement by U.S. government personnel.

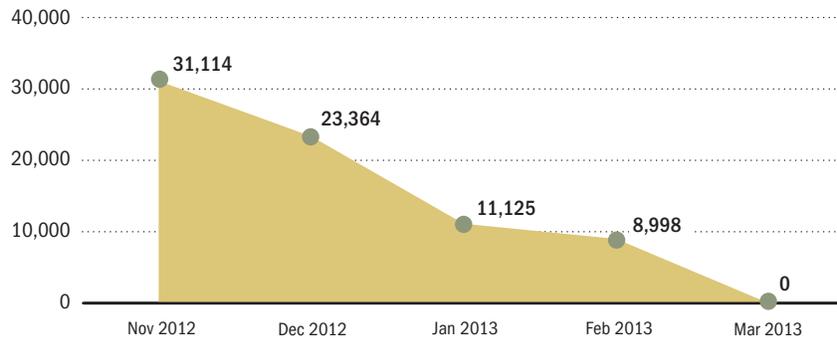
Together with the U.S. military's counterterrorism task force, Task Force (TF) Rakassan, the Afghan Threat Finance Center (ATFC), U.S. Rule of Law (ROL) attorneys, and local Afghan prosecutors and police, SIGAR developed an investigative plan. The plan included: authorized video surveillance of the fuel depot where the deliveries took place, more than 40 rapid investigative interviews by SIGAR investigators, analytical support by TF Rakassan and the ATFC, and coordination between the ROL attorneys and Afghan prosecutors to develop a strategy for prosecuting of numerous Afghan subjects identified during the investigation.

The U.S. Army calculates fuel costs at the rate of \$15 per gallon, including transportation and security costs associated with deliveries to military installations. In the months after the investigation by SIGAR and the U.S. military began, fuel losses at FOB Salerno steadily decreased, saving the U.S. government more than \$1.1 million since December 2012. Fuel losses declined from 31,114 gallons in November 2012 to 23,364 gallons in December 2012, representing a cost savings of \$116,250 (or 7,750 gallons of fuel). Fuel losses decreased to 11,125 gallons in January 2013, representing a cost savings of \$298,335 (or 19,889 gallons of fuel). In February 2013, fuel losses declined to 8,998 gallons, resulting in a cost savings of \$331,740 (or 22,116 gallons of fuel). There have been no fuel losses at FOB Salerno since February 22, 2013. See Figure 2.2.

Cost savings from March 1, 2013, to March 31, 2013, were \$497,265 (or 33,151 gallons of fuel based on average daily losses of 1,037 gallons of fuel in November 2012). The total cost savings involving fuel at the close of the first fiscal quarter were \$116,250. The total cost savings for fuel theft during the second fiscal quarter were \$1.1 million.

FIGURE 2.2

GALLONS OF FUEL STOLEN PER MONTH AT FOB SALERNO



Source: SIGAR, Investigations Directorate, 4/8/2013.

In addition to the drastic reduction in fuel loss at FOB Salerno since November 2012, an additional 27 Afghan fuel truck drivers, for a total of 87, have been barred from access to FOB Salerno or other U.S./NATO installations in Afghanistan. One Afghan interpreter working with ROL at FOB Salerno was arrested in January 2013 and remains in custody awaiting prosecution. Three Afghan fuel truck drivers observed stealing fuel were arrested, detained, and turned over to the local Afghan prosecutors in February 2013.

U.S. Army Staff Sergeant Sentenced to Five Years for Smuggling \$1 Million

Former U.S. Army Staff Sergeant Tonya Long was sentenced on March 4, 2013, to 60 months imprisonment and three years of supervised release for bulk cash smuggling and aiding and abetting the same. Additionally, Long was ordered to pay \$1 million in restitution.

During her deployment to Afghanistan from January 2008 until April 2009, Long worked as customs inspector under the Combined Joint Special Operations Task Force. Her duties included inspecting military service members' personal property prior to its being loaded into containers for shipment back to the United States.

