

# SIGAR

Special Inspector General for  
Afghanistan Reconstruction

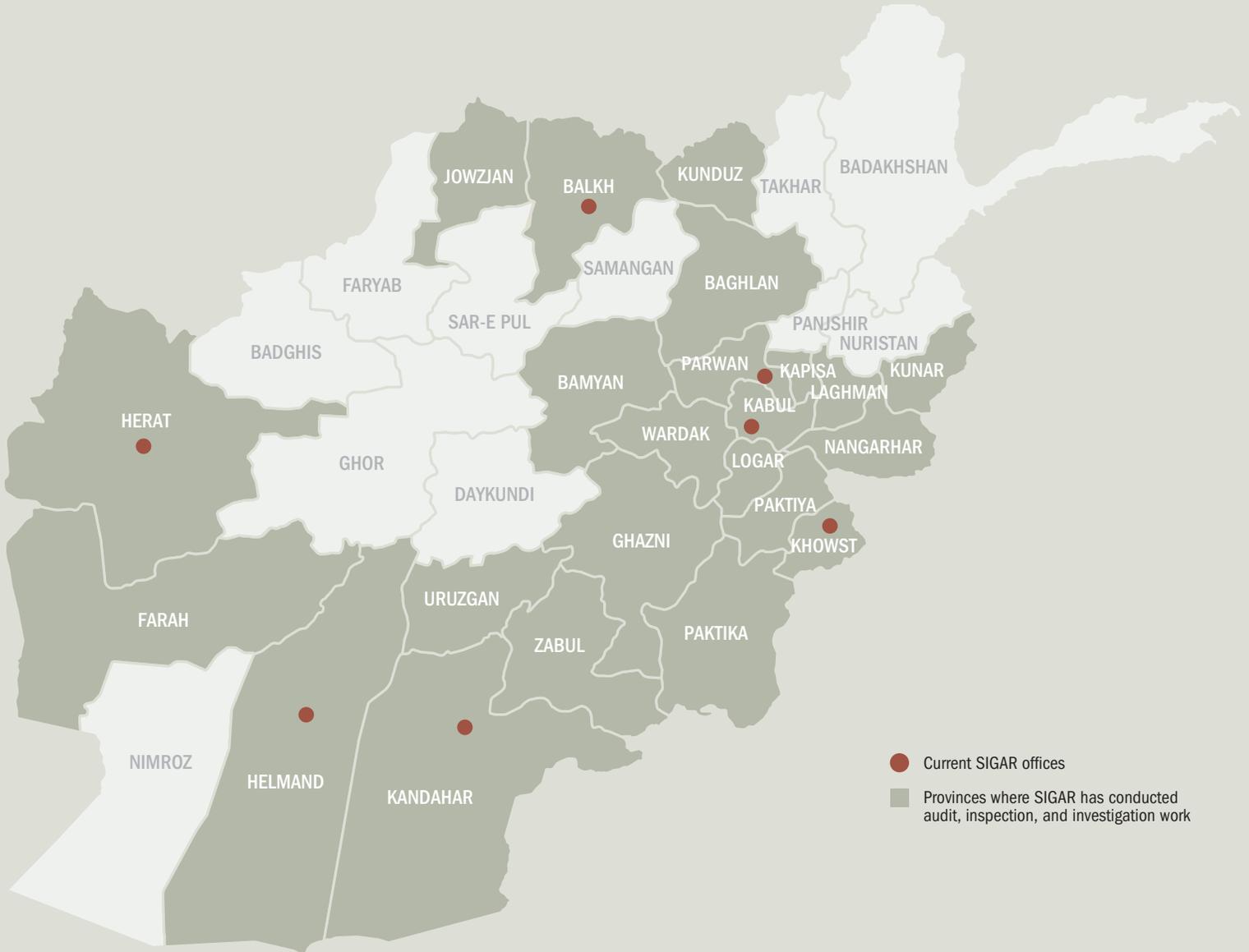
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QUARTERLY REPORT TO THE UNITED STATES CONGRESS





# SIGAR OVERSIGHT PRESENCE IN AFGHANISTAN





SPECIAL INSPECTOR GENERAL FOR  
AFGHANISTAN RECONSTRUCTION

I am pleased to submit this quarter's report on the status of the U.S. reconstruction effort in Afghanistan. This is my fourth quarterly report and marks the first year anniversary of my appointment by President Obama.

When I accepted the position as the Special Inspector General for Afghanistan Reconstruction, I promised the White House and Congress quicker, smarter, and more aggressive oversight of the billions of dollars provided to rebuild Afghanistan. With this renewed dedication to the critical oversight mission in Afghanistan, SIGAR had the most productive quarter since Congress created the agency in 2008. We issued more than 30 audits, inspections, alert letters, and other reports.

Over the last year, SIGAR augmented its staff, and we posted more of our workforce in Afghanistan. SIGAR maintains the largest international oversight force in Afghanistan because there is no substitute for in-person oversight of U.S.-funded reconstruction programs. Having skilled oversight staff on-scene will be the best way to protect the approximately \$20 billion of reconstruction funding that has yet to be disbursed.

