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SIGAR Chief of Staff Tim Nelson observes Shorandam Industrial Park as he and SIGAR colleagues approach the complex via helicopter.
(SIGAR photo by Smythe Anderson)

SIGAR OVERSIGHT ACTIVITIES

This quarter SIGAR issued 20 audits, inspections, alert letters, and other reports that looked at programs worth nearly \$31 billion. SIGAR questioned the sustainability of Afghanistan's reconstruction in areas ranging from the Afghan government's ability to collect customs revenue, to the International Security Assistance Force (ISAF) plans to sustain their capability-assessment efforts of the Afghan National Security Forces (ANSF). It also uncovered failures of planning, oversight, and construction.

One performance audit found that the ISAF needs to improve plans for sustaining capability assessments of the ANSF. Another performance audit reported that questionable customs data, the withdrawal of international troops, and corruption all limit the future of customs revenue as a stable source of income for the Afghan government. A third performance audit determined that the United States Agency for International Development (USAID) needs to update its strategy for Afghanistan's water sector to ensure appropriate oversight and accountability, and that four USAID water projects implemented since fiscal year (FY) 2010 show mixed performance results. An inspection warned that it was unclear if an Afghan National Army (ANA) facility in Jowzjan Province was being used as intended. SIGAR's financial audits have identified nearly \$75.3 million in questioned costs and \$140,894 in unremitted interest on advanced federal funds.

SIGAR's Office of Special Projects wrote to USAID about concerns that the estimated cost of an additional power generating turbine at the Kajaki Dam has more than tripled to \$75 million. In addition to other inquiry letters, Special Projects also queried USAID about a list of 17 projects that USAID identified as terminated, and wrote to the Department of Defense (DOD) to warn that key documents had apparently been withheld regarding a SIGAR investigation of decisions that led to constructing a still-unoccupied 64,000-square-foot building at Camp Leatherneck.

During the reporting period, the criminal fines, restitutions, forfeitures, and cost savings to the U.S. government from SIGAR's ongoing investigations amounted to approximately \$6.7 million. SIGAR investigations also resulted in an arrest, a criminal information, two plea agreements, and six sentencing in the United States. In Afghanistan, two subjects were convicted and sentenced and eight individuals were barred from access to

TESTIMONY GIVEN

- Testimony 14-46-TY: Lessons Learned from Oversight of USAID's Efforts in Afghanistan

COMPLETED PERFORMANCE AUDITS

- Audit 14-33-AR: ANSF Capability Assessment Efforts
- Audit 14-47-AR: Afghan Customs
- Audit 14-52-AR: Afghanistan's Water Sector

COMPLETED FINANCIAL AUDITS

- Financial Audit 14-34-FA: Audit of Costs Incurred by Jhpiego Corporation
- Financial Audit 14-39-FA: Audit of Costs Incurred by International Relief and Development Inc.

COMPLETED INSPECTIONS

- Inspection 14-31a-IP: Salang Hospital: Comments from USFOR-A
- Inspection 14-41-IP: Camp Monitor Construction

INSPECTION ALERT LETTERS

- Alert Letter 14-42-AL: FOB Sharana Incinerators
- Alert Letter 14-45-AL: Baghlan Prison Construction

COMPLETED SPECIAL PROJECT PRODUCTS

- Special Project 14-35-SP: Inquiry Letter: Mi-17 Crash and Demolition
- Special Project 14-36-SP: Inquiry Letter: ANP Ghost Worker and LOTFA Financial Management
- Special Project 14-37-SP: Inquiry Letter: Communications Towers
- Special Project 14-38-SP: Inquiry Letter: 64,000-Square-Foot Building Review Document Preservation
- Special Project 14-40-SP: Inquiry Letter: Kajaki Unit 2 Project
- Special Project 14-43-SP: Inquiry Letter: DOD Contract Data Request
- Special Project 14-44-SP: Inquiry Letter: Cancelled USAID Contracts
- Special Project 14-49-SP: Fact Sheet: Department of State Assistance to Afghanistan
- Special Project 14-50-SP: Inquiry Letter: ANP Mobile Money Pilot Program
- Special Project 14-51-SP: Inquiry Letter: USDA Soybean Program

JOEL BRINKLEY



SIGAR mourns the loss of Strategic Advisor Joel Brinkley, 61, who passed away unexpectedly on March 11, 2014, of complications due to undiagnosed acute leukemia.