Between January 2009 and February 2009, Long aided and abetted another military service member in concealing and shipping over \$1 million in cash from Afghanistan. The other military service member stripped the internal mechanisms of VCRs and concealed the money inside the gutted machines. Long then packed the VCRs in containers and cleared them through customs before they were shipped to the United States. Long acted with the intent to evade the law requiring individuals to report currency being brought into the United States.

SIGAR OVERSIGHT ACTIVITIES

The investigation was jointly conducted by SIGAR, the Federal Bureau of Investigation, and Defense Criminal Investigative Service (DCIS). Long was prosecuted in the Eastern District of North Carolina.

U.S. Army Sergeant Pleads Guilty to Bulk Cash Smuggling

After a SIGAR investigation, U.S. Army Sergeant First Class Renee Martinez was taken into custody and on January 29, 2013, pled guilty in U.S. District Court for the Eastern District of North Carolina to bulk cash smuggling.

The investigation was initiated by SIGAR in October 2011 after a routine screening in Dubai detected explosive residue on a package in transit from Afghanistan to the United States. No explosives were found during a manual search of the contents, but officials did discover a Dewalt compressor and assorted hand tools, as well as \$12,000 in U.S. currency, consisting of 120 one-hundred dollar bills rolled and concealed in the package. The package was addressed for delivery to Martinez's residence in Hope Mills, North Carolina. The investigation discovered that Martinez was assigned as an Army Field Ordering Officer for his unit, stationed at Camp Leatherneck, and that he had inflated a contract for a local vendor and ultimately received a sizeable kickback.

Martinez is scheduled to be sentenced in the spring of 2013.

Former U.S. Army Contractor Sentenced for Bribery

In January 2013, Diyana Montes was sentenced to nine months confinement, followed by 12 months of supervised release, after she pled guilty to charges of bribery for her role in a plot to fraudulently bill the U.S. Army for trucking services in Afghanistan.

Montes was an employee of Kellogg, Brown and Root, a firm hired to work at Bagram Airfield to assist the U.S. Army's Movement Control Branch in contracting with Afghan trucking companies to transport U.S. military equipment, fuel, and supplies throughout Afghanistan. Montes was responsible for reviewing TMRs to reconcile discrepancies between actual services rendered and the amount billed by the contractor, prior to approving the TMRs for payment. In this capacity, Montes entered into a scheme with the Afghan firm Afghanistan Trade Transportation (ATT) to approve fraudulent TMRs indicating extra leg missions that had not actually occurred. In return for approving payment for the TMRs, Montes received cash and wire transfers from ATT amounting to approximately \$50,000.

The U.S. District Court of the District of Columbia sentenced Montes on January 31, 2013. Upon release, she must pay \$50,000 in restitution to the U.S. Army, via a payment schedule.

On December 21, 2012, SIGAR referred Montes to the Department of the Army (DOA) Suspension and Debarment Official for proposed suspension and debarment from future contracting throughout the executive branch of the U.S. government. On January 29, 2013, DOA, Legal Services

Agency, proposed Montes for debarment, as a result of SIGAR's referral. On March 26, 2013, the DOA, Legal Services Agency, debarred Montes from contracting with the executive branch for a period of three years, or until October 31, 2016.

On March 13, 2013, Kellogg, Brown and Root made a provisional credit of \$22,480 (subject to audit) to the Defense Finance & Accounting Service in Columbus, Ohio. The credit was in response to the illegal activity in which Montes had engaged during the period of April 1, 2008, through December 31, 2008. Kellogg, Brown and Root stated that the credit related to the labor hours and associated dollar amounts which Montes had entered on her timesheet while engaged in fraudulent activity.

U.S. Contractor Sentenced for Bulk Cash Smuggling

This quarter, a U.S. contractor received a 30-month prison sentence, followed by one year of supervised release, after he pled guilty to smuggling \$150,000 into the United States. Donald Gene Garst was sentenced in the District of Kansas on February 12, 2013, and, in an upward variance, ordered to pay a fine of \$52,117.