Thanks to SIGAR's experienced oversight professionals, we are now viewed as the key player in combating corruption and ferreting out contract-related criminal activity in the reconstruction effort. SIGAR's investigators, auditors, and inspectors continually find serious problems that threaten reconstruction goals. For example, during this quarter, SIGAR's audits questioned more than \$2 billion in spending and costs. SIGAR investigations led to two arrests, two indictments, two criminal informations, two court-martial convictions, and two guilty pleas. SIGAR's ongoing investigations of fuel thefts in Afghanistan saved taxpayers approximately \$800,000 during this reporting period.

These investigations, along with SIGAR's audits, inspections, and special projects, highlight serious shortcomings in U.S. oversight of contracts: poor planning, delayed or inadequate inspections, insufficient documentation, dubious decisions, and—perhaps most troubling—a pervasive lack of accountability.

Federal agencies have taken many of SIGAR's concerns and recommendations to heart and are trying to protect the taxpayer, but more can be done to make contract oversight a priority. In particular, SIGAR has a growing concern about the possible disconnect between overall U.S. policy and its field implementation. There appears to be a growing gap between the policy objectives of Washington and the reality of achieving them in Afghanistan, especially when the government must hire and oversee contractors to perform its mission.

I believe the United States cannot achieve its objectives unless the execution of its policies receives at least as much attention as the intent behind them. For example, the policy objective of creating a robust Afghan army that will provide national security in lieu of Coalition forces, while admirable, will remain hollow unless Washington pays equal attention to proper contracting and procurement activities to sustain those forces. SIGAR is well aware of the wartime environment in which contractors are operating in Afghanistan, but this can neither explain the disconnect nor excuse the failure.

During my quarterly trips to Afghanistan, I have seen this disconnect first hand. These trips provide a ground-level view of reconstruction efforts outside the U.S. Embassy and military compounds in Kabul, which can at times also be isolated from activities and problems in the rest of the country. On my last trip, my staff and I attended more than 50 meetings and traveled to Bagram, Herat, Mazar-e-Sharif, Hairatan, Camp Leatherneck, and Kajaki Dam, in addition to numerous events in and around Kabul. In particular, my visits to the Kajaki Dam and Hairatan provided further evidence that contract oversight must become a top priority to policy planners or else we will repeat the mistakes of the past and waste taxpayer money.

The hydroelectric power plant at Kajaki is emblematic of the U.S.-Afghan relationship and the historical commitment our country has made to the people of Afghanistan. Unfortunately, it is also proof of the serious problems we have encountered in reconstruction. Built by American engineers in the 1950s, the dam finally had two turbines installed in the mid-1970s to provide electricity to southern Afghanistan. The project, which included a planned third turbine and improved irrigation capabilities, was abandoned after the Soviet invasion in 1979; however, U.S. engineers restarted the effort after the United States returned to Afghanistan in 2001. Unfortunately, after using multiple contractors and subcontractors, spending tens of millions of dollars, and losing scores of U.S. and Coalition lives, the work is still not complete. As some wryly note, the ancient Egyptians took less time—about 20–25 years—to complete the Great Pyramid at Giza.

This year, the United States unexpectedly dropped a plan to have a U.S. Agency for International Development (USAID) contractor install a third turbine and bring electricity to the city of Kandahar. Instead, it has agreed to pay the Afghan state-run electric utility, Da Afghanistan Breshna Sherkat (DABS), \$75 million to finally accomplish what the United States, its Coalition partners, and experienced U.S. and international contractors failed to do.

The United States will fund DABS's work using direct assistance, which is government-to-government assistance provided through multilateral trust funds and bilateral agreements. These funds can be used for a wide variety of purposes, from paying Afghan government employee salaries to hiring development contractors. The U.S. government is committed to providing billions of dollars of aid using direct assistance. SIGAR's prior work has raised concerns about the readiness of the Afghan government to handle direct assistance, which is why we remain concerned about the prospects of success at Kajaki.

To ensure that U.S. taxpayer dollars are not wasted, this quarter SIGAR launched a special project to examine how USAID will handle the direct assistance provided to DABS. SIGAR intends to keep you fully informed about every aspect of the new plan to convey to Afghanistan millions of U.S. taxpayer dollars to complete the Kajaki Dam project.

We uncovered another serious contracting issue during our visit to Hairatan, on the border with Uzbekistan. Hairatan is a major border crossing with a rail link. There we observed numerous rail tank cars crowding the local siding and were told by U.S. officials and contractors that fuel to the U.S. military was being held illegally at the border because of a tax dispute with the Afghan Ministry of Finance. This is just one example of a larger issue dealing with taxes and duties on reconstruction and military assistance that needs to be addressed in the Bilateral Security Agreement currently being negotiated between the Afghan and U.S. governments.

SIGAR published an audit this quarter documenting nearly \$1 billion in business taxes and penalties the Afghan government has charged contractors supporting U.S. operations in Afghanistan, despite formal agreements designed to help prevent the taxation of U.S.-funded contractors. In this case, the U.S. government seemed unable to provide a definitive

and unified response to the contractors who had turned to it for help. The lack of clarity on these tax issues resulted in arrests of some personnel working on U.S. contracts, increased costs to U.S. government contracts, and may have interrupted contractor support to U.S. military operations and U.S. reconstruction efforts.