Joel had taken up his position at SIGAR only three months earlier after a distinguished career as a Pulitzer Prize-winning journalist and author. Most recently, he spent seven years as a professor of journalism at Stanford University. Before that he spent 23 years with *The New York Times* as a reporter, editor, and foreign correspondent. While at Stanford, Joel wrote a syndicated weekly op-ed column on foreign affairs that appeared in dozens of newspapers and websites in the United States and around the world each week. He wrote and blogged regularly for the *World Affairs Journal* and was *Politico's* foreign affairs writer.

Joel was a native of Washington, D.C., and a graduate of the University of North Carolina at Chapel Hill. He began his journalism career at the Associated Press and over the following eight years worked for *The Richmond News Leader* and *The Courier-Journal*, of Louisville, Kentucky. He won the Pulitzer Prize in 1980 for his *Journal* reporting on the Cambodian refugee crisis. After joining the *Times* in 1983, Joel served as Washington correspondent, White House correspondent, and chief of the Jerusalem bureau. He also spent more than 10 years in editing positions in New York and Washington. He was serving once again as a foreign-affairs correspondent when he left the *Times* in 2006. He was the author of five books, including his most recent, *Cambodia's Curse: The Modern History of a Troubled Land* (Public Affairs Books, 2011).

Joel is survived by his wife, Sabra Chartrand, and two daughters, Charlotte, 15, and Veronica, 10.

military installations. SIGAR's suspension and debarment program referred 16 individuals and 15 companies for suspension or debarment based on allegations that they engaged in fraud and non-performance in contracts valued at almost \$61 million.

SIGAR TESTIFIES ON OVERSIGHT OF THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Special Inspector General John F. Sopko testified on April 3, 2014, before the House Subcommittee on National Security of the Committee on Oversight and Government Reform on lessons learned from oversight of USAID's efforts in Afghanistan. Sopko said that since 2002, USAID has obligated over \$18 billion to help rebuild Afghanistan. SIGAR has developed a large body of work focused on USAID's efforts. Taken as a whole, these reports reveal broader lessons about what has worked and what has not—lessons that can be used to inform future contingency operations and, to the extent possible, to strengthen and improve the U.S. government's continued efforts in Afghanistan through the "Transformation Decade" and beyond.

The first lesson was that reconstruction programs must take into account the recipient country's ability to afford the costs of operating and sustaining them. Sopko noted that a 2011 report on Afghanistan's fiscal sustainability, prepared for USAID by Chemonics International Inc., found that even under conservative assumptions, the size of operations and maintenance expenditures associated with all external development spending is almost equal to Afghanistan's current operating budget. SIGAR has found, however, that USAID has not consistently translated this understanding into a realistic approach for designing and implementing projects.

The second lesson was that reconstruction of a conflict-ridden state is inherently risky and that risk must be properly mitigated. USAID has made substantial progress since the early days of its programs. Most notably, USAID has strengthened its efforts to assess the capacity of a number of Afghan ministries to manage U.S. direct assistance funds. Unfortunately, USAID's progress in assessing the risks has not been matched by an equally robust strategy to ensure the Afghan government mitigates those risks.

The third lesson is that oversight is a critical element of reconstruction. SIGAR's work has shown that USAID's adoption of oversight techniques has been impressive in some cases, but less so in others. In one of the broadest looks at USAID's oversight of its Afghanistan programs, the Government Accountability Office (GAO) reported systematic weaknesses in USAID's oversight and monitoring of project and program performance.

The fourth and final lesson is that a reconstruction effort must have clearly articulated goals and a sound way to measure progress toward those goals. The necessity of strategic planning is widely acknowledged,

TESTIMONY GIVEN

- Testimony 14-46-TY: Lessons Learned from Oversight of USAID's Efforts in Afghanistan

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 decision-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 being maintained.

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 both requirements contained in the American Institute of Certified Public Accountants Statements on Auditing Standards and additional requirements provided in GAGAS. 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.

but SIGAR has repeatedly found it has often been ignored throughout the Afghanistan reconstruction effort.

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 three performance audits, two inspections, two financial audit reports, and two inspection alert letters. This quarter SIGAR also began six new performance audits, bringing the total number of ongoing performance audits to 17. It also initiated 27 financial audits and five inspections. The published performance audit reports raised concerns about ISAF's plans to sustain their capability-assessment efforts of the ANSF, USAID's strategy for Afghanistan's water sector and the mixed performance results of four USAID water-sector projects, and customs as a sustainable source of revenue for the Afghan government. The performance audits made a total of seven recommendations. The financial audits identified more than \$14.5 million in questioned costs as a result of internal control deficiencies and noncompliance issues.