Garst was employed by a private U.S. company under contract with the U.S. government at Bagram Airfield from January 2009 until May 2011. His duties included identifying, evaluating, and monitoring subcontracts awarded by his employer to Afghan companies. Garst used his position to garner kickback payments on a contract-by-contract basis from an Afghan construction company, Somo Logistics, in return for his preferential treatment of Somo Logistics in the contracting process.

In December 2010, Garst accepted a kickback of \$60,000 on a Somo Logistics contract for the lease of heavy equipment for construction projects on Bagram Airfield. He hand-carried approximately \$20,000 of undeclared cash into the United States. He received the rest of the kickback by way of structured wire transfers from Somo Logistics. In May 2011, Garst accepted a \$150,000 kickback for a second heavy equipment contract with Somo Logistics. He sewed the cash into a jacket and shipped it to the United States, where law enforcement discovered his failure to declare the value of the shipment. The timely discovery prevented Garst from collecting an additional \$400,000 that Somo Logistics had agreed to pay him for awarding a third contract to the firm.

U.S. Staff Sergeant Sentenced for Theft of Government Funds and Bulk Cash Smuggling

On January 10, 2013, U.S. Army Staff Sergeant Nancy Nicole Smith was sentenced to 20 months in prison followed by three years supervised probation for theft of government funds and bulk cash smuggling from Afghanistan to the United States. The Eastern District Court of North Carolina also ordered Smith to pay \$100,000 in restitution.

SIGAR joined this Army Criminal Investigation Command (CID) investigation in October 2010. The case had been initiated in May 2010 when an officer with the Joint Special Operations Task Force (JSOTF) at Bagram Airfield, Afghanistan, notified the Afghanistan CID office of a possible larceny of U.S. government funds. A JSOTF audit of the 230th Financial Management Company, stationed at Bagram Airfield, had revealed that the company's disbursing agent, Nancy Smith, had altered payment records. Smith then withdrew funds without proper authorization, using disbursement records previously submitted by other military members. The investigation found that Smith had stolen a total of \$100,000 as a result of altering disbursement records. The stolen funds were taken from a vault earmarked for reconstruction projects. Smith was the sole individual having full custody and control of the vault. She later smuggled the stolen money into the United States by concealing it in the backpack she wore on her flight from Afghanistan to Ft. Bragg, North Carolina.

Smith was also debarred from receiving federal contracts or assistance effective March 26, 2013, for a period of four years and eight months, due to expire on September 10, 2017.

Civil Settlement Results in \$4.2 Million Payment to U.S. Government

In April 2012, a joint SIGAR and International Contract Corruption Task Force (ICCTF) investigation was initiated at Camp Leatherneck, Afghanistan, after information surfaced regarding the theft of 38 shipping containers and their contents from Camp Leatherneck and FOB Shindand. The containers belonged to American President Lines, LTD (APL) and Maersk Lines Limited. 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 further disclosed numerous other missing containers belonging to APL and Maersk may have had falsified PODs submitted for various locations throughout Afghanistan, and that an ongoing civil investigation was being conducted by the United States Attorney's Office of the Southern District of Illinois. In August 2012, the SIGAR/ICCTF Camp Leatherneck investigation was combined with the joint civil investigation, which included CID, U.S. Air Force Office of Special Investigations, and DCIS, for the purpose of settlement negotiations with APL and Maersk.

In January 2013, a settlement agreement was entered into between the United States, acting through the U.S. Department of Justice and on behalf of the Department of Defense, the U.S. Transportation Command (USTRANSCOM), and APL. The U.S. contends it has certain civil claims against APL arising from APL's breach of its contract with USTRANSCOM. During the course of the contract, APL billed the United States and was

paid for various costs associated with the transport and shipment of Army and Air Force Exchange Service and Defense Logistics Agency (DLA) cargo containers from the U.S. to military outposts in Afghanistan, and that APL's invoices included numerous false PODs.

As a result of the U.S. and APL's civil settlement negotiations and to avoid the delay, inconvenience, and expense of protracted litigation, APL has agreed to pay the U.S. government \$4,250,000.