Other SIGAR audits issued this quarter raised additional concerns about contracting and procurement in Afghanistan:

- The Defense Department is moving forward with a \$771.8 million purchase of aircraft the Afghan National Army cannot operate or maintain.
- USAID's main stabilization program has suffered from repeated delays and is failing to meet critical contract objectives.
- The State Department and USAID need stronger authority to terminate contracts when enemy affiliations are identified.
- Because the Afghan Public Protection Force (APPF) has a monopoly on providing security service, USAID implementing partners that require armed security have no choice but to pay the APPF's often inconsistent and inappropriate fees, and we determined that USAID has trouble reviewing these fees to ensure that the APPF only charges for the services it provides.

During this reporting period, SIGAR also completed 11 financial audits of U.S.-funded reconstruction contracts and found more than \$49 million in questioned costs that U.S. government contracting officers must review to ensure the amounts billed by various contractors are justified. SIGAR launched its financial audit program in 2012 after Congress and the oversight community expressed concern about the growing backlog and oversight gaps of incurred cost audits for contracts and grants awarded in support of overseas contingency operations

As part of our effort to help U.S. agencies and their contracting staff become more effective in protecting the taxpayer and learn from the issues raised in this quarterly report, SIGAR plans to launch a new initiative, the "SIGAR High-Risk List." It will call attention to programs, projects, and practices in Afghanistan that SIGAR finds especially vulnerable to waste, fraud, and abuse, or which may be otherwise seriously detrimental to the U.S. government's reconstruction objectives.

Despite the pending U.S. troop drawdown and Afghanistan's political and security transitions being less than a year away, the reconstruction continues and billions remain at risk due to contracting and procurement challenges. Federal agencies have requested more than \$10.7 billion for Afghanistan reconstruction programs in the Fiscal Year 2014 budget, and the United States has pledged to provide many billions more for years to come. Much of these funds will be awarded to contractors, and unless the U.S. government improves its contract-oversight policies and practices, far too much will be wasted. As SIGAR proceeds with its audits, inspections, investigations, and special projects in Afghanistan, we will be vigilant in calling out poor management and inadequate contract oversight, and in suggesting ways that accountability might be improved.

In conclusion, I would also like to reiterate the concerns I raised in our last report about the Army's refusal to act on SIGAR's recommendations to prevent supporters of the insurgency, including supporters of the Taliban, the Haqqani network, and al-Qaeda, from receiving government contracts. SIGAR referred 43 such cases to the Army recommending suspension and debarment, based on detailed supporting information demonstrating that these individuals and companies are providing material support to the insurgency in Afghanistan. But the Army rejected all 43 cases. The Army Suspension and Debarment Office appears to believe that suspension or debarment of these individuals and companies

would be a violation of their due process rights if based on classified information or if based on findings by the Department of Commerce.

I am deeply troubled that the U.S. military can pursue, attack, and even kill terrorists and their supporters, but that some in the U.S. government believe we cannot prevent these same people from receiving a government contract. I feel such a position is not only legally wrong, it is contrary to good public policy and contrary to our national security goals in Afghanistan. I continue to urge you to change this faulty policy and enforce the rule of common sense in the Army's suspension and debarment program.

My staff and I look forward to working with Congress and the Administration to improve the reconstruction mission in Afghanistan and protect the interests of U.S. taxpayers. Now, more than ever, as we approach the new elections in Afghanistan and complete the transfer of day-to-day security responsibilities to the Afghan government, we need to ensure robust and independent oversight of our more than 10-year reconstruction effort.

Respectfully,

A handwritten signature in black ink, appearing to read 'John F. Sopko', written in a cursive style.

John F. Sopko  
Special Inspector General for Afghanistan Reconstruction

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“Our Inspectors General are the eyes and ears of taxpayers within each federal agency—they’re the ones protecting our tax dollars from waste, and they’re the ones to call out federal officials for abuse of power. Their work is what can give the American people confidence that their government is functioning the way it should.”

—*Senator Claire McCaskill*

# 1 CONTRACT OVERSIGHT



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SIGAR team boards a helicopter for a series of reconstruction site visits in Afghanistan, May 2013. (SIGAR photo)

## CONTRACT OVERSIGHT: A LONG-STANDING CHALLENGE COMPOUNDED BY TRANSITION

A U.S.-funded school in Sheberghan, Afghanistan, trains aspiring Afghan teachers—and provides lessons to Americans on the need for effective contract oversight.

SIGAR inspectors found staff and students busy at their work, but in a setting of wasted money, lost time, dysfunctional oversight, weak accountability, and potential threats to their health and safety.

The Sheberghan school was built under a multi-million dollar contract, a small part of the massive effort by the United States and other international donors to reconstruct and develop a poor, largely illiterate, isolated, and war-ravaged country.