Performance Audit Reports Published

This quarter, SIGAR completed three performance audit reports that reviewed Afghan National Security Forces' plans for sustaining capability-assessment efforts, USAID's strategy for Afghanistan's water sector, and Afghan customs revenue.

Audit 14-33-AR: Afghan National Security Forces

Actions Needed To Improve Plans for Sustaining Capability Assessment Efforts

Since 2005, Congress has appropriated almost \$53 billion for the Afghanistan Security Forces Fund—the single largest U.S. fund for the reconstruction of Afghanistan—to train, equip, and sustain the ANSF. The process of transferring security responsibility to the Afghans is expected to be completed by the end of 2014, coinciding with completion of the draw-down of U.S. and Coalition forces. NATO's Strategic Plan for Afghanistan calls for the Afghan army and police to achieve a combined surge strength of 352,000 personnel by the end of 2013, and to remain at that level through at least 2015, to allow for continued progress toward a sustainable, secure environment in Afghanistan. SIGAR's prior work and the work of others have expressed concern with the reliability and consistency of ANSF assessments. Reliable measures of the ANSF's progress toward becoming a self-sustaining force that is capable of assuming full security responsibility for Afghanistan are critical as the ANSF assume increasing responsibility for their country's security.

The objectives of this audit were to assess the extent to which (1) ISAF's tool for evaluating the manning, training, and equipping capacity of the ANSF—the Commander's Unit Assessment Tool (CUAT)—was consistently applied to assess ANSF units, and (2) ISAF is taking steps to plan for the continued collection, validation, analysis, and reporting of ANSF capacity assessments during the military drawdown and the transition of security responsibility to the Afghan government.

The National Defense Authorization Act for FY 2008 directs DOD to report on its assessment of the operational readiness of ANSF units. Specifically, the Act requires DOD to report on the number of ANSF units that are capable of conducting operations independently, units that are capable of conducting operations with U.S. and Coalition support, and units that are not ready to conduct operations. To help meet this requirement, from April 2010 through July 2013, the ISAF Joint Command (IJC) used the CUAT as a key tool for assessing and reporting on the ANSF's manning, training, and equipping capacity.

The CUAT was a two-part assessment of ANSF units. The first part consisted of quantitative data, such as the total number of assigned personnel and equipment on hand. IJC advisor teams then used this data to inform their qualitative evaluations, the second portion of the CUAT, which consisted of one overall assessment and an assessment of 14 component areas. Based on their assessment findings, advisor teams assigned one of six color-coded rating definition levels to the ANSF units in each area and provided narrative comments to justify the assigned rating definition levels.

From August 2011 to July 2013, these rating definition levels were (1) independent with advisors, (2) effective with advisors, (3) effective with partners, (4) developing with partners, (5) established, and (6) not assessed. CUAT assessments, combined with battlefield reporting, commanders' informal assessments, and other data, served as the basis for DOD's and ISAF's overall assessment of the ANSF's operational effectiveness and readiness during this time.

CUAT rating definition levels for ANSF units assessed from January 2012 to July 2013 show that there has been some improvement in the ANSF's capacity to man, train, and equip its forces. For example, the number of Afghan National Army (ANA) units rated as "independent with advisors" increased from 20 to 93 between January 2012 and July 2013. However, the number of ANA and ANP units not assessed also increased during this time due to the drawdown of Coalition forces.

Between April 2010 and August 2011, IJC changed the CUAT rating definition level titles four times. Despite these changes, SIGAR's analysis of the standards supporting each level shows that the standards for the overall assessment generally remained consistent from change to change. However, some thresholds in the standards for some component-assessment areas changed. For example, under the September 2010 revision, an ANA unit

COMPLETED PERFORMANCE AUDITS

- Audit 14-33-AR: Afghan National Security Forces: Actions Needed To Improve Plans for Sustaining Capability Assessment Effort
- Audit 14-47-AR: Afghan Customs: U.S. Programs Have Had Some Successes, but Challenges Will Limit Customs Revenue as a Sustainable Source of Income for Afghanistan
- Audit 14-52-AR: Afghanistan's Water Sector: USAID's Strategy Needs to Be Updated to Ensure Appropriate Oversight and Accountability

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could achieve a rating definition level of “effective with advisors” for equipment if its level of critical equipment was greater than 85% of its authorized equipment level. Under the August 2011 revision, an ANA unit could achieve that same rating definition with “greater than or equal to” 75% of its authorized equipment level.

