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Special Inspector General John Sopko and witnesses for the Departments of Defense and State, and the Drug Enforcement Administration, prepare to testify before the U.S. Senate Caucus on International Narcotics Control, chaired by Senator Diane Feinstein of California, January 15, 2014. (U.S. Senate photo)

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This quarter SIGAR issued 25 audits, inspections, alert letters, and other reports. This work identified failures of oversight, construction deficiencies, poor planning, and other threats to health and safety in areas of Afghanistan's reconstruction ranging from the national ministries to the Afghan National Security Forces (ANSF).

An audit report warned that the United States Agency for International Development (USAID) has not fully implemented measures designed to mitigate risks associated with awarding \$1 billion of direct assistance to the Afghan government. Another audit found that the State Department's justice sector development programs need better management and stronger oversight if \$47.8 million in taxpayer funds is not to be put at risk. A third audit determined that the Afghan central bank's capacity to regulate commercial banks remains weak and in need of robust oversight, yet U.S. advisors have been banned from working at the bank. Still another audit raised concerns about the ANSF's literacy program results, contract oversight, transition, and sustainment. Three inspection reports showed that \$5.4 million had been spent on inoperable incinerators at Forward Operating Base Sharana, that the Balkh Education Facility remains unfinished and unsafe to occupy, and that a lack of power and water and major construction deficiencies limit hospital services and raise safety concerns at Salang Hospital.

SIGAR's Office of Special Projects found that comprehensive risk assessments of the Ministry of Defense (MOD) and the Ministry of Interior (MOI) could improve oversight of over \$4 billion in direct assistance funding. The Office of Special Projects wrote to the Department of Defense (DOD) to announce it was reinstating its investigation of the decisions that led to the construction of an unoccupied 64,000-square-foot building at Camp Leatherneck and to warn DOD of a dangerous security lapse that appeared to allow a contractor identified as supporting the insurgency access to a Coalition-controlled facility. Special Projects also wrote to USAID about possible weaknesses in oversight provisions in a USAID agreement to provide direct bilateral assistance to Afghanistan's national power utility.

A SIGAR investigation saved the U.S. government some \$1.7 million. SIGAR investigations also resulted in three criminal informations, five plea

TESTIMONY GIVEN

- Testimony 14-21-TY: The State of the U.S. Counternarcotics Effort in Afghanistan

COMPLETED AUDITS

- Audit 14-16-AR: Afghan Banking Sector
- Audit 14-26-AR: Support for Afghan Justice Sector
- Audit 14-30-AR: ANSF Literacy Programs
- Audit 14-32-AR: USAID Ministerial Assessments
- Eight Financial Audits, see page 32

COMPLETED INSPECTIONS

- Inspection 14-13-IR: FOB Sharana Incinerators
- Inspection 14-24-IR: Balkh Education Facility
- Inspection 14-31-IR: Salang Hospital

COMPLETED SPECIAL PROJECT REPORTS

- Special Project 14-12-SP: MOD and MOI Financial Management Capacity
- Special Project 14-22-SP: CERP Inquiry
- Special Project 14-25-SP: 64K Building Follow Up
- Special Project 14-27-SP: USAID Assistance to Afghanistan Reconstruction
- Special Project 14-28-SP: Oversight Access Map

SPECIAL PROJECT ALERT LETTERS

- Alert Letter 14-17-AL: Kajaki Dam Turbine

agreements, and six sentencings in the United States. In Afghanistan, two subjects were arrested and charged. Criminal fines and restitutions brought about by SIGAR amounted to approximately \$5.3 million. SIGAR's suspension and debarment program referred 10 individuals and 24 companies for suspension and debarment based on evidence developed as part of investigations conducted by SIGAR in Afghanistan and the United States.

SIGAR TESTIFIES TO CAUCUS ABOUT COUNTERNARCOTICS IN AFGHANISTAN

On January 15, 2014, Special Inspector General John F. Sopko testified before the Senate Caucus on International Narcotics Control on the perilous state of the U.S. counternarcotics effort in Afghanistan. Sopko told the caucus that the situation in Afghanistan is dire with little prospect for improvement in 2014 or beyond. The expanding cultivation and trafficking of drugs is one of the most significant factors putting the entire U.S. and international donor investment in the reconstruction of Afghanistan at risk. Meanwhile, the United States and other western donors assisting Afghanistan have, by and large, made counternarcotics a lower strategic priority at the same time that the 2014 drawdown of U.S. and Coalition forces increases the security risks in the country.

Since 2002, the United States has spent at least \$7 billion on a wide variety of programs to reduce poppy cultivation, prevent narcotics production, treat drug addiction, and improve the criminal justice system to combat drug trafficking. The United States has provided another \$3 billion in additional funds for agriculture and stabilization programs, which under the current U.S. strategy are considered an important part of the counternarcotics effort. Despite this mammoth investment, more Afghan land is under poppy cultivation today than it was when the United States overthrew the Taliban in 2002.

During a recent trip to Afghanistan, international officials, law enforcement agencies, and analysts who have been involved in the narcotics effort in Afghanistan all told Sopko that they are very worried that the United States and its Coalition partners are no longer sufficiently focused on counternarcotics.

Sopko noted that, as a part of SIGAR's quarterly report data call, DOD has reported to SIGAR that without military support, Drug Enforcement Administration (DEA) operations will center on Kabul with little ability to extend beyond the Afghan capital. DOD also said that Afghan counterdrug forces' ability to conduct complex interdictions will be affected by the military drawdown. The department reported a sharp decline in the amount of illicit narcotics seized from fiscal year (FY) 2011 to FY 2013, from 98,327 kilograms of opium seized in 2011 to 71,814 in 2012 to 41,218 in 2013. The interdiction of precursor chemicals also dropped 73% and hashish declined

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by 79% between FY 2012 and FY 2013. The total number of counterdrug operations declined 26% between FY 2012 and FY 2013. “Most troubling, DOD told my staff that when combat operations conclude at the end of 2014, the NATO-led training, advisory, and assistance mission in Afghanistan (Resolute Support Mission or RSM) will not have the resources and capacity to support law enforcement counterdrug missions at current levels,” he said.

Sopko said he was particularly concerned that as the U.S. Embassy Kabul “right sizes” itself—mirroring on a smaller scale the U.S. military drawdown—law enforcement components are losing critical manpower at precisely the time that poppy cultivation and drug trafficking is expanding. He said SIGAR is very concerned that the civilian drawdown does not reflect a considered analysis of the personnel the United States needs to have in Afghanistan to mount an effective counternarcotics effort.

SIGAR believes that a robust law enforcement presence is an essential part of any effort to effectively combat the narcotics trade. As the United States withdraws soldiers, it is also drastically reducing its law enforcement presence. It is particularly important that the United States continue to mentor and assist the Afghan institutions responsible for countering the narcotics trade. These institutions are the key to reversing cultivation and production trends that endanger every single thing the United States has tried to accomplish.

The people Sopko spoke with in Afghanistan on his last few trips talked about two possible outcomes following the 2014 transition in Afghanistan: a successful modern state, or an insurgent state. However, there is a third possibility: a narco-criminal state. Absent effective counternarcotics programs and Afghan political will to seriously tackle this grave problem, that third outcome may become a reality.

CONGRESS ACTS ON ISSUES HIGHLIGHTED BY SIGAR

SIGAR regularly briefs members of Congress and their staffs on SIGAR’s audits, investigations, special projects, and specific areas of concern. This quarter, Congress addressed many issues highlighted by SIGAR through provisions in the FY 2014 Consolidated Appropriations Act and the FY 2014 National Defense Authorization Act, including the following:

FY 2014 Consolidated Appropriations Act

- Funding of \$1.12 billion for Department of State (State) and USAID assistance to Afghanistan, a decrease of 50% from FY 2013 and from the President’s request for FY 2014. A provision stated that the congressional appropriations committees reduced the funding to “a more sustainable level that can be responsibly programmed and subject to effective oversight.”
- A provision stating that assistance provided by the United States shall be exempt from taxation or that the foreign government shall



Special Inspector General John Sopko greets Senator Charles Grassley of Iowa, cochairman of the Senate Caucus on International Narcotics Control, at a January 2014 hearing in the Capitol. (U.S. Senate photo)

Performance audits: provide assurance or conclusions based on an evaluation of sufficient, appropriate evidence measured against stated criteria. Performance audits provide objective analysis so that management and those charged with governance can use the information to improve the program performance and operations, reduce costs, and facilitate decisions making by parties with responsibility to oversee or initiate corrective action for public accountability. Performance audits are conducted in accordance with generally accepted government auditing standards (GAGAS) and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Quality Standards for Federal Offices of Inspector General.

Inspections: are systematic and independent assessments of the design, implementation, and/or results of an Agency's operations, programs, or policies. SIGAR conducts inspections, in accordance with CIGIE Quality Standards for Inspection and Evaluation, to provide information to Congress and the public on the quality of construction of facilities and infrastructure throughout Afghanistan; and generally, provides an assessment of the extent to which the facilities were constructed in accordance with the contract requirements, used as intended, and are sustainable.

reimburse the United States for any taxes levied. It requires that an amount equivalent to 200% of the total taxes assessed during FY 2014 on funds appropriated by the act by a foreign government or entity against U.S. assistance programs be withheld from funds appropriated for assistance to the central government of that country for FY 2015. SIGAR had called attention to nearly \$1 billion in Afghan government taxes on U.S. companies supporting the U.S.-funded reconstruction.

- A provision stating that the Economic Support Fund and International Narcotics and Law Enforcement account funding for Afghanistan may not be used to initiate any new program, project, or activity for which regular oversight by State or USAID, as appropriate, is not possible.
- A section stating that funds may only be used for direct government-to-government assistance of more than \$10 million if each implementing agency or ministry has been assessed and is considered to have the systems required to manage such assistance, and only if any identified vulnerabilities or weaknesses have been addressed.
- A provision directing the Secretary of Defense to report to the House and Senate Appropriations Committees, no later than 180 days after the law's enactment, details of personnel, maintenance, and logistics milestones met or still to be achieved so that the Afghan Special Mission Wing (SMW) is able to operate and maintain its fleet of aircraft. The report must also analyze alternative platforms that could meet SMW mission requirements over the long term.

FY 2014 National Defense Authorization Act

- A section expanding the prohibition on contracting with contractors affiliated with insurgents or other enemies of the United States to apply to combatant commands in addition to U.S. Central Command (CENTCOM).
- A requirement for the Secretary of Defense to report to the congressional defense committees on the amount of taxes assessed the previous year on U.S. defense contractors, subcontractors, and grantees. It would also mandate that an amount equivalent to 100% of the total taxes assessed by the Afghan government on that assistance be withheld from funds appropriated for Afghanistan assistance for the succeeding fiscal year to the extent that such taxes have not been reimbursed.

AUDITS

SIGAR conducts **performance audits**, **inspections**, and **financial audits** of programs and projects connected to the reconstruction in Afghanistan. Since its last report to Congress, SIGAR has issued four performance audits, three inspections, and eight financial audit reports. This quarter SIGAR also

began four new performance audits, bringing the total number of ongoing performance audits to 10. It also initiated three financial audits and three inspections. The published performance audit reports, among other things, raised concerns about the Afghan central banks capacity to regulate commercial banks, the State Department's justice sector programs, the ANSF's literacy programs, and USAID's direct assistance to the Afghan government. The performance audits made a total of 13 recommendations. The financial audits identified more than \$10.7 million in questioned costs as a result of internal control deficiencies and noncompliance issues.

Audit Reports Published

This quarter, SIGAR completed four performance audit reports that reviewed the Afghan central bank's capacity to regulate commercial banks, the State Department's support for Afghanistan's justice sector, the results of ANSF literacy training, and the assessments of Afghan ministries.

Audit 14-16-AR: Afghanistan's Banking Sector

Central Bank's Capacity to Regulate Commercial Banks Remains Weak

The near collapse of Kabul Bank in September 2010 raised major concerns among U.S. and other international donor agencies regarding the capacity of Afghanistan's central bank, Da Afghanistan Bank (DAB), to regulate Afghanistan's commercial banks through its Financial Supervision Department (FSD). SIGAR conducted this audit to determine the extent to which various U.S. government agencies, as well as key international donors, have taken steps since the near collapse to strengthen the regulatory capacity of DAB.

SIGAR found that Afghanistan's banking sector remains fragile and in need of robust regulation by DAB. Further, audits of major commercial banks in Afghanistan have identified systemic weaknesses in many areas of banking governance and operations, including personnel capacity, internal controls, accounting, credit analysis, and compliance with regulations. DAB's ongoing limitations and inability to conduct robust oversight allow such weaknesses in Afghan banks to remain unchecked, heightening the risk of another banking crisis.