A large part of the U.S. reconstruction campaign launched in 2002 takes the form of written agreements. These commitments range from major programs to equip and train Afghan security forces, to small-scale endeavors to build schools and clinics or train court staff. Whether administered as contracts, grants, or cooperative agreements (this discussion will use “contracts” as a generic term for all three) the undertakings constitute a huge effort. Total contract obligations run into tens of billions of dollars. Because no U.S. agency has yet compiled a definitive number, SIGAR is working to clarify the data.<sup>1</sup>

Effective oversight of reconstruction contracts in Afghanistan is a critical issue to support U.S. political, security, humanitarian, and development goals for that country. The drawdown of U.S. military and civilian personnel already under way can only make contract work more difficult to manage and oversee. SIGAR is therefore devoting increasing attention to contract issues through performance and financial audits, inspections, and special projects. The aim is to provide actionable information to Congress on oversight challenges while there is still time to make a difference, and before taking corrective measures in the field gets even more complicated.

Sheberghan, a northern city of about 150,000 people, sits beside the Safid River in Jowzjan Province, bordering Turkmenistan, and is the provincial

# CONTRACT OVERSIGHT



**Students studying** in an unlit classroom in the Sheberghan teacher-training school. (SIGAR photo)

capital. The city is about two hours' drive west of Mazar-e-Sharif and 10 hours from Kabul.<sup>2</sup> The province was active in the ancient Silk Road trade, is now connected to the modern Ring Road, and is proposed for railroad and natural-gas development.<sup>3</sup> But, as in the rest of Afghanistan, about two-thirds of the province's people are illiterate.<sup>4</sup> So teacher training is an important aspect of the country's reconstruction and future development

In May 2008, the U.S. Agency for International Development (USAID) and the U.S. Army Corps of Engineers (USACE) agreed that USACE would provide contract administration, construction management, and related services to design and build three education facilities at institutes of higher learning in Afghanistan, including teacher-training schools in Sheberghan and two other cities. In February 2009, USACE awarded the Iraqi firm Mercury Development a \$2.9 million contract to build a two-story, 10-classroom building, with library and administration office, in each location by January 12, 2010. After nine modifications, the contract value had risen to \$3.4 million and the completion date had crept out to June 2011.<sup>5</sup>

Unlike some facilities the United States has built in Afghanistan, the Sheberghan teachers school is actually in use for its intended purpose. But more than four years from the start of construction, it is still not finished or fully functional.

Visiting the school during a cold spell, SIGAR inspectors found students attending class in their coats because there was no heat, relying on light from the windows because there was no electricity, and unable to use the school's bathrooms because there was no running water.

An electrical generator was on site, but it was not running. That was just as well. The SIGAR inspectors determined that the school's electrical wiring was not up to contractually specified code requirements, and that someone had made potentially dangerous taps into electrical junction boxes, creating fire and electrocution hazards. USACE had also recognized the problem and disconnected the generator so it could not feed current into the sub-standard electrical circuits. Meanwhile, school staff said the generator's batteries and control panel had been stolen. If the generator were running, the school's tenants would like the United States to pay the estimated monthly fuel cost of \$50,000 because the Afghan government is not obliged to pay operating costs until the school is transferred.

The SIGAR inspectors also learned that no resolution had been achieved for USACE's concern that sewer lines might be built too close to the school's well for drinking water.<sup>6</sup>

## CONTRACTORS AND LIABILITY, BOTH GONE

To its credit, USACE had sent 62 letters to Mercury Development, starting in June 2009, voicing concerns with the contractor's performance, as well as noting safety violations, non-payment to subcontractors, use of

# CONTRACT OVERSIGHT

window glass from Iran, inflated worker counts, and other issues. Mercury abandoned work on the school projects in September 2011 after collecting \$3.1 million of payments courtesy of U.S. taxpayers.

Not at all to its credit, USACE closed out the contract as complete on November 19, 2011, and released Mercury from any further liability. Although the school remains unfinished to this day, the close-out documents said all issues had been resolved. USACE officials told SIGAR investigators they had no explanation for the close-out decision and the liability release.<sup>7</sup>

Following Mercury's departure, USACE contracted with the Afghan company Zafarkhaliq Construction to finish the work at Sheberghan, awarding it a \$153,000 contract in January 2012 to correct electrical faults and complete the facility within 30 days. But eight months later, Zafarkhaliq had completed less than two-thirds of its work without correcting the code violations in the school's electrical system.

USACE terminated that contract in December 2012 after paying the new contractor over \$130,000 and releasing it—as Mercury had been released—from further contractual liability. A third contract arrangement is in prospect. USACE, however, is no longer managing the project; that responsibility has reverted to USAID.

Meanwhile, the U.S. government remains responsible for the Sheberghan school's operation and maintenance costs because the lack of completion prevents USAID from transferring it to the Afghan government.<sup>8</sup>

## AT BATHKHAK, A ROOF THAT COULD KILL

The Sheberghan story is striking, but not unique. U.S. Forces-Afghanistan (USFOR-A) awarded the Emaar Emarat Construction Company a contract for nearly \$263,000 in August 2012 to build a 10-classroom addition to a school in Bathkhak in Kabul Province. SIGAR inspectors found that the



**A school in Bathkhak province**, built with wood windows and brick walls instead of the more durable vinyl and stronger cinderblock required by contract. (SIGAR photo)

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contractor had built two smaller buildings rather than the one required, had used brick rather than the specified concrete blocks for the walls, and wood- rather than vinyl-framed windows. They also noted that the project was behind schedule, had its first site visit six months into the construction process, and was incompletely documented.