The CUAT Standard Operating Procedure outlined requirements for advisor teams completing the qualitative evaluation, and encouraged advisor teams to use their judgment when assessing ANSF units to assign rating definition levels and provide comments within the assessment areas. However, the CUAT Standard Operating Procedure did not provide clear guidance on the level of detail necessary to support a team’s rating or what the team’s subjective assessments should contain. This unclear guidance led to disparities in the quantity and quality of information across CUAT assessments and to inconsistent evaluations of ANSF capacity to man, train, and equip its units.

In July 2013, IJC replaced the CUAT with the Regional ANSF Status Report (RASR). IJC officials stated the command replaced the system because ISAF senior leadership found the CUAT to be difficult to read, inconsistently applied, and not useful. In addition, IJC officials expect that the RASR will simplify, streamline, and improve assessments of the ANSF by allowing the command to better track the extent to which ANSF units are able to employ their manning, equipping, and training capacity to successfully engage the enemy in combat.

The RASR uses six color-coded rating definition levels—(1) fully capable, (2) capable, (3) partially capable, (4) developing, (5) established, and (6) not assessed—to evaluate ANSF units at the brigade and regional levels each month. In addition, the RASR focuses on assessing specific components of the units, such as infantry and communications, against one overall and five targeted categories: combined arms, command and control, leadership, sustainment, and training. These five targeted categories replace the one overall assessment and 14 component areas previously used in the CUAT.

As Coalition forces draw down and fewer advisor teams are assigned to ANSF units, IJC officials stated they will have less insight into ANSF capabilities and will rely more on the ANSF for assessment data. Officials said this will decrease their overall confidence in ANSF assessments. IJC, in coordination with the Afghan government, is taking steps to improve the ANSF’s internal-assessment capabilities and is discussing ways to mitigate the risks of declining presence and reduced Coalition oversight of the ANSF. For example, in July and August 2013, the Ministry of Interior (MOI) selected nearly 100 ANP candidates to send to Turkey to learn assessment methodology and develop a new police assessment tool that would standardize assessments across the ANP.

Despite these efforts, ISAF has not developed a plan that details how it will (1) ensure the continued collection, analysis, validation, and reporting of ANSF capability assessments as Coalition forces draw down; and

(2) address the challenges of having fewer advisor teams available to conduct assessments and of relying on the ANSF's processes for conducting its own internal assessments. Without such a plan, ISAF may not be able to obtain an accurate understanding of ANSF units' capability—information that feeds into broader assessment reports on the ANSF's overall effectiveness and readiness.

SIGAR is making one recommendation. Specifically, SIGAR recommends that the ISAF Commander develop and implement a plan for collecting, validating, analyzing, and reporting ANSF capability assessments that details how ISAF will assess the ANSF's capability with fewer advisors to conduct the assessments and mitigate the challenges associated with the ANSF reporting on its own assessment results.

In providing comments on a draft of this report, U.S. Forces-Afghanistan (USFOR-A) stated that it “concur[s] with the overall recommendations,” but “non-concur[s] with some specific recommendations.” SIGAR deleted one recommendation based on additional information provided by USFOR-A.

Audit 14-47-AR: Afghan Customs

U.S. Programs Have Had Some Successes, but Challenges Will Limit Customs Revenue as a Sustainable Source of Income for Afghanistan

Since 2009, the United States has allocated at least \$198 million toward efforts to assist in developing the capacity of the Afghan government to assess and collect customs revenue. USAID administered the Trade Accession and Facilitation for Afghanistan (TAFA) I and TAFA II programs from November 2009 through August 2013. These programs were followed by the Afghanistan Trade and Revenue (ATAR) program acting as a follow-on program beginning in November 2013. The Department of Homeland Security's Customs and Border Protection (CBP) has operated as the administrator for the Border Management Task Force (BMTF) since its inception in 2006. Through these programs, the United States has worked to develop and reform Afghanistan's laws, policies, and procedures for customs processes operating at the Afghan Customs Department (ACD) headquarters and customs locations throughout Afghanistan.

This audit (1) assesses the extent to which these USAID and CBP programs achieved their intended outcomes, and (2) examines challenges to creating a stable and lasting source of customs revenue for Afghanistan.