USAID, the Department of the Treasury (Treasury), State, and DOD have not provided technical assistance to DAB since 2011, when Afghan President Hamid Karzai banned U.S. advisors from working with the central bank. However, DAB FSD's capacity to fulfill its banking sector regulatory functions is limited and in need of outside technical assistance to help it meet international standards. Treasury and USAID expressed a willingness to resume technical assistance to DAB and have established conditions that the Afghan government and DAB must fulfill before the agencies will take steps to resume activities at DAB. To date, however, the Afghan government has not accepted these conditional offers of assistance.

Financial audits: provide an independent assessment of and reasonable assurance about whether an entity's reported condition, results, and use of resources are presented in accordance with recognized criteria. SIGAR performs financial audits in accordance with GAGAS, which includes requirements contained in the American Institute of Certified Public Accountants Statements on Auditing Standards. SIGAR also reviews financial audits conducted by independent public accountants (IPA). When an IPA conducts a financial audit, SIGAR conducts reasonable procedures to ensure compliance with GAGAS, based on the intended use of the IPA's work and degree of responsibility accepted by SIGAR with respect to that work.

COMPLETED PERFORMANCE AUDITS

- Audit 14-16-AR: Afghanistan's Banking Sector: The Central Bank's Capacity to Regulate Commercial Banks remains Weak
- Audit 14-26-AR: Support for Afghanistan's Justice Sector: State Department Programs Need Better Management and Stronger Oversight
- Audit 14-30-AR: Afghan National Security Forces: Despite Reported Successes, Concerns Remain about Literacy Program Results, Contract Oversight, Transition, and Sustainment
- Audit 14-32-AR: Direct Assistance: USAID Has Taken Positive Action to Assess Afghan Ministries' Ability to Manage Donor Funds, but Weaknesses Remain

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In addition, technical support from international organizations remains quite limited. U.S. agency officials stated that, following the Kabul Bank crisis, international organizations, such as the World Bank and the International Monetary Fund (IMF), became the primary providers of capacity development programs at DAB's FSD. However, World Bank officials told SIGAR that they are terminating one of the Bank's two programs with DAB due to unsatisfactory results, caused, in part, by "a deteriorating security environment," and the IMF does not currently have any advisors assisting DAB.

Given the current impasse between the U.S. and Afghan governments regarding conditions that must be met before additional technical assistance is provided to DAB, SIGAR is not making any recommendations at this time. However, because of the fragile state of the banking sector and its importance to the overall stability of Afghanistan, SIGAR will continue to carefully monitor the situation.

Audit 14-26-AR: Support for Afghanistan's Justice Sector State Department Programs Need Better Management and Stronger Oversight

Since 2005, State has spent at least \$223 million on justice sector development programs in Afghanistan, including State's Bureau of International Narcotics and Law Enforcement Affairs' (INL) programs to train Afghan justice sector personnel such as judges, prosecutors, and defense attorneys. The Justice Sector Support Program (JSSP) is one of these programs and is comprised of three main components: regional training of justice sector officials, developing a case management system, and building administrative capacity at Afghan ministries.

In January 2013, INL signed a letter of agreement with the International Development Law Organization (IDLO), a public international organization with a mission to promote the rule of law worldwide, which transferred the regional justice training component from the contractor that previously implemented the JSSP—PAE Incorporated (PAE)—to IDLO.

This audit assessed (1) INL's management of the JSSP contract and the extent to which the JSSP's contribution to the development of the Afghan justice sector can be measured, (2) the extent to which INL's decision to transfer the JSSP's Regional Justice Sector Training component—now known as the Justice Training Transition Program (JTTP)—from PAE to IDLO affects INL's oversight of the program, and (3) State's efforts to coordinate justice sector programs in Afghanistan across U.S. government agencies.

SIGAR found that INL's management and oversight of the JSSP contract with PAE limited its ability to assess the contractor's performance and the JSSP's contribution to justice sector development.

INL's decision to transfer the Regional Justice Sector Training component of the JSSP to IDLO raises concerns about INL's oversight of the

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SIGAR auditors from the Justice Sector Support audit team met with the Afghan Ministry of Justice's Deputy Minister Haleem. (SIGAR photo)

\$47.8 million IDLO program. This component, now known as the JTTP, was transferred from PAE to IDLO in January 2013, despite the fact that IDLO was facing management and financial challenges at the time. SIGAR also found that INL has limited its authority to oversee IDLO's work on the JTTP. In particular, INL's letter of agreement with IDLO omits provisions that would give INL the authority to access IDLO records that is similar to its authority to access PAE records related to the JSSP.

SIGAR recommends that the Secretary of State: (1) include in future JSSP and/or successor program contracts specific, detailed explanations of the requirements to which the contractor will be held accountable as well as baseline data and target indicators to be used for evaluating program success; (2) expedite completion of PAE's evaluation of the JSSP's Regional Justice Sector Training component and ensure it is shared with IDLO immediately upon its completion so that oversight can be provided in a timely, effective manner, and that the lessons learned identified in this evaluation are used in the design and implementation of the JTTP; (3) renegotiate INL's letter of agreement with IDLO to include provisions that would secure the right of the U.S. government to audit and inspect IDLO records related to funds furnished to IDLO under the JTTP, and to obtain any information from IDLO necessary to evaluate the performance and effectiveness of IDLO's implementation of the JTTP and safeguard U.S. funds dedicated to the program; and (4) in cooperation with other U.S. agencies managing rule of law programs in Afghanistan, finalize the updates to the 2009 U.S.

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Government Rule of Law Strategy within three months, so that timely decisions can be made to guide the development and coordination of current and future justice sector programs in Afghanistan.

Audit 14-30-AR: Afghan National Security Forces Despite Reported Successes, Concerns Remain About Literacy Program Results, Contract Oversight, Transition, and Sustainment

The North Atlantic Treaty Organization Training Mission-Afghanistan/ Combined Security Transition Command-Afghanistan (NTM-A/CSTC-A) considers literacy to be critical to developing capable, professional, and sustainable ANSF. In 2009, the command established a goal of having 100% of ANSF personnel achieve level 1 literacy (basic literacy equivalent to first-grade proficiency) and at least 50% of the ANSF attain level 3 (functional literacy equivalent to third-grade proficiency) by December 31, 2014.

In an effort to achieve its program goals, the Command implemented a literacy training program delivered through three U.S.-funded contracts with OT Training Solutions, Insight Group, and the Higher Education Institute of Karwan. Issued in August 2010, these contracts have a combined value of \$200 million for up to five years. NTM-A/CSTC-A plans to transfer the program to the Afghan Ministries of Defense and Interior by December 31, 2014.

The objectives of this audit were to assess the extent to which (1) NTM-A/CSTC-A's literacy training is meeting goals for improving literacy within the ANSF; (2) NTM-A/CSTC-A has provided effective contract oversight; and (3) NTM-A/CSTC-A has taken steps to transfer and sustain the training program.

NTM-A/CSTC-A reported that its literacy training program has been generally successful in providing basic, functional literacy to ANSF personnel. As of October 2013, the command reported that 224,826 ANSF personnel had passed basic level 1, with 77,700 passing level 3 since the program's inception in November 2009. The command indicated that the literacy program will meet its goal of 100% of ANSF personnel proficient at level 1 and 50% proficient at level 3 by the end of 2014. However, these goals were based on the ANSF's authorized end strength of 148,000 personnel that was established in 2009, rather than the current authorized end strength of 352,000. Several NTM-A/CSTC-A officials told SIGAR they do not know how the goal for the literacy program was developed, but that attaining it based on the current authorized ANSF end strength may be "unrealistic" and "unattainable."

The command's ability to measure the effectiveness of its literacy training program and determine the extent to which overall literacy of the ANSF has improved is limited. None of the three literacy training contracts requires independent verification of testing for proficiency or identifies recruits in a way that permits accurate tracking as the recruits move on



Basic Dari literacy training material at Kabul Military Training Center. (SIGAR photo)

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A literacy instructor leads a class at the Darulaman Literacy Center at Camp Julian. (SIGAR photo)

to army and police units. SIGAR also found that NTM-A/CSTC-A initially did not perform effective oversight of the three ANSF literacy training contracts, but that the command has taken steps since then to enhance its ability to oversee the contracts.

NTM-A/CSTC-A's strategy and plan for the literacy training program called for the command to transfer the program to the Afghan government by the end of 2014, with all classes in the field transferred by July 2013. However, NTM-A/CSTC-A had difficulty obtaining agreement on the plan from the Ministries of Defense and Interior. In particular, they have been reluctant to increase the length of basic recruit training to allow for literacy training through level 3 for illiterate recruits.

Despite the slow transfer of responsibilities to the Afghan government, other international donors have continued to support the ANSF literacy training effort. However, NTM-A/CSTC-A has not yet developed a new transition and sustainment strategy that defines these stakeholders' responsibilities and commitments, program goals, milestones, metrics, and timelines.

SIGAR is making six recommendations to the Commander of the International Security Assistance Force (ISAF) Joint Command, in coordination with other relevant entities: two to improve the usefulness of literacy training program reporting and measures of progress toward achieving overall program goals; three to strengthen the oversight of the three ongoing literacy training contracts and the new quality assurance contract; and one to increase the likelihood of a successful transfer and sustainment of the literacy training program by developing and implementing a formal, coordinated transition and sustainment strategy.

Audit 14-32-AR: Afghan Ministry Assessments

Direct Assistance: USAID Has Taken Positive Action to Assess Afghan Ministries' Ability to Manage Donor Funds, but Weaknesses Remain

USAID has current commitments of over \$1 billion in direct assistance, which comprises host country contracts and government-to-government awards. Since 2010, both Congress and USAID have strengthened policies to regulate direct assistance.

In an effort to improve accountability and meet congressional requirements, USAID contracted with Ernst & Young and KPMG in late 2010 and early 2011 to assess 16 Afghan ministries' abilities to manage U.S. funds. In addition, to help ensure the proper management and implementation of direct assistance worldwide, USAID developed *Automated Directives System 220: Use of Reliable Partner Country Systems for Direct Management and Implementation of Assistance* in August 2011.

The objectives of this audit were to (1) assess the extent to which Ernst & Young and KPMG adhered to USAID contract requirements when conducting the ministry assessments, (2) describe assessment findings and conclusions about the ability of the Afghan ministries to manage U.S. funds and analyze how USAID has used, or plans to use, the assessments to inform its direct assistance to the Afghan government, and (3) examine State's certification and USAID's notification provided to Congress, pursuant to congressional requirements for providing direct assistance to the Afghan government.

In their assessments, Ernst & Young and KPMG concluded that all ministries assessed were unable to manage and account for funds unless they implemented recommendations included in the assessment reports. Following the completion of these assessment reports, USAID/Afghanistan completed internal risk reviews of seven of the 16 Afghan ministries—Ministry of Public Health; Ministry of Mines and Petroleum; Ministry of Agriculture, Irrigation, and Livestock; Ministry of Communication and Information Technology; Ministry of Education; Ministry of Finance; and Da Afghanistan Breshna Sherkat. These seven ministries all have planned or active direct assistance programs. Although USAID/Afghanistan concluded in each of the seven risk reviews that the ministry was unable to manage direct assistance funds without a risk mitigation strategy in place and that the mission would not award direct assistance to the ministry “under normal circumstances,” USAID/Afghanistan signed agreements with each of the reviewed ministries to approve direct assistance programs.

In addition, in 2012, USAID waived Automated Directives System (ADS) 220 requirements in Afghanistan for all direct assistance funds through fiscal year 2013. ADS 220 established the Public Financial Management Risk Assessment Framework—a multi-stage, risk-based methodology that USAID uses to assess partner country systems' suitability for receiving direct assistance. The agency justified the waiver by stating the U.S. foreign

policy decision to provide direct assistance to Afghanistan rendered the initial macro-level review of Afghanistan's risk environment unnecessary.

Although all Afghan ministries receiving direct assistance met conditions precedent before disbursing money, SIGAR found that USAID/Afghanistan has only required the ministries to implement 24 of the 333 identified risk mitigation measures prior to receiving funds. After a preliminary briefing on SIGAR's findings in September 2013, USAID/Afghanistan provided documentation delineating how it has or will mitigate each of the risks identified in its review of Da Afghanistan Breshna Sherkat. This is a positive development, but USAID/Afghanistan has not developed similar mitigation plans that identify how it will address the remaining risks for the six other ministries it reviewed.