Afghanistan Attorney General Office Arrests Local National on Theft Charges

In February 2013, as a result of a SIGAR-led investigation, Afghan authorities arrested an Afghan translator and charged him with stealing three generators and selling them for \$45,000.

The joint investigation with the Naval Criminal Investigative Services (NCIS) and the Afghan AGO in Kabul began in August 2012. The U.S. government discovered that three of 19 generators it received from Blackwood Construction Company had been stolen a few weeks earlier from Camp Leatherneck. In an interview with SIGAR, the owner of Blackwood Construction Company said the company had purchased 46 generators from Noor Mustafa Company, paying \$34,000 per generator.

Subsequently, the owner of Noor Mustafa admitted that his company did not have an adequate number of generators to fulfill their contractual obligations to Blackwood and that his son had purchased three additional generators locally. The son stated that the generators had been purchased from Zikrullah, a translator at Camp Leatherneck. On February 7, 2013, Zikrullah admitted that he had stolen the three generators and then sold them to a scrap metal dealer in Helmand Province for \$45,000. The AGO in Garmshir arrested Zikrullah and transported him to a jail in Garmshir. He remains incarcerated there pending trial.

Two Afghan Contractors Sentenced by Afghan Criminal Court

This quarter, an Afghan court sentenced two Afghan contractors to three years confinement and fines of \$5,000 each after they made a bribe payment during a SIGAR investigation.

The investigation was initiated after the USACE contracting personnel reported receipt of an unsolicited e-mail from JACC, an Afghan construction company, offering a bribe to USACE personnel for assistance in securing road construction contracts in Afghanistan. Later contracting personnel from DOD and DLA reported that they had received similar solicitations from JACC. SIGAR established an undercover e-mail account to communicate with the subject to discuss and negotiate bribes for insider contract information.

On September 23, 2012, SIGAR arranged a meeting with Wahidullah Matun and Navidullah Matun of JACC at Camp Eggers, Kabul. Monitored by representatives from the AGO and ICCTF members, the two men

made a pre-negotiated bribe payment to the SIGAR Special Agent. Both men were subsequently arrested and charged with bribery under Afghan law. They were transported by the ANP from Camp Eggers to the Afghan Detention Facility.

SIGAR Takes Aggressive and Proactive Measures to Improve Exit Point Search Procedures at Military Installations

In November 2012, a SIGAR Special Agent met with the commanding officer of Task Force Belleau Wood (TFBW) at Camp Leatherneck to discuss the implementation of a more stringent exit-control-point search policy for Afghan fuel tankers departing from Camp Leatherneck and Camp Bastion. The SIGAR Special Agent provided the commander with background information regarding SIGAR's ongoing fuel-theft investigations at Camp Leatherneck. The commander acknowledged the shortcomings in current search procedures and agreed to consider better methods which would reduce, if not completely eliminate, the potential for fuel theft. SIGAR's Special Agent offered to help develop and implement new procedural requirements if the commander agreed.

The same SIGAR investigator met later with the U.S. Marine Corps Deputy Commander of TFBW Security Force at Camp Leatherneck to further discuss fuel theft and the vulnerabilities in the current exit-point inspection process at Camp Leatherneck. The Deputy Commander's personnel man the exit points and are responsible for inspecting inbound and outbound commercial Afghan vehicles making deliveries to Camp Leatherneck. The SIGAR Special Agent told the Deputy Commander about prior fuel-theft incidents and current exit-point practices, as related by personnel manning the exit points. The Deputy Commander indicated he would conduct a review of current exit-point practices with the intent of mitigating current vulnerabilities. The SIGAR investigator offered to help.

Following these discussions SIGAR's Special Agent, in coordination with Supreme Fuel, conducted vehicle search training for approximately 18 Marines staffing the exit points. As a result, Camp Leatherneck and Camp Bastion implemented a significantly more robust search procedure. SIGAR's success in getting previous deficiencies addressed and in improving procedural requirements promises to significantly reduce fuel theft.