More troubling, given the school's location in an earthquake zone, the contractor had installed a concrete-slab roof instead of the required wood-truss roof. Citing that unauthorized change and problems like exposed reinforcing rods, poorly mixed and crumbling concrete, and wooden form boards left to rot in the concrete and create weak spots, the inspectors concluded that "The new Bathkhak school has serious design and construction flaws and could be a disaster waiting to happen."<sup>9</sup>

Both Bathkhak and Sheberghan reveal shortcomings in U.S. oversight of contract performance, including delayed or inadequate inspections, poor documentation, dubious decisions, and lack of accountability. These are not isolated instances. The Government Accountability Office (GAO), for example, "has found systemic weaknesses in USAID's oversight and monitoring of project and program performance in Afghanistan."<sup>10</sup>

The USAID examples are instructive, but the bulk of contracting activity in Afghanistan has been under the aegis of DOD—which also acknowledges problems. In April 2013, DOD released an action plan for operational contract support that listed among 10 "critical capability gaps" this one:

The joint force lacks sufficient capacity to effectively administer, oversee, and close contracts to ensure contractor performance is properly tracked and accessible and desired outcomes are achieved.<sup>11</sup>

That is a troubling admission for at least two reasons. First, reflecting the massive scope of the contracting effort, DOD contractors outnumber troops in Afghanistan by nearly two to one. U.S. Central Command data for March 2013 showed 107,796 contractors and 65,700 U.S. troops.<sup>12</sup> Second, despite a number of widely reported improvements, DOD contract management has been on the GAO's list of "high-risk" programs since 1992.<sup>13</sup>

## **OVERSIGHT PROBLEMS: WIDESPREAD AND TROUBLING**

Recent work by SIGAR offers many other examples of deficient oversight.

For example, SIGAR has found it impossible to confirm the number of contracts issued for culvert-denial bars or gratings in Afghanistan, and have concluded that for about 2,500 locations, documentation does not reveal whether the devices were actually and properly installed. That is troubling, because the \$32 million committed to road work since 2009 includes culvert-denial requirements to block an easy way for Afghan insurgents to plant explosive charges under roads.<sup>14</sup>

# CONTRACT OVERSIGHT



**Mi-17 undergoing maintenance** at a SMW hanger in Kabul. (SIGAR photo)



**Destroyed Afghan National Police vehicles** in the Gardez regional maintenance center. (SIGAR photo)

A recent SIGAR audit of a \$772 million project to provide new aircraft for the Afghan Special Forces' Special Mission Wing (SMW) to help with counternarcotics and counterterrorism operations concluded that "The Afghans lack the capacity—in both personnel numbers and expertise—to operate and maintain the existing and planned SMW fleets." The audit also noted that key task orders lacked performance metrics, that contractors failed to account properly for maintenance hours and misrepresented readiness, and that DOD personnel in Kabul lacked the authority and experience to provide effective oversight of contractor performance.<sup>15</sup>

Oversight issues also surfaced in SIGAR's audit of the Combined Security Transition Command-Afghanistan's (CSTC-A) contract with Automotive Management Services FZE to maintain U.S.-purchased vehicles for the Afghan National Police. CSTC-A had unnecessarily paid out more than \$6 million in 2011–2012 because no one had purged vehicle lists of 7,324 vehicles that had been destroyed or out of service for more than a year. The auditors also found that 121 of 453 required contracting officer representative reports were missing from files, and that another 121 were based on phone calls or emails rather than site visits. Some of the remote-oversight activity reflected logistical and security constraints, but "many reports lacked support for why an audit [by CTSTC-A personnel] could not be performed." CSTC-A concurred with SIGAR's various recommendations.<sup>16</sup>

Financial audits by SIGAR staff have found other problems in Afghanistan contracts, including poor record keeping and retention, failure to observe procedures, misstated or unreasonable costs, and lack of tracking systems for equipment and spare parts.

# CONTRACT OVERSIGHT

For example, a SIGAR financial audit of a \$17.2 million portion of spending under the U.S. Department of Agriculture’s contract with Volunteers for Economic Growth Alliance found \$720,501 in unsupported costs—not necessarily illegitimate, but not properly documented.<sup>17</sup> Another contractor, Afghan Integrated Support Services (AISS), holds a DOD contract to provide vehicle maintenance, training, and capacity building for the Afghan army. SIGAR engaged an auditing firm to examine nearly \$32 million of AISS expenditures. The auditors found four internal-control deficiencies, five cases of non-compliance, and more than \$2.8 million in questioned costs, including \$217,643 in costs that were ineligible under the contract.<sup>18</sup> Other financial audits show similar results.