SIGAR made three recommendations to USAID. Specifically, SIGAR recommends that the USAID Administrator (1) require compliance with all parts of ADS 220—except for the Stage 1 macro-level review—for the use of all direct assistance funds for fiscal year 2014 and beyond. SIGAR also recommends that USAID/Afghanistan (2) fully inform Congress of the status of ministry assessments USAID or its contractors have completed, the mitigating measures Afghan ministries have implemented, and the level of risk to U.S. funds; and (3) develop a plan, similar to the one created for Da Afghanistan Breshna Sherkat, for each Afghan ministry that has a completed USAID risk review that defines how each of the risks identified are being or will be mitigated, and suspend direct assistance disbursements to these ministries until these plans are completed.

New Audits Announced This Quarter

This quarter SIGAR initiated another in a planned series of sector-wide audits. This one concerns U.S. government efforts to assist in the reconstruction and commercialization of Afghanistan's information and communication technology (ICT) sector. The agency also initiated an audit of U.S. support for developing the Afghan Air Force and ANA National Engineer Brigade. Additionally, SIGAR began an audit of U.S. government efforts to develop and strengthen the capacity and sustainability of the provincial units of the Counter Narcotics Police of Afghanistan (CNPA).

Afghanistan's Information and Communication Technology Sector

Building an adequate national telecommunications infrastructure has been a top priority for the Afghan government since 2002. Over the past few years, the ICT sector has grown to become one of the largest revenue-generating sectors for the Afghan government, contributing roughly \$150 million annually in revenue and accounting for nearly 12% of total government revenues. To guide the ICT reconstruction and commercialization effort, USAID and ISAF have assisted the Afghan government in establishing (1) a country-wide microwave network to support mobile services and wireless

NEW PERFORMANCE AUDITS

- Audit of U.S. Government Efforts to Assist in Reconstruction and Commercialization of Afghanistan's Information and Communication Technology Sector
- Audit of U.S. Support for Development of the Afghan Air Force
- Audit of ANA National Engineer Brigade's Engineering Equipment
- Audit of U.S. Government Efforts to Develop and Strengthen the Capacity of the Counter Narcotics Police of Afghanistan's (CNPA) Provincial Units

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connectivity and (2) the national fiber optic network connecting provincial capitals, major cities, and neighboring countries. In addition, the Afghan government and other U.S. government agencies are working on multiple efforts to commercialize or otherwise apply various telecommunications technologies to better enable governance and commerce. SIGAR's review will assess the U.S. government's efforts to support ICT reconstruction and commercialization in Afghanistan and the outcomes of those efforts.

Afghan Air Force

SIGAR has initiated an audit of U.S. support for developing the Afghan Air Force. The audit will examine U.S. investments, planning, and training to develop an independent Afghan Air Force. The audit will look at the Afghan Air Force's ability to operate and maintain the aircraft and equipment purchased with the ASFF that are planned to be delivered.

Afghan National Army's National Engineer Brigade

SIGAR has initiated an audit of DOD efforts to train, equip, and sustain the National Engineer Brigade (NEB). This audit will examine the U.S. government's efforts to account for, assign, and provide training on the use of engineering equipment that will be transferred to the NEB. Specifically, SIGAR plans to (1) assess the extent to which DOD efforts to train and equip the NEB will build an independent and capable engineering force for the ANA and (2) identify challenges, if any, to building and sustaining the NEB.

Counter Narcotics Police of Afghanistan

SIGAR has initiated an audit of U.S. government efforts to develop and strengthen the capacity and sustainability of the provincial units of the Counter Narcotics Police of Afghanistan (CNPA). This work will evaluate the extent to which development and capacity-building of the CNPA's provincial units are based on a comprehensive interagency plan, facilities constructed for CNPA provincial units are being used as intended, and U.S. government assistance has contributed to building sustainable and capable provincial unit forces.

Financial Audits

SIGAR launched its financial audit program in 2012, after Congress and the oversight community expressed concerns about oversight gaps and the growing backlog of incurred cost audits for contracts and grants awarded in support of overseas contingency operations. SIGAR competitively selects independent accounting firms to conduct the financial audits and ensures that the audit work is performed in accordance with U.S. government auditing standards. Financial audits are coordinated with the federal inspector general community to maximize financial audit coverage and avoid duplication of effort.

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This quarter, SIGAR completed eight financial audits of U.S.-funded contracts, grants, and cooperative agreements to rebuild Afghanistan. SIGAR also announced three new financial audits of DOD-funded contracts with combined incurred costs of approximately \$500.6 million, bringing the total number of ongoing financial audits to 20 with more than \$2.1 billion in costs incurred, as shown in Table 2.1.

SIGAR issues the financial audit reports to the implementing agencies, which are responsible for making the final determination on **questioned costs**. Since the program's inception, SIGAR's financial audits have identified more than \$60.8 million in questioned costs. When the implementing agency determines that a questioned cost is allowable, the agency issues a **bill for collection**. To date, funding agencies have issued bills for collection to recover more than \$3.8 million in questioned costs. It takes time for implementing agencies to carefully consider questioned costs, and final determinations for many questioned costs remain to be made.

SIGAR's financial audits have four specific objectives:

- Express an opinion on whether the **Fund Accountability Statement** for the award presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. government, and balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.
- Evaluate and obtain a sufficient understanding of the audited entity's internal control related to the award; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
- Perform tests to determine whether the audited entity complied, in all material respects, with the award requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations.
- Determine and report on whether the audited entity has taken adequate corrective action to address findings and recommendations from previous engagements.

A list of completed, new, and ongoing financial audits can be found in Appendix C of this quarterly report.

Financial Audits Published

This quarter, SIGAR completed eight financial audits of U.S.-funded contracts, grants, and cooperative agreements to rebuild Afghanistan. These financial audits identified more than \$10.7 million in questioned costs as a result of internal control deficiencies and noncompliance issues. These deficiencies and noncompliance issues included, among other things, reclassification of costs in excess of line item budgets, ineligible personnel

TABLE 2.1

SIGAR'S FINANCIAL AUDIT COVERAGE (\$ BILLIONS)	
20 Completed Audits	\$1.4
20 Ongoing Audits	\$2.1
Total	\$3.6

Notes: Numbers have been rounded. Coverage includes auditable costs incurred by recipients of U.S.-funded Afghanistan reconstruction contracts, grants, and cooperative agreements.

Source: SIGAR Audits Directorate.

Questioned Costs: are costs determined to be potentially unallowable. This includes ineligible costs (violation of a law, regulation, contract, grant, cooperative agreement, etc., or an unnecessary or unreasonable expenditure of funds) and unsupported costs (those not supported by adequate documentation or proper approvals at the time of an audit).

Bill for Collection: a letter or form sent to a debtor for the amount due, including interest, administrative charges, and late penalties, if applicable.

Fund Accountability Statement: a special purpose financial statement that includes all revenues received, costs incurred, and any remaining balance for a given award during a given period.

Source: USAID, "ADS Chapter 591: Financial Audits of USAID Contractors, Recipients, and Host Government Entities," 7/31/2012.

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COMPLETED FINANCIAL AUDITS

- Financial Audit 14-9-FA: (Completed last quarter, audit summary previously unavailable) USAID's Afghanistan Rule of Law-Informal (ARL-I) Project and Services Under Program and Project Offices for Results Tracking (SUPPORT) Project: Audit of Costs Incurred by Checchi and Company Consulting, Inc.
- Financial Audit 14-11-FA: Department of State's Demining Activities in Afghanistan: Audit of Costs Incurred by Afghan Technical Consultants
- Financial Audit 14-14-FA: USAID's Rural Finance and Cooperative Development Project: Audit of Costs Incurred by World Council of Credit Unions, Inc.
- Financial Audit 14-15-FA: USAID's Initiative to Promote Afghan Civil Society Project: Audit of Costs Incurred by Counterpart International, Inc.
- Financial Audit 14-18-FA: USAID's Building Education Support Systems for Teachers and Community Based Stabilization Grants Projects: Audit of Costs Incurred by Creative Associates International, Inc.
- Financial Audit 14-19-FA: USAID's Community Development Program: Audit of Costs Incurred by Mercy Corps
- Financial Audit 14-20-FA: USAID's Community Development Program: Audit of Costs Incurred by Central Asia Development Group, Inc.
- Financial Audit 14-23-FA: USAID's Food Insecurity Response for Urban Populations: Audit of Costs Incurred by World Vision, Inc.
- Financial Audit 14-29-FA: USAID's Food Insecurity Response for Urban Populations Program: Audit of Costs Incurred by CARE International

costs, missing timesheets, failure to conduct vendor suspension and debarment checks, property loss due to theft and fire, poor record retention, lack of supporting documentation, unapproved international travel and property purchases, and failure to adhere to procurement procedures.

Financial Audit 14-9-FA: USAID's Afghanistan Rule of Law-Informal (ARL-I) Project and Services Under Program and Project Offices for Results Tracking (SUPPORT) Project: Audit of Costs Incurred by Checchi and Company Consulting, Inc. (Completed last quarter, audit summary previously unavailable)

USAID awarded Checchi & Company Consulting Inc. (Checchi) two contracts to support two USAID initiatives: (1) the Afghanistan Rule of Law-Informal (ARL-I) project and the Services Under Program and Project Offices for Results Tracking (SUPPORT) project. The audit was performed by Crowe Horwath LLP and covered \$55,176,633 in expenditures.

The main objective of the ARL-I contract was to strengthen and facilitate the operation of traditional alternate dispute resolution, support state justice mechanisms, and increase the capacity of the state justice system in Afghanistan. Under this contract, Checchi incurred costs of \$14,380,884 from March 19, 2010, through September 15, 2011.

The SUPPORT contract was designed to provide third party monitoring support services to USAID/Afghanistan's Program and Project Development Office. These services included updating, improving, and overseeing implementation of USAID/Afghanistan's management information system, monitoring of program results against inter-agency and State Department performance indicators, producing interim or final evaluations of programs and projects, and organizing and providing logistical support to workshops, conferences, and meetings. From October 9, 2006, through August 27, 2012, Checchi incurred costs of \$40,795,749 to support this initiative.

Crowe Horwath LLP found that the Fund Accountability Statement presented fairly, in all material respects, program revenues and costs incurred under the SUPPORT and ARL-I contracts. However, the auditors found seven internal control deficiencies and six instances of noncompliance. The audit also questioned \$694,736 in ineligible costs and identified \$179 in estimated interest that is payable to the U.S. government.

SIGAR made four recommendations to the contracting officer:

- Determine the allowability of and recover, as appropriate, \$694,736 in questioned costs identified in the report.
- Recover the estimated \$179 in interest revenue earned from advances provided.
- Advise Checchi to address the seven internal control findings identified in the report.
- Advise Checchi to address the six compliance findings identified in the report.

Financial Audit 14-11-FA: Department of State's Demining Activities in Afghanistan: Audit of Costs Incurred by Afghan Technical Consultants

The Department of State awarded Afghan Technical Consultants (ATC) five grants to execute demining activities in various regions of Afghanistan. SIGAR's audit covered the period April 1, 2007, through August 31, 2012, and was performed by Crowe Horwath. It covered \$13,422,356 in expenditures.

ATC's program called for conducting operations with specially trained mine-detection dogs from 2007 to 2012. ATC reported that the program cleared over two million square meters of land by locating and destroying anti-personnel mines, unexploded ordnance, fragments, and anti-tank mines. ATC trained human demining teams as well as dogs and employed more than 30 individuals.

Crowe Horwath found that the Fund Accountability Statement presented fairly, in all material respects, revenues received and costs incurred under the grants and identified no findings from prior audits or assessments for follow-up or corrective action. Crowe Horwath identified six internal control weaknesses and five instances of material noncompliance with either the terms of the grants or applicable regulations. These findings prompted the auditors to question a total of \$202,854 in unsupported costs. The audit did not identify any ineligible costs.

SIGAR made four recommendations to the grants officer:

- Determine the allowability of and recover, as appropriate, \$202,854 in questioned costs identified in the report.
- Recover, as appropriate, the estimated \$8,762 in interest revenue earned from advances provided.
- Advise ATC to address the six internal control findings identified in the report.
- Advise ATC to address the five compliance findings identified in the report.

Financial Audit 14-14-FA: USAID's Rural Finance and Cooperative Development Project: Audit of Costs Incurred by World Council of Credit Unions, Inc.

USAID awarded the World Council of Credit Unions Inc. (WOCCU) a contract in support of its Rural Finance and Cooperative Development project. The project's purpose was to expand access to credit markets by providing loans to small businesses, farmers, low and middle income households, and women in southern and eastern Afghanistan. This effort was completed through expansion of the Islamic Investment and Finance Cooperative Network. SIGAR's audit covered the period December 6, 2009, through December 5, 2012, and was performed by Crowe Horwath. It covered \$41,047,327 in expenditures.