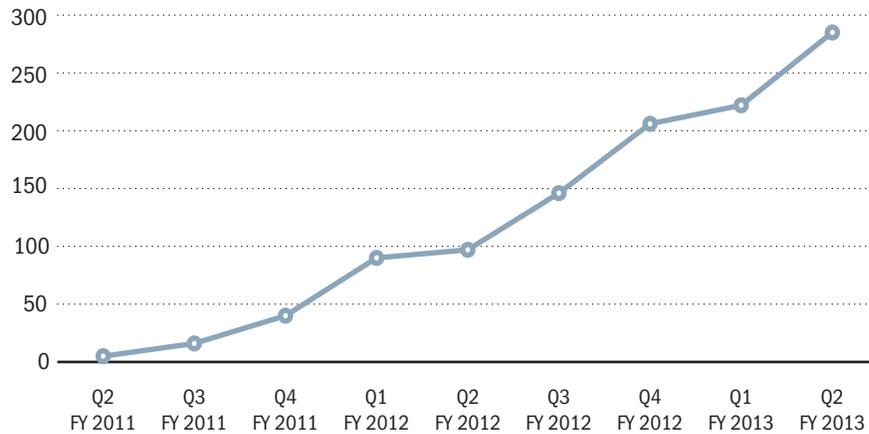
Suspensions and Debarments

This quarter, SIGAR referred 18 individuals and 9 companies for suspension and debarment because of misconduct. Of these 27 entities, nine individuals and nine companies were referred for debarment based on allegations that they engaged in fraud and non-performance as part of six contracts valued at a total of \$6,083,344. An additional nine individuals were referred for debarment based on criminal allegations of theft from Coalition forces or bulk cash smuggling into the United States. These 27 referrals bring the total

SIGAR OVERSIGHT ACTIVITIES

FIGURE 2.3

SIGAR INVESTIGATIONS: CUMULATIVE REFERRALS FOR SUSPENSION AND DEBARMENT, Q2 FY 2011–Q2 FY 2013



Source: SIGAR Investigations Directorate, 4/10/2013.

number of such referrals made by SIGAR since 2008 to 285—160 individuals and 125 companies to date—as shown in Figure 2.3.

As of the end of March 2013, SIGAR’s use of suspension and debarment to address fraud, corruption, and poor performance in Afghanistan have resulted in a total of 59 suspensions and 56 finalized debarments of individuals and companies engaged in U.S.-funded reconstruction projects. Including the 27 referrals made during the most recent quarter, 90 individuals and companies referred by SIGAR are awaiting action by U.S. Army suspension and debarment officials.

Suspensions and debarments are an important tool for ensuring that agencies award contracts only to responsible entities. SIGAR’s program addresses three challenges posed by U.S. policy and the contingency contracting environment in Afghanistan: the need to act quickly, the limited U.S. jurisdiction over Afghan nationals and Afghan companies, and the vetting challenges inherent in the use of multiple tiers of subcontractors. SIGAR continues to look for ways to enhance the government’s responses to these challenges through the innovative use of information resources and investigative assets both in Afghanistan and the United States. SIGAR makes referrals for 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 when there is no chance of criminally prosecuting the individual or company or taking other action against them. In such cases, suspension and debarment is the primary remedy to address contractor misconduct. In making referrals to agencies, SIGAR provides the basis

SIGAR OVERSIGHT ACTIVITIES

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.

SIGAR's increased focus on suspension and debarment is exemplified by the fact that of the 285 referrals for suspension and debarment that have been made by the agency to date, 249 have been made since the second quarter of 2011. Beginning in July 2012, SIGAR accelerated its suspension and debarment program, referring 103 individuals and companies for exclusion from contracting to agency Suspension and Debarment Officials. SIGAR's referrals over this nine-month period represent allegations of theft, fraud, poor performance, financial support to insurgents and mismanagement in reconstruction contracts having a value of \$159,981,282.

SIGAR Investigation Results in Debarment of Contractor

In March 2013, an Afghan contractor and his company were debarred after a SIGAR investigation revealed that the contractor had tried to bribe a U.S. contracting officer's representative (COR). The investigation was initiated on July 8, 2012, after Captain Eric Norgard, a COR, contacted SIGAR to report conversations he had with Mirzali Naseeb, President of Mirzali Naseeb Construction Logistic & Transportation Company (MNCC), beginning in February 2012. Norgard at the time was attempting to obtain quotes from contractors for delivering gravel to a FOB in Gardez, Afghanistan.