A SIGAR Alert in June 2013 advised Ambassador James B. Cunningham and senior USAID officials of its observations from examining a nearly \$70 million USAID cooperative agreement with International Relief and Development Inc. (IRD) for projects to promote agriculture, reduce instability, and “improve the confidence of Afghans in their government.” The alert letter noted that USAID did not review and approve IRD’s work plan until four months into its execution, when about \$44 million had already been obligated. The alert letter summarized the issue:

Robust oversight by funding agencies—in this case USAID—is the first line of defense when U.S. government dollars are on the line. In environments such as Afghanistan, strong oversight is especially important. However, in the case of the [IRD-run] program, USAID did not exercise oversight as effectively as it could and should have. As a result, equipment was purchased that may be left unused or stolen; inflated prices for agricultural products were potentially paid; and unnecessary costs for storing, disassembling, and distributing unneeded [water] pumps were incurred.<sup>19</sup>

## OTHER AGENCIES HAVE DOCUMENTED OVERSIGHT DEFICIENCIES

SIGAR is not alone in finding deficiencies in contract oversight, or in the related oversight grants and cooperative agreements that USAID typically employs.

A sampling of recent work by the inspector general of the U.S. Department of Defense, for example, includes findings such as these:

- USACE accepted a contractor-built detention facility in Parwan, Afghanistan, “although major deficiencies existed.” USACE officials “did not provide adequate oversight ... and did not comply with their internal policies regarding oversight of the contractor’s warranty.”<sup>20</sup>
- The Air Force Center for Engineering and the Environment (AFCEE) “did not provide effective oversight of [four] military construction projects in Afghanistan” valued at \$36.9 million. “AFCEE officials stated that this

# CONTRACT OVERSIGHT

occurred because they relied completely on the technical expertise of their contractor personnel.” [Emphasis added.] The DOD IG found “conflicting electrical standards” in one contract and “incorrect fire protection standards” in two contracts, failure to identify “significant deficient work,” and creation of “serious increased hazards to the life and safety of coalition forces who occupy two of the four facilities reviewed.”<sup>21</sup>

- The U.S. Army, NATO, CSTC-A, and the Defense Contract Management Agency “did not implement adequate oversight” of a \$1.2 billion contract for training the Afghan National Police. Oversight procedures were not coordinated, quality-assurance (QA) requirements were not implemented, and contracting officer representatives (CORs) were not adequately trained or their work reviewed.<sup>22</sup>
- In overseeing four military construction projects valued at nearly \$50 million at Bagram Airfield, USACE QA personnel “did not properly monitor contractor performance.” Among the failings: the USACE personnel did not approve contractor QA plans before work started, did not maintain documentation of QA activities, and did not request technical specialists to perform technical inspections. Personnel told the DOD IG they had not been given adequate training and guidance.<sup>23</sup>

USAID’s Office of Inspector General and the Department of State’s IG have likewise recorded deficiencies in oversight of contracts, grants, or cooperative agreements. For example:

- A 2012 sampling review of USAID/Afghanistan’s monitoring and evaluation system—used to track 95 active projects valued at \$4.5 billion—found that the USAID Mission had issued no guidance orders on monitoring projects or on-budget assistance to the Afghan



**ANP cadets** receive instructions before departing for advanced training courses. (U.S. Air Force photo)

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government, had not issued approvals for all projects as required, had not provided refresher training for technical officers, had not ensured that implementing partners were recording performance in the Afghan Info database, and had not consistently validated data reported to them.<sup>24</sup>

- An audit of USAID’s five-year, \$150 million Incentives Driving Economic Alternatives for the North, East, and West found no documentary evidence that USAID Mission staff had visited work sites supporting the effort to give Afghan farmers legal and viable alternatives to growing opium poppy. Auditors also found that because the agreement officer’s representative (the equivalent of a COR) was neither analyzing nor confirming the accuracy of progress reports, errors and inconsistencies were going undetected.<sup>25</sup>

GAO has taken note of various agency steps to improve contract oversight with revised policies, more and better trained acquisition personnel, and more effective data systems. Nonetheless, in February 2013, GAO reported to Congress that, among other things:

- “DOD, State, and USAID face contract management and oversight challenges in Afghanistan, and their oversight of U.S. contracts requires additional improvement.”
- “The three agencies continue to experience difficulty in reporting reliable information on their contracts and contractor personnel in Afghanistan.”
- “DOD oversight personnel in Afghanistan did not always receive adequate training and ... DOD continued to lack a sufficient number of oversight personnel.”
- “Individual offices within State and USAID often made case-by-case decisions on using contractors to support grant or contract administration, and risks, such as possible conflicts of interest or insufficient oversight, were not always addressed.”<sup>26</sup>

Recently, the Special Inspector General for Iraq Reconstruction published “Seven Final Lessons from Iraq” after 220 audits and 170 inspections over nine years’ work. Two lessons on stability and reconstruction operations (SRO) are pertinent here:

- Establish uniform contracting, personnel, and information management systems that all SRO participants use.
- Require robust oversight of SRO activities from the operation’s inception.<sup>27</sup>