Crowe Horwath found that the Fund Accountability Statement presented fairly, in all material respects, revenues received and costs incurred under

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the contract and identified no findings from prior audits or assessments for follow-up or corrective action. However, Crowe Horwath identified three material weaknesses in internal control, three significant deficiencies in internal control, and five instances of material noncompliance. These findings prompted the auditors to question a total of \$97,363 in unsupported costs. The audit did not identify any ineligible costs. In addition, Crowe Horwath identified an instance where WOCCU had not remitted an estimated \$1,053 in interest on advances provided by USAID.

SIGAR recommended that the contracting officer:

- Determine the allowability of and recover, as appropriate, \$97,363 in questioned costs identified in the report.
- Recover, as appropriate, the estimated \$1,053 in interest revenue earned from advances provided.
- Advise WOCCU to address the six internal control findings identified in the report.
- Advise WOCCU to address the five compliance findings identified in the report.

Financial Audit 14-15-FA: USAID’s Initiative to Promote Afghan Civil Society Project: Audit of Costs Incurred by Counterpart International, Inc.

USAID awarded a cooperative agreement to Counterpart International Inc. in connection with its Initiative to Promote Afghan Civil Society project. The purpose of the project was to assist in the “expansion of a vibrant Afghan civil society” through capacity building and technical assistance, implementation of an enabling nongovernmental organization law, and the award and administration of small grants to civil society organizations. The audit covered the period January 3, 2005, through September 30, 2010, and was performed by Mayer Hoffman McCann P.C. It covered \$27,179,524 in expenditures.

Mayer Hoffman McCann P.C. found that, except for the possible effects of questioned costs totaling \$815,317, the Fund Accountability Statement presented fairly, in all material respects, revenues received and costs incurred under the agreement. Mayer Hoffman McCann P.C. identified 25 prior audit findings with a potential material effect on the statement. Adequate corrective actions were taken on all of them. Mayer Hoffman McCann P.C. identified one material weakness in internal control and one instance of noncompliance. These findings prompted the auditors to question a total of \$815,317 in unsupported costs. The audit did not identify any ineligible costs.

SIGAR made two recommendations to USAID:

- Determine the allowability of and recover, as appropriate, \$815,317 in questioned costs identified in the report.
- Advise Counterpart International Inc. to address the one internal control finding identified in the report.

Financial Audit 14-18-FA: USAID's Building Education Support Systems for Teachers and Community Based Stabilization Grants Projects: Audit of Costs Incurred by Creative Associates International, Inc.

USAID awarded Creative Associates International Inc. (CAII) a contract to implement the Building Education Support Systems for Teachers (BESST) project and a cooperative agreement to implement the Community Based Stabilization Grants (CBSG) project. SIGAR's audit covered the periods January 27, 2006, through August 31, 2011, for the BESST project, and March 7, 2010, through March 6, 2012, for the CBSG project. The audit was performed by Mayer Hoffman McCann P.C. It covered \$134,997,303 in total expenditures.

The purpose of the BESST project was to (1) strengthen teaching by training Afghan teachers in 11 provinces, and (2) strengthen institutional capacity and systems in the Ministry of Education that support high-quality school teaching, including annual printing and distribution of textbooks. The purpose of the CBSG project was to address community development needs in the north, west, and central regions of Afghanistan by providing small grants for infrastructure construction and repair services to help insulate those unstable communities from insurgent intrusion.

Mayer Hoffman McCann P.C. found that the Fund Accountability Statement presented fairly, in all material respects, revenues received and costs incurred under the awards. In addition, Mayer Hoffman McCann P.C. identified two recommendations from a prior audit of BESST and found that adequate corrective action had not been taken on one of these recommendations. The open recommendation required a closeout audit of a CAII subcontractor. To address the outstanding requirement, Mayer Hoffman McCann P.C. tested samples of the CAII subcontractor. Mayer Hoffman McCann P.C. observed no findings in the tested samples, effectively closing the open prior audit recommendation.

Mayer Hoffman McCann P.C. reported one internal control deficiency (in the BESST project) and three instances of noncompliance (two in the BESST project and one in the CBSG project), which prompted the auditors to question a total of \$344,479 in costs. These questioned costs included \$342,846 in ineligible costs and \$1,633 in unsupported costs.

SIGAR made three recommendations to the Mission Director of USAID/Afghanistan:

- Determine the allowability of and recover, as appropriate, \$344,479 in questioned costs identified in the report.
- Advise CAII to address the one internal control finding identified in the report.
- Advise CAII to address the three compliance findings identified in the report.

Financial Audit 14-19-FA: USAID’s Community Development Program: Audit of Costs Incurred by Mercy Corps

USAID awarded Mercy Corps, in partnership with Save the Children Federation, a cooperative agreement to support the Community Development Program. SIGAR’s audit covered the period March 10, 2009, through December 31, 2011, and was performed by Mayer Hoffman McCann P.C. It covered \$69,050,785 in expenditures.

The Community Development Program provided cash-for-work wages to local participants in 11 provinces throughout Afghanistan. The program aimed to provide the most vulnerable segments of the population temporary employment on public projects such as repairing roads, clearing debris, or rebuilding infrastructure.

Mayer Hoffman McCann P.C. issued a qualified opinion on the fairness of the presentation of the Fund Accountability Statement based upon the identification of \$682,241 of questioned costs, which represent a material misstatement of the Fund Accountability Statement. Mayer Hoffman McCann P.C. also noted two prior recommendations that could have a material effect on the Fund Accountability Statement and determined that adequate corrective action was not taken on one of the recommendations. Specifically, Mercy Corps has not taken adequate actions to address a weakness in an internal control designed to monitor Save the Children Federation’s use of federal funds. In addition, Mayer Hoffman McCann P.C. found six other internal control deficiencies and three instances of non-compliance, which prompted the auditors to question a total of \$682,241 in costs. These questioned costs included \$2,296 in ineligible costs and \$679,945 in unsupported costs.

SIGAR made three recommendations to the Mission Director of USAID/Afghanistan:

- Determine the allowability of and recover, as appropriate, \$682,241 in questioned costs identified in the report.
- Advise Mercy Corps to address the six internal cost control findings identified in the report.
- Advise Mercy Corps to address the three compliance findings identified in the report.

Financial Audit 14-20-FA: USAID’s Community Development Program: Audit of Costs Incurred by Central Asia Development Group, Inc.

USAID awarded Central Asia Development Group Inc. (CADG) a cooperative agreement to support its Community Development Program. SIGAR’s audit covered the period March 12, 2009, through June 30, 2013, and was performed by Mayer Hoffman McCann P.C. It covered \$254,540,870 in expenditures.

The purpose of the Community Development Program (formerly called the Food Insecurity Response for Urban Populations) was to provide

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temporary employment and income through cash-for-work programs to targeted individuals and communities in 16 provinces in Afghanistan.

Mayer Hoffman McCann P.C. found that except for \$7,853,478 in questioned costs and \$9,613 of lost interest earnings, the Fund Accountability Statement presented fairly, in all material respects, revenues received and costs incurred under the cooperative agreement. They identified no recommendations from prior audits or assessments for follow-up or corrective action. Nevertheless, Mayer Hoffman McCann P.C. reported nine internal control findings and five instances of noncompliance, which prompted the auditors to question \$7,853,478 in costs. These questioned costs included \$563,477 in ineligible costs and \$7,290,001 in unsupported costs.

SIGAR made four recommendations to the Mission Director of USAID/Afghanistan:

- Determine the allowability of and recover, as appropriate, \$7,853,478 in questioned costs identified in the report.
- Recover the estimated \$9,613 in lost interest revenue.
- Advise CADG to address the nine internal control findings identified in the report.
- Advise CADG to address the five compliance findings identified in the report.

Financial Audit 14-23-FA: USAID's Food Insecurity Response for Urban Populations: Audit of Costs Incurred by World Vision, Inc.

USAID awarded World Vision Inc. (World Vision) a cooperative agreement to provide support to the Food Insecurity for Urban Populations (FIRUP) program. The audit, performed by Crowe Horwath LLP (Crowe Horwath), covered the period March 11, 2009, through January 15, 2011, and total expenditures of \$11,034,373.

USAID's cooperative agreement with World Vision was to support the FIRUP program by providing short-term cash-for-work opportunities, assisting in the development of the agriculture industry, and expanding and improving local infrastructure in the western Afghanistan provinces of Herat, Ghor, and Badghis.

Crowe Horwath issued a disclaimer of opinion on the Fund Accountability Statement because the audit firm was unable to quantify the impact on the statement of World Vision's practice of classifying some national office operating costs, first as direct costs to the FIRUP program, and then as indirect costs allocated to multiple awards. World Vision reclassified the direct costs as indirect to avoid exceeding budget restrictions imposed by the cooperative agreement. As a result, an unquantified amount of federal award costs may have been shifted to other projects World Vision had at the time (including other federal awards) through indirect cost charges. World Vision's reclassification practice violates OMB Circular A-122, which requires that, to be allowable, costs must be afforded consistent

treatment. Additionally, Section II of the Negotiated Indirect Cost Rate Agreement requires that similar types of costs be accorded consistent treatment. The scope of this audit was limited to USAID's cooperative agreement with World Vision, preventing Crowe Horwath from assessing the impact of the cost reclassification on other awards. This matter has been referred to SIGAR's Investigations Directorate.

Crowe Horwath identified two prior audit findings pertinent to the FIRUP program and found that World Vision did not take adequate corrective action to address one of the prior recommendations. Crowe Horwath reported seven internal control deficiencies and nine instances of noncompliance, which prompted the auditors to question \$674,049 in costs. These questioned costs included \$667,795 in ineligible costs and \$6,254 in unsupported costs.

SIGAR made four recommendations to the Mission Director of USAID/Afghanistan:

- Determine the allowability of and recover, as appropriate, \$674,049 in questioned costs identified in the report.
- Recover the estimated \$295 in interest revenue earned from advances provided.
- Advise World Vision to address the seven internal control findings identified in the report.
- Advise World Vision to address the nine compliance findings identified in the report.

Financial Audit 14-29-FA: USAID's Food Insecurity Response for Urban Populations Program: Audit of Costs Incurred by CARE International

USAID awarded CARE International a cooperative agreement to provide support to FIRUP. The audit, performed by Crowe Horwath Crowe Horwath, covered the period March 8, 2009, to November 30, 2011. It covered \$59,964,229 in expenditures.

CARE International was to support the FIRUP Program by promoting temporary employment to targeted populations in Kabul and its suburbs through cash-for-work activities such as ditch draining and construction, road resurfacing and gravelling, canal cleaning, vineyard and orchard plowing, and other agricultural-related activities.

Crowe Horwath LLP issued an unmodified opinion on the fairness of the presentation of the Fund Accountability Statement. Crowe Horwath LLP did not identify any open corrective actions from prior audits that pertained to the program or deficiencies in internal controls. The audit found one instance of noncompliance that was the result of the late submission of the agreement's final federal financial report, but this finding did not prompt Crowe Horwath LLP to question any costs.

SIGAR made one recommendation to the Mission Director of USAID/Afghanistan:

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- Advise CARE International to address the one compliance finding identified in the report.

INSPECTIONS

This quarter, SIGAR published three inspection reports. The completed inspections found \$5.4 million spent for inoperable incinerators and continued use of open-air burn pits at Forward Operating Base (FOB) Sharana, an unsafe building at the Balkh Education Facility, and construction deficiencies and a lack of water and power that severely limits services at Salang Hospital.

In addition to ongoing work, SIGAR also initiated inspections of the Poli-Charki provincial prison east of Kabul, the Gereshk Cold and Dry Storage Facility in Helmand Province, and the provincial prison in Baghlan Province.

Inspection 14-13-IP: Forward Operating Base Sharana: Poor Planning and Construction Resulted in \$5.4 Million Spent for Inoperable Incinerators and Continued Use of Open-Air Burn Pits

The U.S. Army Corps of Engineers (USACE) awarded a \$5.6 million contract on September 18, 2009, to International Home Finance & Development LLC, a company based in Denver, Colorado, to construct solid waste management facilities at FOB Sharana. At the time the contract was awarded, the base was using open-air burn pit operations to dispose of its solid waste. ISAF officials installed incinerator facilities at military bases throughout Afghanistan, including FOB Sharana, for several reasons. Of particular concern was the possible health hazard to base personnel from emissions generated by open-air burn pits used to dispose of solid waste material.

SIGAR assessed whether (1) construction was completed in accordance with contract requirements and applicable construction standards and (2) the incinerators and supporting facilities were being used as intended and maintained.