Naseeb sent Norgard several communications inquiring into the status of the gravel solicitation. In June 2012, Naseeb sent Norgard an e-mail with pictures of Non-Tactical Vehicles (NTV) attached. When Norgard inquired as to the purpose of sending the pictures, Naseeb stated he would provide Norgard with a free NTV. In late June 2012, Naseeb again contacted Norgard by text message saying: "Hi, buddy could you pls give me your wife's name, I want to gift for her From (Mirzali Naseeb Cons Co.)." Norgard provided the text to SIGAR via e-mail. On June 28, 2012, Norgard also provided SIGAR with the gravel contract packet sent to the Joint Acquisition Review Board.

In an e-mail dated August 21, 2012, Norgard informed a SIGAR Special Agent that the gravel contract sought by MNCC had been awarded to another company. MNCC contacted Norgard's interpreter to inform him of MNCC's intent to obtain a sub-contract from the prime contractor. Naseeb told the interpreter that if MNCC won the sub-contract, he would arrive at the entry control point to deliver 6,000 cubic meters instead of the required 8,000 cubic meters. In return for signing off on a document used to authorize payment for the full delivery of gravel, Norgard would receive a "gift." Naseeb said he had been successful before with this type of scheme but did not provide details. A SIGAR Special Agent conducted an interview of the interpreter to confirm the details of Norgard's e-mail.

On December 21, 2012, SIGAR referred Mirzali Naseeb and MNCC to the U.S. Army's Suspension and Debarment Official for proposed suspension

and debarment. As a result of SIGAR's referral, Naseeb and MNCC were debarred for three years or until March 26, 2016.

Contractor Debarred After Pretending to be a U.S. Contracting Officer

On February 8, 2013, the U.S. Army debarred an Afghan contractor and his company for three years or until February 8, 2016, after a SIGAR investigation. Helman Twinkle Construction Company (HTCC) and Helman Waziri had previously been awarded numerous contracts and paid by the U.S. government for services in the Afghanistan reconstruction effort.

HTCC and Waziri had been attempting to obtain additional contracts or subcontracts for future projects in Afghanistan when SIGAR launched its investigation in December 2011. The investigation revealed that Waziri established a fake Yahoo e-mail account from which he sent out e-mails pretending to be a U.S. contracting officer. He used the e-mail account to solicit bids for construction projects, in an attempt to glean information about his competitors' bidding methodology. Waziri admitted culpability when interviewed, and asked if impersonating an officer of the United States, in direct violation of 18 U.S.C. 912, would preclude him from future government contracting.

On October 25, 2012, SIGAR proposed HTCC and Waziri for debarment.

SPECIAL PROJECTS

SIGAR's Office of Special Projects is a response team created by the Special Inspector General to examine emerging issues in prompt, actionable reports and alert letters to federal agencies and the Congress. The Special Inspector General set up the office after senior U.S. officials complained that they needed to get information from SIGAR more quickly than is possible in an audit format.

This quarter the office, which is now fully staffed, produced an alert letter on a fire- and life-safety risk at ANA facilities. It conducted an analysis of the progress made by the donor community and the government of Afghanistan toward achieving the goals outlined at the July 2012 Tokyo Declaration meeting and the resulting Tokyo Mutual Accountability Framework. For more information, see Section 3, page 143. It also issued two data calls. The first sought to obtain comprehensive information about U.S.-funded reconstruction projects and programs in Afghanistan and identify how remaining or planned-for funds—appropriated or otherwise made available for the reconstruction of Afghanistan—will be used. The second asked USAID, DOD, and State to provide SIGAR with a list of the 10 Afghanistan reconstruction projects each agency deemed most successful as well as a list of the 10 projects it deemed least successful, and to explain in each case how they made that determination.