Incomplete and incompatible data systems, shortages of acquisition personnel, insufficient training, delayed selection and overloading of contracting officer representatives, short tours of duty that impede gaining and transmitting local knowledge, tardiness in launching oversight activities, scarcity of technical experts, inattention to regulations and policy, and

reluctance to use enforcement tools like suspension and debarment have all drawn official attention in reviews of contracting in Iraq and Afghanistan. Floating above all these shortcomings is the meta-concern of institutional culture. As the federal Commission on Wartime Contracting in Iraq and Afghanistan said in its 2011 final report to Congress:

Cultural change affecting acquisition is needed at the strategic and operational levels of Defense, State, and USAID. ... The past decade has demonstrated that failure to recognize the importance of acquisition and failure to elevate it within each agency perpetuates poor planning, aggravates the shortage of trained professionals, and contributes to runaway costs through inattention and poor and inconsistent decision making.<sup>28</sup>

Almost two years since that commission report and more than 11 years since the start of U.S. military operations in Afghanistan, it seems clear that federal institutional culture still fails to plan and execute contracting with the seriousness that its mission criticality and cost deserve, and fails to connect departmental policy and rules effectively with the day-to-day details of oversight in the field.

## COMPOUNDING THE CHALLENGE

Contractors—and repeated demonstrations of the need to oversee them effectively—have been important features of every American war since the Revolution, and of many joint operations such as the recent years’ relief operations for the Haiti earthquake, the Southeast Asia tsunami, and the Japanese earthquake/tsunami.<sup>29</sup>

Contractors can offer specialized expertise, meet temporary demands that exceed the capacity of the federal workforce, provide managers with staffing flexibility, and otherwise add value to government operations. But as experience has shown, contracting can introduce its own problems. Effective oversight is imperative not only to avoid wasting taxpayers’ money, but to ensure that troops and federal civilian missions are getting the goods and services they need, that operational goals are being supported, and that U.S. image and credibility are not undermined.<sup>30</sup>

The dangers, hardships, and everyday difficulties of operating in places like Afghanistan or Iraq must not be minimized. Both U.S. military and civilian employees, and their contract support and implementing partners, take on considerable burdens beyond normal job descriptions in such places. Several features of the U.S. involvement in Afghanistan and of domestic politics appear likely to magnify the existing difficulties of contract oversight:

- U.S. military forces are being steadily withdrawn from the country and their bases closed, both of which constrict the “security bubble” for relatively safe travel within range of quick-response forces and helicopter medevac missions.

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- The “Afghan First” policy of steering more acquisition dollars to Afghan vendors for purchases and contracts—40,314 or 37% of DOD contract personnel in Afghanistan as of March 2013 were local nationals<sup>31</sup>—piles new issues of visibility, vetting, verification, and accountability onto the traditional barriers to good oversight.
- The policy commitment to providing more funds as direct assistance to Afghan ministries presents new challenges to U.S. oversight. As the State Department’s deputy IG recently told Congress, “Corruption and complexity are fundamental challenges to any international assistance program, specifically those operations based on government-to-government transfers of funds to countries with unstable political climates.”<sup>32</sup>
- Budget cuts or sequestration impacts like furloughs could impair the ability of federal acquisition personnel to provide timely and effective contract oversight, even if their numbers are not reduced, as has often happened in post-conflict and budget-constrained settings.

Yet the specific challenges of overseas contingency operations must not be seen as a free pass for agencies to tolerate lax oversight of contracts. And contract-oversight difficulties in Afghanistan must not be seen as a unique case or a limited problem. Contract oversight is a long-standing and widespread problem for the U.S. government, whether the setting is peaceable or hostile, overseas or domestic, military or civilian.

As previously noted, GAO has listed DOD contract management on its “high-risk list” since 1992. But that list also includes the U.S. Department of Energy (DOE) contract management by its National Nuclear Security Administration and its Office of Environmental Management. GAO reports significant improvements, but has kept DOE contract management on the high-risk list since 1990. GAO notes that most of DOE’s budget is spent on contracts and large capital-asset projects, so “DOE’s record of inadequate management and oversight of contractors has left the department vulnerable to fraud, waste, abuse and mismanagement.”<sup>33</sup>

## WHAT TO DO?

Federal commissions, non-governmental bodies, and oversight agencies like SIGAR have made literally hundreds of recommendations over the years to improve contract oversight. They include improving data systems and compatibility standards, augmenting personnel numbers and training, strengthening policies and practices, creating better metrics and assessing them more carefully, and establishing dedicated cadres of management and oversight professionals that could be deployed at the outset of a contingency operation.<sup>34</sup>

To their credit, federal agencies have taken many of these concerns and recommendations to heart and are adapting to the exigencies of the Afghan

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theater. DOD, for example, says that when lack of armed escort repeatedly prevents CORs from visiting points of execution of contracts, “The program manager and the [Regional Support Command] look to move the COR, descope that portion of a contract, or assume the performance risk of not directly providing oversight on the contract.”<sup>35</sup>

USAID, while noting that “Afghanistan is unique amongst USAID Missions in having a field presence at all”—68 to 70 CORs over the past year—says it is taking steps to deal with the changing environment there. “To mitigate any decreased monitoring capability, USAID/Afghanistan is in the process of procuring contracts with the express purposes of being able to provide a remote monitoring capability,” while also increasing the role of host-country or third-country nationals in monitoring.<sup>36</sup>

Yet beefing up personnel numbers, employing new technologies, promulgating new rules and regulations, and taking other commonly recommended actions will not address one of the fundamental problems in contract oversight: people’s failure to do what they are supposed to be doing.