SIGAR found that nearly three years after the initial scheduled completion date for the incinerator facility at FOB Sharana, the incinerators have never been used. In spite of known construction and safety deficiencies and poor contractor performance leading to construction delays, USACE accepted possession of the incinerators and paid the contractor \$5.4 million without having tested the incinerators to determine whether they were operational. In addition, even if the incinerators had been made operational, the poor physical layout of the facility, as constructed, would have limited the facility to only 80% of the processing capacity called for under the contract and would have required extensive manual labor to load waste and remove ash residue.

If the incinerator facility had been put into operation in August 2010, as planned, FOB Sharana would have been able to close its open-air burn pit.

COMPLETED INSPECTIONS

- Inspection 14-13-IP: Forward Operating Base Sharana: Poor Planning and Construction Resulted in \$5.4 Million Spent for Inoperable Incinerators and Continued Use of Open-Air Burn Pits
- Inspection 14-24-IP: Balkh Education Facility: Building Remains Unfinished and Unsafe to Occupy After Nearly Five Years
- Inspection 14-31-IP: Salang Hospital: Lack of Water and Power Severely Limits Hospital Services, and Major Construction Deficiencies Raise Safety Concerns



Two 40-ton capacity incinerators at FOB Sharana. (SIGAR photo by Robert Rivas)

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However, because of the delays and eventual acceptance of an unusable incinerator facility, base personnel faced continued exposure to potentially hazardous emissions, and \$5.4 million of U.S. taxpayer dollars could have been put to better use.

SIGAR recommended that the Commanding General, USACE: (1) conduct an inquiry into the circumstances of the acceptance of the incinerator facility at FOB Sharana and the payment of \$5.4 million to the contractor and (2) based on the results of this inquiry, determine if any action should be taken against the contracting officer(s).



Neither access point to the septic tank has a solid cast iron cover or a permanent ladder, both of which are required by the contract. (SIGAR photo by Mike Ten-Kate)



SIGAR auditors discovered a second floor terrace that slopes toward the classroom door, requiring an improvised dam to stop rainwater from flowing into the classroom. (SIGAR photo by Les Thompson)

Inspection 14-24-IP: Balkh Education Facility: Building Remains Unfinished and Unsafe to Occupy After Nearly Five Years

In May 2008, USAID entered into a Participating Agency Program Agreement (PAPA) with USACE to award and oversee the construction of a number of “Faculties of Higher Education” to serve as teacher training facilities in Afghanistan. Beginning in February 2009, USACE awarded three contracts under the PAPA for the construction of facilities in three northern provinces, including a facility in Mazar-e-Sharif in Balkh Province. In January 2013, USAID terminated the PAPA and took over responsibility for completing these facilities.

For this inspection, SIGAR assessed the project site in Balkh Province to determine whether (1) construction was completed in accordance with contract requirements and applicable construction standards, and (2) the facilities were being used as intended and maintained.

SIGAR found that the Balkh education facility has not been completed or constructed in accordance with contract requirements and technical specifications. As a result, nearly five years after construction began, USAID is unable to transfer the facility to Afghan authorities. USAID and USACE identified a number of repairs that need to be made to address, among other things, a leaking roof, defective electrical wiring, and an improperly sloped terrace roof. USAID technical office and contracting staff have developed a revised procurement strategy to contract out this remaining construction and repair work, which they expect to be completed by mid-2014.

SIGAR identified some additional deficiencies requiring repair that are not currently part of USAID’s expected procurement action. For example, sewer lines crossing above water lines are not encased in concrete and exterior stairway dimensions are not compliant with required International Building Code specifications. SIGAR also found that USAID lacks building roof and septic tank structural calculations; an analysis of which is critical to ensure that the roof and septic tank as constructed will support the loads imposed on them. The absence of such calculations raises potential health and safety concerns because USAID lacks adequate assurance that these structures will not collapse at some point.

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SIGAR also found that, although the Balkh facility was not approved for occupancy, Afghan faculty and students had been using the facility. Following a briefing on SIGAR's inspection, USAID instructed the Afghan Ministry of Higher Education to vacate the facility pending final repairs and the building's official transfer to Afghan authorities.

To help ensure that the Balkh education facility meets the needs of faculty and students and all applicable safety requirements, and to protect the U.S. government's investment, SIGAR recommended that the USAID Mission Director (1) expand the scope of work for the pending procurement action to address the deficiencies identified by SIGAR; and (2) develop roof and septic tank structural calculations based on the construction documents, progress photos, and quality assurance reports, to determine whether these building components comply with the required 2003 International Building Code and adequately protect life and property, and report to SIGAR within 90 days with the results of this analysis and any planned corrective actions.

Inspection 14-31-IP: Salang Hospital: Lack of Water and Power Severely Limits Hospital Services, and Major Construction Deficiencies Raise Safety Concerns

On September 11, 2009, Bagram Regional Contracting Center awarded a firm fixed-price contract to Shafi Hakimi Construction Company, an Afghan company, for \$597,929 to provide labor, materials, and equipment to construct and furnish the 20-bed Salang hospital. The Commander's Emergency Response Program (CERP)-funded contract, with a 365-day period of performance, specified construction of a hospital including surgical and X-ray areas, a pharmacy, a laboratory, wards for men and women, and areas for pediatric, dental, and mental health services. The contract also required the installation of electrical, water, and septic systems, as well as a separate building with toilet facilities and a guard shack. In September 2012, the Governor of Parwan Province took possession of the hospital, which began accepting patients in January 2013.

For this inspection, SIGAR assessed whether (1) construction had been completed in accordance with contract requirements and applicable construction standards, and (2) the facilities were being used as intended and maintained.

SIGAR found that Salang hospital was not built in accordance with contract requirements. In mid-2012, a U.S. Forces-Afghanistan (USFOR-A) task force inspected the site during construction and found a number of deficiencies, including water, sewer, electrical, and heating systems that were incomplete or needed repair. The task force noted the inhabitants of Salang district would have inadequate access to health care until construction deficiencies were remedied and missing equipment provided. In October 2012, the contractor was paid in full. However, SIGAR's November



A leaky roof at the Salang Hospital led to mold and mildew on the ceilings and walls. (SIGAR photo by Brian Flynn)

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A propane-fueled refrigerator is the only way to keep vaccines cool due to insufficient electricity inside the Salang hospital. (SIGAR photo by Brian Flynn)

2013 inspection found that the deficiencies identified by the task force had not been corrected. For example, the water well, solar power system, and second 30-kilowatt generator required by the contract had not been provided. Because there was no clean water, staff at the hospital were washing newborns with untreated river water. SIGAR's inspectors identified additional problems. For example, the original design drawings called for three one-story buildings—a 15-room hospital, a four-stall toilet, and a guard shack—but SIGAR found that a single, poorly constructed, two-story building had been built.

SIGAR's inspection also found significant safety issues with the two-story construction. A three-inch wide vertical expansion joint basically cut the hospital in half, effectively making it two buildings under one corrugated metal roof. Unreinforced brick walls between concrete columns made up most of the hospital's outer structure. Since Salang district is located in one of the most active seismic zones of Afghanistan, these problems with the structural integrity of Salang hospital increase the risk of structural collapse during an earthquake.

SIGAR also found that the Salang hospital was not providing many of the services it was intended to provide, that the hospital staff were using only about 35% of the square footage of the constructed facility, and that the hospital employed less than 20% of the staff it was expected to employ. According to the doctors and nurses on site, the limited use—due primarily to the lack of electricity, water, furniture, and equipment—has prevented them from providing optimal medical care.

SIGAR recommended that the Commanding General, USFOR-A, direct the appropriate USFOR-A units to take the following steps and report to SIGAR within 90 days: (1) identify the contracting officer(s) responsible for oversight of the Salang hospital construction activities and determine: (a) why the hospital was not built according to contract specifications and acceptable construction standards; (b) why required documents were not placed in the CIDNE database; and (c) what disciplinary action, if any, should be taken against the contracting officer(s) responsible for failing to provide required oversight; (2) perform a physical inspection of the building, including appropriate engineering tests and analyses, and, given its location in a high seismic activity zone, determine what corrections are required to ensure the structural integrity of the building.

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 38 recommendations contained in nine audit and inspection reports. These recommendations resulted in over \$10 million of savings to the U.S. taxpayer.

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

SIGAR OVERSIGHT ACTIVITIES

- Revisions to State-funded contracts requiring implementing partners to make payments only through electronic funds transfers or licensed *hawalas*. (Audit 11-13);
- The recovery of nearly \$9.9 million in refunded premiums to USACE for its Defense Base Act Insurance Program. The refunds were either returned to applicable contracts, to contractors and appropriation accounts, or to the U.S. Treasury where appropriations were cancelled. (Audit 11-15);
- The transfer of \$101 million from DOD to the State Department and ultimately to USAID for the implementation of a Northeast Power System project. (Audit 12-12); and
- The refund of \$45,454 in disallowed contract billings by an implementing partner of USAID. (Financial Audit 13-3)

From 2009 through December 2013, SIGAR published 114 audits, alert letters, and inspection reports and made 366 recommendations to recover funds, improve agency oversight, and increase program effectiveness. SIGAR has closed 69% 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.

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. In this quarter, SIGAR continued to monitor agency actions on recommendations in 30 audit and inspection reports.

There were no audit or inspection reports with recommendations over 12 months old for which the agency or department has failed to propose a corrective action that SIGAR believes will resolve the identified problem. However, there are five audit and inspection reports over 12 months old where SIGAR is waiting for a department or agency to take the agreed upon corrective action.

SPECIAL PROJECTS

SIGAR's Special Projects team was created to examine emerging issues and deliver prompt, actionable reports to federal agencies and the Congress. The team conducts a variety of assessments, producing reports on all facets of Afghanistan reconstruction. The directorate is made up of auditors, analysts, investigators, lawyers, subject-matter experts, and other specialists who can quickly and jointly apply their expertise to emerging problems and questions. During this reporting period, SIGAR's Office of Special Projects issued a special report on the safeguards created by DOD to protect \$4 billion provided directly to Afghanistan's Ministry of Defense (MOD) and

COMPLETED SPECIAL PROJECT REPORTS

- Special Project 14-12-SP: Comprehensive Risk Assessments of MOD and MOI Financial Management Capacity Could Improve Oversight of Over \$4 Billion in Direct Assistance Funding
- Special Project 14-22-SP: Commanders Emergency Response Program Funding Inquiry
- Special Project 14-25-SP: Unoccupied 64,000-Square-Foot Building
- Special Project 14-27-SP: USAID Assistance to Afghanistan Reconstruction: \$13.3 Billion Obligated Between 2002 and 2013
- Special Project 14-28-SP: Geospatial Fact Sheet: Oversight Access for Selected U.S. Army Corps of Engineers Projects and the Kajaki Dam Project

Ministry of Interior (MOI). It also issued alert letters concerning evidence that a contractor identified as supporting the insurgency had gained access to a Coalition-controlled facility, and possible weaknesses in oversight provisions in a USAID agreement for providing direct bilateral assistance funds to Afghanistan's national power utility. It issued fact sheets identifying USAID's largest implementing partners and reconstruction projects that may not be readily accessible to oversight after the U.S. troop drawdown in 2014. It wrote letters to nongovernmental organizations working with federal agencies in Afghanistan to identify best practices used in Afghanistan. It also wrote a letter to DOD requesting information about CERP.

Special Projects also issued letters announcing that SIGAR is reopening its investigation of the decisions that led to the construction of a 64,000-square-foot building at Camp Leatherneck in Helmand Province and has started a review of the terminated plan to provide G-222 aircraft to the Afghan Air Force.

Special Project 14-12-SP: Comprehensive Risk Assessments of MOD and MOI Financial Management Capacity Could Improve Oversight of Over \$4 Billion in Direct Assistance Funding

Since 2005, Congress has appropriated over \$52 billion to DOD's ASFF to equip, train, base, and sustain the ANSF. DOD reports that as of September 2013 it has committed \$4.2 billion and disbursed nearly \$3 billion in direct assistance to the MOD and MOI for the sustainment of the ANSF (procurement of food, goods, and services; funding salaries; and funding minor construction). These funds are overseen by CSTC-A, the military command responsible for the training and development of the ANSF.

As part of SIGAR's ongoing effort to monitor federal agencies' use of direct assistance in Afghanistan, SIGAR initiated this project to review DOD's safeguards for ensuring that funds provided to the MOD and MOI are properly managed and safeguarded to protect against possibilities of waste, fraud, and abuse. This report (1) describes the process used by DOD to assess the MOD and MOI's capacity to manage and account for direct assistance, and (2) assesses measures put in place by DOD to mitigate any financial management and internal controls weaknesses identified at the MOD or MOI. SIGAR also provided observations and proposed suggestions that may improve oversight of direct assistance funding.