COMPLETED SPECIAL PROJECTS

- SIGAR SP-13-3: K-Span Structures Can Pose Fire and Life Safety Risk



Workers construct a K-span building at Bagram Airfield. (U.S. Army photo)

Alert Letter Published

SP-13-3: K-Span Structures Can Pose Fire and Life Safety Risk

SIGAR issued an alert letter this quarter warning about the safety of structures the U.S. military has built for the ANA. SIGAR reported that U.S. Army Corps of Engineers (USACE) officials have decided to continue using materials that have been linked to three fires when improperly installed. SIGAR said that USACE is using foam installation and thermal barrier systems in the construction of K-Span structures for the ANA despite knowledge that, if not properly installed, these materials pose a serious fire- and life-safety risk.

DOD defines a K-Span as a rust-resistant, weather-resistant, and fire-proof structure. According to USACE, K-Span structures replaced concrete/masonry structures for many ANA projects in about 2010. But last year, three K-Span structures built for the ANA caught fire during construction, resulting in property damage. USACE recently examined the matter and issued a decision paper, updated March 10, 2013, that found these fires were linked to the foam installation and thermal barrier system used by contractors in constructing K-Span structures. Allegedly, the contractors installed foam insulation and thermal barrier systems that were not compliant with International Building Code (IBC) standards. USACE determined that a potentially serious fire- and life-safety hazard exists with ANA K-Span facilities in which foam insulation systems were not properly installed in accordance with IBC standards.

USACE's risk assessment determined that "almost all of the completed facilities have insulation installed that currently cannot be shown to meet the requirements of the IBC code." USACE estimates that in southern Afghanistan alone, there are "approximately 1,002 K-Span structures in various stages of construction" for eventual use by the ANA. Alarming, "704 structures are in various stages of installation of the foam insulation and barrier system" that USACE has identified as non-compliant with IBC standards. To avoid further expense and delays in project completion dates, USACE guidance to contractors for any structures that do not have systems fully in place is to "proceed with the materials that have been previously approved and that are currently on site."

Given the number of K-Span facilities under construction, SIGAR wrote to USACE to alert it to SIGAR's concern about the safety risk to the ANA troops who occupy buildings in which non-compliant material are likely to have been used. SIGAR has opened an investigation into the matter.

In response to this safety alert letter, USACE provided an update to SIGAR on the actions being taken by USACE to resolve safety concerns associated with spray-foam insulation systems being used in the construction of K-Span buildings for the ANSF. USACE corrected previous USACE documentation regarding the three fires at ANA facilities, stating that two

of the three fires were caused by improper hot-work operations during construction and that the third building was not insulated with the spray foam and was a temporary building for the contractor's own use. However, the Deputy Commander for USACE stated that safety and application of appropriate building code requirements are USACE priorities for any facility it constructs. He stated that USACE is conducting a full review of all ANSF arch-span buildings being constructed by USACE to determine what corrective actions may be required to ensure facilities comply with international building code requirements. In addition, USACE plans to contract with a qualified architect-engineer firm to review contract documents for each building to ensure contract compliance with the code requirements and to review contractor material submittals for spray-foam insulation and thermal barrier materials to verify compliance or non-compliance with the international building code criteria. USACE is gathering the documents requested by SIGAR and will be providing them to SIGAR. SIGAR will continue to monitor the issue in support of its ongoing investigation.

New Special Projects

Direct Assistance to the Afghan Ministries of Defense and Interior

The Ministries of Defense (MOD) and Interior (MOI) have already received more than \$3 billion of direct assistance from the U.S. government for the Afghan National Security Forces' salaries, uniforms, and fuel. That amount is expected to increase over the coming years. As part of SIGAR's ongoing effort to monitor the use of direct assistance by U.S. agencies, this review will identify the procedures used by DOD to evaluate the capacity of MOD and MOI to properly manage and account for U.S. funds.

Direct Assistance for the Kajaki Dam Energy Project

USAID recently announced it will provide approximately \$60 million to \$80 million of U.S. direct assistance funding to the Afghan national utility, Da Afghanistan Breshna Sherkat (DABS), to install a turbine at the Kajaki Dam. As part of SIGAR's ongoing effort to monitor agencies' use of direct or "on-budget" assistance, SIGAR's new review will examine the safeguards USAID plans to put in place to ensure that U.S. direct assistance funds given to DABS are properly managed.