The audits and inspections cited in this essay, and many others, recount incidents of U.S. contract-management and contract-oversight officials failing to inspect work, failing to insist on corrections, failing to confirm performance before closing contracts, failing to make or file proper records, failing to secure technical experts to assess specialized work, and in other ways simply not doing their jobs or not doing them properly. In a spring 2013 audit—not focused on Afghanistan, but revealing—the DOD IG looked at Air Force contracting personnel’s compliance with an interim Federal Acquisition Regulation (FAR) rule tightening standards for use of cost-reimbursable contracts.

Cost-reimbursable contracts are basically pass-through arrangements in which the government pays the costs the contractor submits, subject to contract limits and to review for qualification and accuracy. The federal Office of Management and Budget (OMB) considers them a form of “high-risk contracting” with increased risk of waste and cost overruns. “This is especially true for cost-reimbursement contracting,” OMB says, “which in terms of issues such as finance, accounting, cost and price analysis, and industrial engineering, demands a higher level and broader range of skills than is required for competitively awarded fixed-price contracts.”<sup>37</sup>

Yet when the DOD IG examined 156 cost-reimbursable contracts, it found that “Air Force contracting personnel did not consistently implement the interim [FAR] rule” for 75 contracts representing about \$8.8 billion of the total \$10.5 billion value in the sample.<sup>38</sup> Why?

... because they were unaware of the rule, assumed it did not apply to task or delivery orders when the basic contract was issued before the rule, or did not document actions taken to conform to the rule. As a result, Air Force contracting personnel may increase the Air Force’s risk because cost-reimbursable contracts provide less incentive for contractors to control costs.<sup>39</sup>

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Exhortation, directives, and training are by themselves unlikely to produce fully effective oversight if the assigned implementers forget or simply neglect to act, decide that other tasks are more pressing, or act but never document their results. It is clear that in contract oversight, sins of omission are common. What is not clear is whether the offending parties consistently face any actual and substantive personal or programmatic consequences for their failures—other, that is, than the ephemeral, rhetorical consequence of receiving an official chiding in an audit or inspection report.

As Congress considers oversight reports and lessons learned from Afghanistan to enhance outcomes there in the “decade of transformation” ahead and to improve contracting oversight in future operations, it may wish to enquire whether implementing agencies broadly and consistently impose accountability, including genuine consequences, for personnel who fail to display proper diligence in carrying out their contract-oversight tasks. One way to systematize such scrutiny might be to require department and agency heads to report regularly on their accountability policies and practices, to assess lessons learned that require changes, and to summarize actual consequences imposed after reviews.

In raising this issue, SIGAR recognizes the difficulty of distinguishing decisions that seemed reasonable at the time, given the known imperatives, information, and risks, from decisions that were clearly unreasonable or culpable at the time they were made. We also recognize that vital mission objectives, urgency, security threats, or travel constraints can force trade-offs and compromises in the level of oversight applied in some settings. We recognize the danger that organizations may be tempted to cover institutional or procedural shortcomings by scapegoating unlucky or unpopular individuals. Those are all reasonable caveats, but they are not an excuse for tolerating present practice.

SIGAR’s work and that of other oversight bodies makes it clear that strict and enforced personal accountability for reckless, thoughtless, lazy, or uninformed decisions is not a conspicuous feature of federal management culture—but it needs to be if we expect better performance from federal contracts. Taxpayers and national missions deserve no less. As SIGAR proceeds with audits, inspections, investigations, and special projects in Afghanistan, we will be vigilant in calling out poor management and oversight in contracting, and in suggesting ways that accountability might be improved.

SIGAR does not expect perfect execution of a complicated job and does not contemplate ex post facto back-seat driving. But we firmly believe that more rigorous accountability can improve future judgments and decisions, thereby preventing many costly oversight blunders.

Imposing effective oversight on operational contract support is but a new chapter in a long struggle. In 1784, Thomas Jefferson wrote to the temporarily

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retired George Washington to urge on him the “superintendence” of proposed navigation improvements on the Ohio and Potomac Rivers.

Jefferson thought Washington’s towering reputation and stern oversight might mitigate “a most powerful objection” to such new projects: “Public undertakings are carelessly managed and much money spent to little purpose.”<sup>40</sup>

Washington, busy with other matters, politely deflected the proposal. But more than two centuries later and half a world away, Jefferson’s concern lives on.

“You’ve got to go kick the tires. You’ve got to make certain someone we trust goes out and makes certain the money is spent the way it was intended. You’ve got to verify that the money you gave to buy fuel bought the fuel.”

—*Special Inspector General John F. Sopko*