SIGAR identified a number of oversight weaknesses that increased the risk that the direct assistance funds provided to the ANSF were particularly vulnerable to waste, fraud, and abuse. For example, the process used by CSTC-A examines the capacity and controls of individual offices within the ministries and does not include an understanding of the capabilities and risks associated with executing funds across the ministries and within the Afghan government budget and execution processes. The current process does not enable CSTC-A to determine core functional capacity across each

ministry, provide trainers and decision makers with a holistic understanding of systemic shortcomings of each ministry's overall financial management capacity, or identify risks associated with capacity weaknesses. Moreover, the financial risk assessments conducted by CSTC-A are limited to financial risks associated with the procurement of a particular good or service.

Although the United States has already provided billions in direct assistance for the ANSF and DOD plans to provide increased amounts of direct assistance for the ANSF, a comprehensive risk assessment has never been conducted by DOD to determine the financial management capacity or associated risks for U.S. funds. Those who work most closely with these ministries—CSTC-A advisors—are aware of weaknesses in capacity at the defense and interior ministries, but they have limited visibility or influence over the ministries' overall financial management process. Without a comprehensive assessment, DOD cannot fully identify the risks to U.S. funds nor develop sufficient mitigation measures to address those risks. Consequently, DOD cannot be assured that the funds provided directly to the Afghan government to fund and equip the ANSF are sufficiently protected and used as intended.

SIGAR made one suggestion to the Secretary of Defense and two suggestions to the CSTC-A commander to assist in more accurately assessing and mitigating weaknesses in the financial management and internal control of direct assistance funds provided to the MOD and MOI. The Office of the Secretary of Defense concurred with our suggestion that the Secretary of Defense consider conducting a comprehensive assessment of MOD and MOI financial management capacity. In commenting on a draft of this report, CSTC-A concurred with SIGAR's suggestion to ensure that CSTC-A's Comptroller Directorate (CJ8) mentors and advisors are included in the assessment process. CSTC-A also concurred with SIGAR's suggestion to reassess CJ8 staffing levels to ensure adequate capacity to fulfill its oversight mission. However, CSTC-A stated that it conducts risk assessments in the form of capability milestone (CM) ratings as well as using CSTC-A's and outside agencies' reports and audits. CSTC-A also highlighted its plans to move from an office-based to a functionally based mentoring and advising model and highlighted its plans to implement "levers" to ensure better budgetary controls in the ministry.

Special Project 14-22-SP: Commander's Emergency Response Program Funding Inquiry

On January 16, 2014, SIGAR wrote to DOD to request financial and performance information for CERP in Afghanistan. SIGAR said the information would help it continue its ongoing oversight of CERP and facilitate SIGAR's contribution to a report mandated by Congress on CERP lessons learned and best practices.

SIGAR analysts recently determined that a significant portion of FY 2013 CERP funds appropriated by Congress were never used. Specifically, DOD only obligated \$43.5 million of \$200 million appropriated for CERP before the funds expired at the end of September 2013. SIGAR found that this is not a new phenomenon. Over the past six fiscal years the DOD has used only 59% of the CERP funds provided by Congress.

Special Project 14-25-SP: Unoccupied 64,000-Square-Foot Building

SIGAR wrote to DOD to announce that it was reinstating its investigation of the decisions that led to the construction of an unoccupied 64,000-square-foot building at Camp Leatherneck. SIGAR had written in July to ask why the building, originally intended to serve as a command headquarters in support of the troop surge in Helmand Province, had been built.

Five months later, SIGAR received a response to its original letter as this report was going to press. SIGAR had earlier received an incomplete **Army Regulation (AR) 15-6** investigation of the 64,000-square-foot building, signed by Major General James M. Richardson, Deputy Commander-Support, USFOR-A. General Richardson's report raised additional questions and prompted SIGAR's decision to restart its investigation. SIGAR announced this decision in a November 27, 2013, letter to the Secretary of Defense. In that letter SIGAR asked that all records pertaining to this investigation, as well records related to an earlier May 2013 AR 15-6 investigation of this building, be preserved so they will be available for SIGAR's investigators. Subsequent to that letter SIGAR sent another recent letter asking for the additional documents cited in the AR 15-6 investigation report.

Special Project 14-27-SP: USAID Assistance to Afghanistan Reconstruction: \$13.3 Billion Obligated Between 2002 and 2013

According to SIGAR analysis of USAID data, USAID obligated \$13.3 billion for reconstruction in Afghanistan between the beginning of FY 2002 and June 2013.

USAID awarded these funds to implementing partners including multilateral organizations, nongovernmental organizations, for-profit corporations, Afghan government entities, and U.S. government entities. USAID legal instruments for reconstruction assistance in Afghanistan include contracts, grants, cooperative agreements, and government-to-government (G2G) agreements.

Contracts were the most commonly used legal instrument, accounting for over 50% of total awards. The project sector with the largest portion of total awards was the Construction and Infrastructure project sector, which accounted for 31% of the total \$13.3 billion in awards.

USAID awarded Afghan government entities approximately \$688 million in G2G agreements. The top Afghan government recipient of USAID

AR 15-6: is used as the basis for many U.S. Army investigations requiring the detailed gathering and analyzing of facts and the making of recommendations based on those facts. AR 15-6 procedures may be used on their own, such as in an investigation to determine facts and circumstances, or the procedures may be incorporated by reference into directives governing specific types of investigations, such as reports of survey and line of duty investigations.

Source: United States Army Combined Arms Center, "AR 15-6 Investigating Officer's Guide," 7/18/2008.

reconstruction funds was the government-owned electric utility Da Afghanistan Breshna Sherkat (DABS). DABS received the USAID award in order to fund the Power Transmission Expansion and Connectivity (PTEC) project, a project to improve Afghanistan's electricity transmission system, and the installation of a second turbine at the Kajaki Dam in Helmand Province. Of the 203 organizations that received USAID reconstruction awards, the top-10 recipients by total award amount received 58% of the total \$13.3 billion. The World Bank was the top recipient of total funds from USAID with \$1.7 billion in total awards. The World Bank administers the Afghanistan Reconstruction Trust Fund (ARTF), which provides financing for the Government of Afghanistan's budget and supports World Bank reconstruction projects. The top for-profit entity by total awards was a joint venture between the Louis Berger Group Incorporated and the Black and Veatch Special Projects Corporation (LBG/B&V) with \$1.1 billion in total awards. The LBG/B&V joint venture is implementing USAID's Afghanistan Infrastructure and Rehabilitation Program (AIRP). The AIRP is focused on building and improving Afghan energy and transportation infrastructure. USAID awarded Afghan government entities approximately \$688 million in G2G agreements.

Of the total reported awards between the beginning of FY 2002 and June 2013, 73%, or \$9.8 billion, are reported by USAID as either completed or inactive.

Special Project 14-28-SP: Geospatial Fact Sheet: Oversight Access for Selected U.S. Army Corps of Engineers Projects and the Kajaki Dam Project

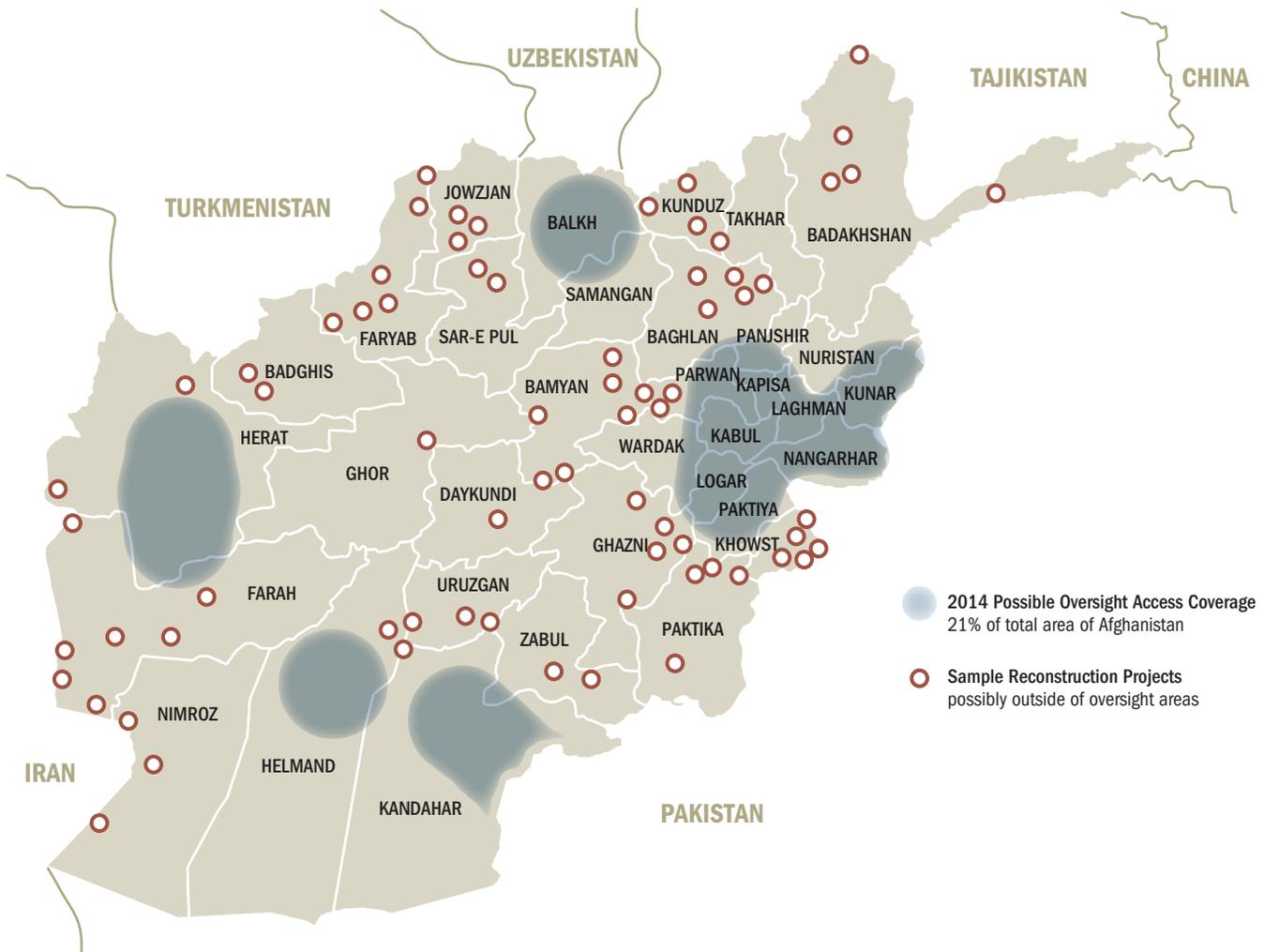
This report is the first in a series of reports illustrating the potential oversight access challenges for U.S. reconstruction projects and programs in Afghanistan. It identifies various USACE projects and one USAID reconstruction project which may not be readily accessible to U.S. civilian oversight personnel if they are still ongoing when the oversight access areas reduce by the end of 2014. SIGAR's audit and inspection work has repeatedly identified project delays.

SIGAR has been concerned about the impact of the coalition troop drawdown on security and the related implications for ensuring adequate oversight of the U.S. funded reconstruction effort in Afghanistan. U.S. military officials have advised SIGAR that in the future they can only provide U.S. civilian access to areas within a one-hour round trip of an advanced medical facility. State Department officials have told SIGAR that their ability to reach reconstruction sites will be extremely limited due to this. This report includes the map shown in Figure 2.1 on the following page showing USACE projects and USAID's on-budget infrastructure project at Kajaki Dam and the relationship of these projects to the reduced oversight-access areas projected to exist at the end of 2014.

SIGAR OVERSIGHT ACTIVITIES

FIGURE 2.1

AFGHANISTAN POSSIBLE OVERSIGHT ACCESS 2014



Notes: This graphic depicts approximate oversight access areas for reconstruction projects and activities in Afghanistan. These oversight access areas represent access under the most favorable conditions possible and do not include limitations due to terrain, weather, and security conditions.

Source: U.S. Army Geospatial Center, 10/29/2013.

SPECIAL PROJECT ALERT LETTER

• Special Project 14-17-AL: Kajaki Dam Alert Letter

Special Project Alert Letter 14-17-AL: Kajaki Dam Alert Letter

On December 31, 2013, SIGAR wrote to alert USAID to possible weaknesses in oversight provisions in a USAID agreement for providing direct bilateral assistance funds to DABS—Afghanistan’s national power utility—for the installation of an additional turbine at Kajaki Dam. As of August 2013, USAID had obligated \$338.3 million in direct bilateral assistance funds to DABS for two reconstruction projects—the PTEC project and the Kajaki

Dam turbine generator project. Of this amount, \$75 million has been obligated to the Kajaki Dam project. The PTEC project is intended to improve Afghanistan's electrical transmission system, while the Kajaki Dam project would increase power generation by installing an additional turbine.