U.S. Government Anticorruption Goals

Fighting corruption and increasing accountability are important components of the U.S. reconstruction strategy in Afghanistan. Various U.S. and international reconstruction strategies have placed enormous importance on the fight against corruption and have tied future reconstruction funding to progress in the area. SIGAR is undertaking a limited-scope review to

NEW SPECIAL PROJECTS

- Direct Assistance to the Afghan Ministries of Defense and Interior
- Direct Assistance for the Kajaki Dam Energy Project
- U.S. Government Anticorruption Goals

evaluation the progress the United States has made in meeting its anticorruption goals in Afghanistan.

Ongoing Special Projects

ONGOING SPECIAL PROJECTS

· Evaluation of Culvert Denial Systems

Evaluation of Culvert Denial Systems

A SIGAR investigation of contractors fraudulently billing the U.S. Government for culvert-denial systems that were never installed or incorrectly installed has raised serious concerns. In addition to the potential for fraud, these improperly installed or absent culvert-denial systems have led to the deaths of Coalition soldiers and others by allowing insurgents to plant IEDs in culverts. SIGAR is conducting a targeted evaluation of the installation of culvert-denial systems in Afghanistan. This evaluation will follow up on the issues raised in the investigation and an October 10, 2012, SIGAR safety alert letter citing these concerns that was issued to the CENTCOM and USFOR-A commanders respectively. It will determine the universe of contracts awarded for culvert-denial systems and the extent to which management and oversight was conducted of the contractors installing the culvert-denial systems.

SIGAR BUDGET

This quarter, Congress appropriated \$49.9 million, as requested, for SIGAR's operating expenses through FY 2013. These funds are provided through the Full Year Continuing Appropriations Act 2013 (P.L. 113-6). However this amount is subject to the government-wide sequestration reduction on discretionary non-defense funds, approximately \$2.5 million for SIGAR based on current guidance. During a difficult appropriations process and continuing debate over the federal budget, Congress's provision of the requested amount clearly demonstrates the importance and value of SIGAR's work to Congress and the U.S. taxpayers.

SIGAR was established in 2008. In total, Congress has appropriated \$166 million to support SIGAR operations through 2013. The President's FY 2014 Budget, recently submitted to the Congress, requests an additional \$49.7 million for SIGAR to continue its critical oversight of reconstruction funds.

SIGAR STAFF

During this reporting period, SIGAR increased its staff from 177 to 182 federal employees. SIGAR extended offers of employment that will bring the number of full-time staff to 189 by the end of May 2013. SIGAR is on target to reach its goal of 200 full-time employees by the end of the third quarter FY 2013 and a workforce of 205 for FY 2014.

SIGAR OVERSIGHT ACTIVITIES

As a temporary agency, SIGAR faces challenges recruiting and retaining staff, but continues to rise to the challenge. SIGAR is authorized 57 billets in Afghanistan. This quarter, SIGAR had 32 authorized personnel at the U.S. Embassy Kabul and 14 authorized at locations outside the U.S. Embassy. SIGAR has staff members stationed at eight locations across the country, including Kandahar and Bagram airfields, Mazar-e-Sharif, Camp Stone, Camp Leatherneck, FOB Salerno, USFOR-A headquarters in Kabul, and the U.S. Consulate in Herat. SIGAR employs three local Afghans in its Kabul office to support investigations and audits. In addition, SIGAR supports its work with staff assigned to short-term temporary duty in Afghanistan. This quarter, SIGAR had 16 personnel on temporary duty in Afghanistan for a total of 316 days.

“I see a great opportunity today for stability and security in Afghanistan 10 years from now. But it is going to be a long-term process. ... What we are really trying to do by the end of 2014 is provide the Afghans with what I would describe as a ‘decade of opportunity.’ At that point, security and stability will be in their hands.”

—*General Joseph Dunford*