USAID has two separate agreements in place for the PTEC and the Kajaki Dam projects. While the agreements for both projects have many of the same oversight provisions, SIGAR found that the Kajaki Dam has fewer oversight provisions than the PTEC agreement. The provisions in the PTEC agreement but not in the Kajaki Dam agreement include:

- USAID review of key procurement actions
- USAID vetting of organizations and key individuals
- USAID access

Although a Strategic Objective Grant Agreement between the United States and the Government of the Islamic Republic includes oversight provisions governing both projects, SIGAR believes that including specific oversight provisions in one implementation letter but not the other may create ambiguity about USAID's oversight rights. Thus, SIGAR suggested USAID incorporate these oversight provisions into the Kajaki Dam agreement unless there were compelling reasons why they were not included.

Security Lapse Alert letter

On November 8, 2013, SIGAR wrote to alert DOD to evidence that a contractor identified by the CENTCOM commander as supporting the insurgency in Afghanistan had gained access to a Coalition-controlled facility. SIGAR uncovered this matter while investigating construction defects at the Parwan Justice Center complex. During the course of the investigation, SIGAR learned that the builder of the complex, CLC Construction Company (CLC), hired Zurmat Material Testing Laboratory (ZMTL), a subsidiary of the Zurmat Group, to conduct various construction safety tests. Evidence obtained by SIGAR indicates that for two days in November 2012, employees of ZMTL were given access to the Parwan Justice Center Complex. However, these individuals should not have had access to a Coalition-controlled facility, because the U.S. government determined as early as April 2012, when the Department of Commerce listed it on its Entity List, that the Zurmat Group poses a threat to U.S. and Coalition forces.

SIGAR pointed out that this lapse in security highlights the need for a simple process to ensure that individuals and companies identified as supporters of the insurgency are prevented from accessing U.S.- and Coalition-controlled facilities. Additionally, there is no indication that the prime contractor CLC was notified that the Zurmat Group had been listed on the Entity List. The incident also highlights the potential consequences of the Army's failure to act on SIGAR's prior request to debar Zurmat and other supporters of the insurgency.

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NGO Best Practices Letter

On December 12, 2013, SIGAR wrote to 89 nongovernmental organizations (NGOs) who are U.S. agencies' implementing partners, grantees, or contractors, or who may coordinate activities with federal entities in Afghanistan. The agency asked for information that can help SIGAR extract useful lessons on reconstruction and development initiatives, and shape its ongoing efforts to improve agencies' processes and practices. It invited the NGOs to identify programs or projects that they consider have achieved significant levels of success, as well as examples of others that encountered serious obstacles leading to less successful outcomes than intended; their biggest challenges while operating in Afghanistan; any policies, regulations, or practices of the federal agencies from whom they receive funding, or with whom they coordinate, that create unnecessary impediments to achieving agreed-upon undertakings; and suggested improvements to federal entities' engagement and interaction with NGOs. SIGAR asked for written responses by January 23, 2014. The NGOs' comments will be treated as not-for-attribution unless the organizations tell SIGAR otherwise.

INVESTIGATIONS

During this reporting period, SIGAR's ongoing investigations saved the U.S. government approximately \$1.7 million. SIGAR investigations also resulted in three criminal informations, five plea agreements, and six sentencing in the United States. In Afghanistan, two subjects were arrested and charged. Criminal fines and restitutions brought about by SIGAR investigations amounted to approximately \$5.3 million. SIGAR initiated 51 new investigations and closed 39, bringing the total number of ongoing cases to 318, as shown in Figure 2.2. In addition, SIGAR's suspension and debarment program referred 10 individuals and 24 companies for suspension or debarment based on evidence developed as part of investigations conducted by SIGAR in Afghanistan and the United States.

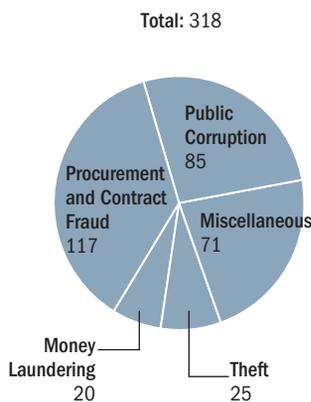
Investigation Results in \$1.7 Million Savings to the U.S. Government

A SIGAR investigation this quarter saved the U.S. government \$1,714,269 that it would have spent on shoddy construction for a courthouse in Parwan Province.

Located inside Bagram Airfield, the Justice Center in Parwan (JCIP) is a multi-building project funded by the United States to support the rule of law in Afghanistan and to demonstrate Afghanistan's national sovereignty in operating its criminal justice system. The JCIP was a joint project of the Department of State's Bureau of International Narcotics and Law Enforcement Affairs (INL) and DOD. It was supposed to consist of 11

FIGURE 2.2

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



Source: SIGAR Investigations Directorate, 1/10/2014.

SIGAR OVERSIGHT ACTIVITIES

buildings, including a forensic lab, a dining facility, and a courthouse. Six of these were funded by INL, including the courthouse, the primary building, and centerpiece of the JCIP. Each JCIP building had an independent cost estimate that the military procurement unit at Bagram Regional Contracting Center (BRCC) put together.

The courthouse project was awarded through competitive bidding. The BRCC developed the statement of work for the project, which included the technical requirements for the construction. On April 18, 2011, CLC Construction Co. (CLC) submitted a price bid for \$2,348,424, along with its technical proposal. The owners of CLC are Brad Rhoden, a Jamaican national with a U.S. green card, Masiuddin Mohammad, an Indian national residing in Dubai, and Mohammad Faiz, an Afghan national. On June 13, 2011, the BRCC awarded the courthouse contract to CLC in the amount of \$2,381,456. Work on the courthouse commenced in July 2011. On November 11, 2011, the courthouse contract was modified, bringing the total contract cost to \$2,667,495.

One year later, in November 2012, INL conducted a site visit of the JCIP courthouse. The INL engineers observed cracks in the courthouse foundation. Suspecting that CLC had provided false information about the project to BRCC, the INL contracting officer referred the matter to the State Department Office of Inspector General (State OIG) and SIGAR. The investigation by State OIG and SIGAR and other members of the International Contract Corruption Task Force revealed, among other things, that CLC had illegally received information about other bidders and the government's estimate of the cost to build the courthouse. The contracting officer concluded that CLC had performed poorly enough that it was doubtful that it could ever complete the courthouse project in a satisfactory manner.

On June 15, 2013, BRCC issued a letter to CLC terminating the contract for convenience. In response, CLC's president, Brad Rhoden, wrote to BRCC to say that CLC was due \$1,714,269.

On September 10, 2013, agents from SIGAR and the Federal Bureau of Investigation (FBI) met with the chief of contracting at BRCC. They disclosed the investigative findings, including emails between Rhoden and a former BRCC source selection member who had revealed the independent cost estimate to build the courthouse. The chief of contracting and a SIGAR special agent informed the Deputy Command Judge Advocate, CENTCOM, Joint Theater Support Contracting Command, of the emails. Based on the information, he subsequently issued a termination for default letter to CLC on October 3, 2013. Under a termination for default, the government does not have to pay the contractor.

Former U.S. Army Staff Sergeant Sentenced

In October 2013, Phillip Wooten, a former U.S. Army staff sergeant, was sentenced in the Eastern District Court of North Carolina. He received

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Deputy Assistant Inspector General for Investigations Sharon Woods visits with an Afghan in Mazar-e-Sharif. (SIGAR photo by Phil Cousin)

a sentence of 15 months' incarceration in a federal correctional facility in Pensacola, Florida, followed by 36 months of supervised probation. Wooten's sentence was based on his prior plea of guilty to conspiracy to commit mail fraud, theft, and conversion of government property. Wooten also was ordered to pay restitution in the amount of \$110,250 and a special assessment fee of \$200.

In early 2011, SIGAR launched an initiative to analyze postal money-order purchases by U.S. personnel stationed in Afghanistan for indications of reconstruction fraud. When the initiative identified Wooten and an accomplice as having possibly engaged in suspicious monetary transactions during their deployment, an investigation was launched in February 2011.

Additional investigation and analysis indicated that both individuals, while assigned to the 7th Special Forces Group based in Fort Bragg, North Carolina, stole U.S. funds earmarked for the operation and reconstruction efforts in Kandahar, Afghanistan. From July 2009 until April 2010, the two conspired to inflate and falsify receipts to vendors, thereby allowing them to steal and send more than \$215,000 to their spouses in the United States.

Sting Operation at FOB Ghazni Results in Two Arrests

Two Afghans were arrested and charged with bribery after a SIGAR agent helped set up a sting operation at FOB Ghazni in December 2013.

The investigation began on December 9, 2013, when a U.S. soldier assigned to download fuel at the base informed a SIGAR agent that an Afghan driver representing Deans Logistic and Transportation Company had offered to pay him cash in return for leaving fuel in his truck. SIGAR immediately contacted the Ghazni prosecutor and proposed that a sting operation be set into motion. The prosecutor and the soldier agreed to participate in the operation.

The following day, the driver, Gul Agha Khairullah, drove a fuel truck onto FOB Ghazni. While the fuel was being downloaded, Khairullah told the soldier that a second truck would be arriving shortly. He said that he would pay the soldier to leave fuel in the second truck and allow the driver to drive it off FOB Ghazni.

A short while later, the second driver, Hazrat Nabi Yar-Mohammad, drove his truck onto the fuel point. While Yar-Mohammad's truck was being downloaded of fuel, Khairullah approached the soldier and told him to leave at least 1000 gallons of fuel in Yar-Mohammad's truck and he would pay him \$500. Subsequently, the soldier shut off the valve when there was a sufficient amount of fuel remaining in the truck. Khairullah then handed \$500 to the soldier. The soldier in turn immediately gave the cash to the Afghan prosecutor waiting in a surveillance truck.

The two fuel trucks and the \$500 in cash were seized as evidence. Yar-Mohammad's truck was downloaded of the remaining fuel. The Afghan police arrested Khairullah and Yar-Mohammad and transported them to

the Ghazni detention facility, where they were charged with bribery under the Afghan Penal Code. On December 16, 2013, William Brown, Command Sergeant Major (CSM), U.S. Army, Task Force White Eagle, FOB Ghazni, reported that both Khairullah and Yar-Mohammad have been barred from U.S. installations.

Sergeant First Class Pleads Guilty to Bribery and Theft Schemes

On December 9, 2013, James Edward Travis pled guilty in the Eastern District of North Carolina to a criminal information charging him with demanding, seeking, and accepting bribes and to theft of government property.

Travis was a sergeant first class in the U.S. Army assigned to the Operational Detachment-Bravo for Alpha Company, 4th Battalion, 3rd Special Forces Group. Between January 3, 2012, and October 4, 2012, Travis was working out of FOB Sharana in Afghanistan, acting as both a paying agent and a contracting officer representative. As a contracting officer representative, he was responsible for approving completion of contracts and approving payments. Travis was also in charge of contracting for cargo vehicles or “jingle trucks” to move supplies and equipment as well as small construction projects. A SIGAR investigation found that he accepted kickbacks from various vendors in exchange for awarding them various contracts. The kickbacks ranged from \$4,000 to \$7,000 per contract. In total, Travis received approximately \$211,890 in kickbacks.

The investigation also revealed that Travis, a local Afghan, and another U.S. soldier conspired to steal fuel from FOB Sharana. On numerous occasions, Travis paid the soldier to escort an Afghan driver to the fuel point on FOB Sharana, to load fuel into the Afghan’s tanker truck, and to escort the driver with the stolen fuel off FOB Sharana. The monetary loss to the U.S. government from this fuel theft scheme is estimated at \$422,302.

In the criminal information, the court ordered Travis to forfeit various financial assets totaling in excess of \$200,000 and a vehicle valued at \$46,131.

Fraud Investigation Results in Four Criminal Convictions

On November 12, 2013, Keith Johnson and Angela Johnson pled guilty in the U.S. District Court for the Eastern District of Virginia to charges of conspiracy to commit wire fraud in a scheme to steer more than \$10 million in military subcontracts through kickbacks and the use of assumed names. The Tennessee couple used part of the proceeds of the scheme to purchase, among other items, luxury vehicles and more than \$191,000 in jewelry.

SIGAR, Defense Criminal Investigative Service (DCIS), FBI, and Army Criminal Investigative Command (CID) opened their investigation after an Army CID report alleged that Keith Johnson, a program manager for a U.S. contractor, and his family members were steering supply contracts and

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rigging bids toward a company owned and operated by Angela Johnson and another relative. Keith Johnson allegedly had his wife establish a separate company and then positioned her as the sales manager. Other close associates of the Johnson couple had established other companies to allow Keith Johnson to steer contracts to them. These associates then reportedly paid kickbacks to Keith Johnson through a shell company operated in the name of Johnson's relative.

In October 2013, criminal informations were filed in the U.S. District Court for the Eastern District of Virginia against two coconspirators, John Eisner and Jerry Kieffer, who were also involved in this scheme. They were charged with wire fraud and conspiracy to commit wire fraud and both pled guilty on all counts.

On December 18, 2013, Eisner and Kieffer were sentenced in a U.S. Federal District Court in Alexandria, Virginia. Kieffer received a sentence of six months' incarceration; two years' supervised release, and a forfeiture of \$30,964. Eisner received a harsher sentence of 12 months' incarceration; two years' supervised release, and a forfeiture of \$2,240,120.

Keith and Angela Johnson await sentencing set for February 14, 2014. Forfeiture of assets for \$2,117,966 will be imposed as part of the sentence according to the November 12 plea agreement.

Two Sentenced for Fuel Theft

On October 28, 2013, Sergeant Christopher Weaver, U.S. Army, was sentenced in the U.S. District Court, Denver, Colorado. He was ordered to 37 months' incarceration for bribery and 37 months for conspiracy, to run concurrently. Additionally, the court sentenced Weaver to three years' supervised release and to pay \$1,225,000 in restitution, jointly with Jonathan Hightower, a former contractor in Afghanistan, and Specialist Stephanie Charboneau, U.S. Army.



SIGAR's Deputy Assistant Inspector General for Investigations Sharon Woods meets with agents in Kandahar. (SIGAR photo)

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That same day Hightower, a former employee of FLUOR Corporation, was sentenced to 27 months' incarceration for bribery and 27 months for conspiracy, to run concurrently. Hightower's sentence also included three years' supervised release and \$1,225,000 in restitution, jointly with Weaver and Charboneau.

Weaver, Hightower, and Charboneau had engaged in bribery and conspiracy to steal fuel at FOB Fenty, Afghanistan, in 2010. Hightower entered a plea of guilty to two counts of conspiracy to commit bribery in August 2012. During an interview with prosecutors, Hightower admitted receiving between \$60,000 and \$80,000 in bribe payments. Weaver pled guilty to bribery and conspiracy to commit bribery in October 2012 after admitting to receiving between \$80,000 and \$100,000 in bribe payments. Charboneau was convicted in September 2013.

U.S. Army Sergeant Convicted for Theft of Government Funds

On October 21, 2013, Sergeant First Class Robert S. Farmer, U.S. Army Special Forces, was sentenced in the Eastern District of North Carolina. He was ordered to three years' supervised probation, a fine of \$15,400, and a special assessment fee of \$100. Farmer was also ordered to receive substance-abuse treatment.

Farmer had appeared on July 22, 2013, before a federal judge and agreed to a one-count guilty plea of theft of government monies for his participation in a theft of \$15,000 in government-appropriated funds during his deployment to Afghanistan from July 2008 until 2010. He had stolen the money while assigned as a military paying agent.

In March 2012, DCIS received information led to allegations that members of the U.S. Army Special Forces 3rd Group, Fort Bragg, North Carolina, purchased a substantial number of \$1,000 money orders from FOB Fenty and sent the funds to their spouses, electronic bank accounts or various vendors. Farmer and the other subjects had been deployed as a team to Jalalabad, Afghanistan. Each team member had either direct or indirect access to U.S. reconstruction funds administered by the U.S. Army. The allegations resulted in an investigation led by SIGAR, DCIS, FBI, and CID.

The investigation is ongoing.

Suspensions and Debarments

This quarter, SIGAR's suspension and debarment program referred ten individuals and 24 companies for suspension or debarment based on evidence developed as part of investigations conducted by SIGAR in Afghanistan and the United States. Of these 34 contractors, four individuals and ten companies were referred for debarment based on allegations that they engaged in fraud and non-performance as part of contracts valued at \$240,343,585. These referrals bring the total number of individuals and companies

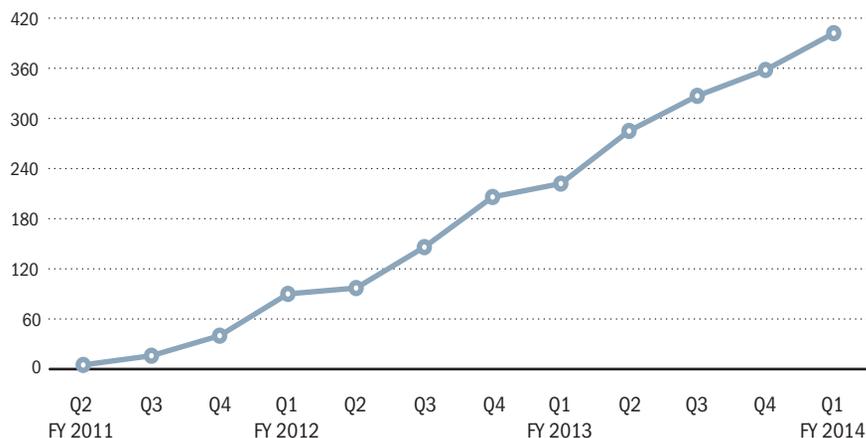


A SIGAR agent speaks with a vendor at the Kabul bazaar. (SIGAR photo by Sharon Woods)

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FIGURE 2.3

SIGAR INVESTIGATIONS: CUMULATIVE REFERRALS FOR SUSPENSION AND DEBARMENT, Q2 FY 2011–Q1 FY 2014



Source: SIGAR Investigations Directorate, 1/10/2014.

referred by SIGAR since 2008 to 402—encompassing 213 individuals and 162 companies to date, as shown in Figure 2.3.

As of the end of December 2013, the efforts of SIGAR to utilize suspension and debarment to address fraud, corruption and poor performance in Afghanistan have resulted in a total of 71 suspensions and 133 finalized debarments of individuals and companies engaged in U.S.-funded reconstruction projects.

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 U.S. 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 suspensions and debarments—actions taken by 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 in the absence of acceptance of an allegation for criminal prosecution or remedial action by a contracting office and are therefore the primary remedy to address contractor misconduct. In making referrals to

agencies, SIGAR provides the basis 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. Based on the evolving contracting environment in Afghanistan and the available evidence of contractor misconduct and/or poor performance, on occasion SIGAR has found it necessary to refer individuals or companies on multiple occasions for consideration by agency suspension and debarment officials.

SIGAR has increased its emphasis on suspension and debarment in recent years in response to the contracting environment in Afghanistan. This is demonstrated by the fact that of the 402 referrals for suspension and debarment that have been made by the agency to date, 375 have been made since the second quarter of 2011. During calendar year 2013, the efforts of SIGAR's suspension and debarment program resulted in actions by agency suspension and debarment officials to exclude 131 individuals and companies from contracting with the U.S. government. SIGAR's referrals over this period represent allegations of theft, fraud, poor performance, financial support to insurgents and mismanagement as part of reconstruction contracts valued at \$509,274,215.

Proposed Debarment of Aria Target Logistics Services

On December 20, 2013, as a result of a referral by the SIGAR's suspension and debarment program, the Air Force proposed Aria Target Logistics Services (ATL) and two members of the company's management for debarment from contracting with the U.S. government. The basis for this action was the company's submission of a proposal for transportation of bulk fuels, dry cargo, and heavy cargo throughout Afghanistan under the National Afghan Trucking II (NAT II) contract. In its proposal, ATL asserted that it owned a fleet of vehicles enabling it to perform the contract without the need to use subcontractors. At the request of SIGAR, 31 of the vehicle identification numbers submitted by ATL were reviewed by the Afghanistan Ministry of Interior's Traffic Department in Kabul. As a result, it was determined that 25 were registered to companies other than ATL and six were not registered at all. These results from the Traffic Department were further corroborated by statements from individuals that ATL had allegedly submitted false statements regarding its trucks as part of its proposal. As a result, SIGAR referred ATL, its chief executive officer, and its program manager to the Air Force suspension and debarment official (SDO) for proposed debarment. The expedited decision by the Air Force in this matter resulted in ATL being excluded from the NAT II contract, protecting \$237,962,129 from being awarded to the company by the U.S. Transportation Command.

Proposed Debarment of Clark Logistic Services Company

On November 14, 2013, as a result of a referral by the SIGAR's suspension and debarment program, the Army proposed Clark Logistic Services Company, as well as its two owners, for debarment based on allegations of false claims and statements made regarding contracts for electrical work on airfield lighting at Kandahar Airfield, Afghanistan. As a result of SIGAR's investigation, Clark Logistic Services Company's owners admitted that they had fraudulently claimed to have employed a U.S. citizen, certified as a master electrician, when, in fact, the company subcontracted the work to an Afghan subcontractor or used third-country nationals instead of properly certified electricians. In addition, Clark Logistic Services Company had allegedly failed to comply with regulations concerning personnel accountability and badging, non-tactical vehicles' registration, and environmental and ground safety procedures, among other violations, resulting in the company's removal from Kandahar Airfield by the ISAF installation commander on July 30, 2013. Based on SIGAR's investigation, Clark Logistic Services Company and its two owners have been excluded from contracting with the U.S. government pending a final debarment determination by the Army suspension and debarment official.

Suspension of Hikmatullah Shadman, Hikmat Shadman Logistics Services Company, and Eight Affiliated Companies and Individuals

On October 30, 2013, based upon the unsealing of a Complaint for Forfeiture In Rem filed by the Department of Justice, Asset Forfeiture and Money Laundering Section on November 20, 2012, the Army suspended Hikmatullah Shadman, Hikmat Shadman Logistics Services Company, six affiliated companies and two business partners of Shadman from contracting with the government. The complaint, filed based on an investigation conducted by SIGAR, alleges that Shadman and his coconspirators paid kickbacks to individuals to receive trucking subcontracts and submitted inflated invoices that were later submitted to the U.S. government by a prime contractor for the transportation of military cargo in Afghanistan. The complaint filed by the Department of Justice, as amended, alleged that as a result of the fraudulent actions of Shadman and his coconspirators, Hikmat Shadman Logistics Services Company received payments totaling \$77,920,605 from the government. The complaint also alleges that, as part of this scheme to defraud the government, Shadman and his coconspirators used multiple companies and bank accounts under their control to hide the proceeds of their unlawful activity. The civil forfeiture complaint that is the basis for the suspension is currently pending in the U.S. District Court for the District of Columbia.

SIGAR OVERSIGHT ACTIVITIES

SIGAR BUDGET

On January 17, 2014, Congress provided SIGAR with \$49.65 million in the Consolidated Appropriations Act for FY 2014. The budget supports SIGAR's oversight activities and products by funding SIGAR's five directorates: (1) Audits and Inspections, (2) Special Projects, (3) Investigations, (4) Management and Support, and (5) Research and Analysis Directorate.

The Research and Analysis Directorate (RAD) is the new name of SIGAR's Information Management Directorate. SIGAR changed the name to more accurately describe RAD's efforts to help SIGAR, Congress, and the public understand the reconstruction effort in Afghanistan. In addition to producing SIGAR's *Quarterly Report to Congress*, RAD provides the rest of SIGAR and the public with analysis and evaluation about the reconstruction effort.

SIGAR STAFF

Since its last report to Congress, SIGAR increased its staff, bringing the FY 2014 total staffing number to 197 federal employees.

This quarter, SIGAR had 34 authorized personnel at the U.S. Embassy Kabul and 12 authorized at locations outside the embassy. SIGAR staff members were stationed at five locations across the country, including Kandahar and Bagram airfields, Mazar-e-Sharif, Camp Leatherneck, and USFOR-A headquarters in Kabul. The Herat office is temporarily closed while the consulate is under repair following a 2013 insurgent attack. SIGAR employed a local Afghan 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 13 personnel on temporary duty in Afghanistan for a total of 220 days.



SIGAR Research & Analysis Directorate staffers compile federal agencies' funding data for the Quarterly Report. The Directorate has subject-matter expert writers, editors, visual-information specialists, and a program manager. (SIGAR photo by Vong Lim)

“What role America and its allies continue to play in Afghanistan to help the people of that country after 2014 must be clearly defined, and it must be defined very soon. A bilateral security agreement between Afghanistan and the United States must be signed promptly.”

—*Secretary of Defense Chuck Hagel*