Border control is essential for a nation to control the flow of licit and illicit goods and to assess appropriate tariffs and customs duties. Customs revenue is a major component of Afghanistan's national budget, which is currently funded through a combination of domestic revenue collections and aid from international donors. For Afghanistan's three most recent fiscal years, customs revenue collections produced \$698 million to \$1.1 billion annually, accounting for 44–48% of total domestic revenue collection. However, domestic revenues continue to fall short of expenditures, and

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Cargo truck passes through border crossing at Weesh-Chaman border crossing point. (SIGAR photo by Martin Wilson)

international assistance is expected to decline in coming years. As a result, increasing the Afghan government's collection of domestic revenues is a main objective of both the U.S. and Afghan governments.

The U.S. government—through programs run by USAID and the Department of Homeland Security's CBP—has provided funding and expertise to assist the Afghan government in developing and reforming its customs assessment and collection capabilities. USAID has administered multiple projects designed to improve the trade and customs environment, including two TAFA programs—called TAFA I and TAFA II—between November 2009 and August 2013, and their successor program, the ATAR, which started in November 2013. The CBP has administered the BMTF, a task force that mentors the ACD, Afghan Border Police, and Afghan Customs Police agents at border control points and inland customs depots.

Among its accomplishments, TAFA has assisted the Afghan government in trade negotiations and significantly reduced the customs processing times and the number of steps required to trade across Afghanistan's border. Specifically, it has been able to reduce the number of customs process steps at the nine inland customs depots and the Kabul International Airport—customs locations that account for 98% of Afghanistan's customs revenues—reportedly resulting in annual cost savings to importers and the Afghan government of \$39 million.

CBP's BMTF also appears to have had some successes. For example, the BMTF cleaned and upgraded the Kabul Airport Customs Yard, which, according to CBP officials, resulted in increased efficiency at the Customs

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Yard that reduced customs processing time from 10 days to two and created a 37% increase in customs revenue at that location. BMTF reports show that BMTF mentors held more than 7,000 training sessions between 2010 and 2013, and assisted the ACD in conducting more than 670 seizures during that same period.

Nevertheless, SIGAR found that BMTF mentors operate under contracts and subcontracts that do not contain performance metrics. Specifically, the contract documents for BMTF activities do not include a single metric that defines specific, measurable goals for the BMTF mentors to achieve, or performance metrics to measure the program's success.

Without concrete performance metrics, oversight of the day-to-day and long-term activities of an individual mentor is difficult to achieve or measure in a meaningful way.

According to USAID, CBP, and TAFSA officials, corruption is affecting all levels of the customs process and is the biggest issue affecting Afghan customs processes and revenues. The scale and impact of corruption in Afghanistan's customs process is difficult to quantify. Nevertheless, USAID officials hypothesize that eliminating or significantly reducing corruption in the customs process could potentially double the customs revenues remitted to the central government.

The BMTF also noted that criminal networks use intimidation to smuggle commodities, resulting in the estimated loss of approximately \$25 million annually for wheat and rice imports at a single customs location. In a separate estimate, TAFSA officials stated that approximately \$60 million is lost annually to commercial smuggling. Further complicating efforts to combat criminal and patronage networks are reports from BMTF advisers that Afghan employees are being kidnapped and intimidated because they are listening to the BMTF advisers and properly collecting customs duties.

To help reduce corruption, the Afghan and U.S. governments proposed streamlining and automating customs processes. Two major innovations in the automation of customs processes—a risk management system and an electronic payment system—were started under TAFSA. The risk management system, created to facilitate the targeted inspection of cargo based on the type of cargo being carried, broker behavior, and other intelligence sources, is designed to optimize the use of limited security resources and decrease transit times. While the ACD accepted the risk management system in principle, it reportedly considered it too difficult to operate and chose to adopt a scaled-down approach, spreading implementation of specific parts of the risk-management system over a period of years.

Similarly, progress in implementing an electronic payment system for customs duties has been slow. Currently, customs fees in Afghanistan are processed in cash at the inland customs depots where the imported cargo is inspected and assessed customs duties. This system can lead to customs brokers traveling long distances with large quantities of cash to pay

customs fees assessed on imported goods. The current cash-based payment system is inefficient, leaves customs brokers vulnerable to theft, and increases the opportunities for corruption in the customs process.

According to USAID and TAFAs program officials, at the conclusion of the TAFAs programs in August 2013, the ACD had the equipment and technical knowledge needed to launch a pilot system. However, USAID officials said the electronic payment system had not been implemented, and that the implementation was delayed, in part, due to a proposal by an Afghan official that would allow only one Afghan bank to process all the electronic customs payments. This arrangement would have given the selected bank a monopoly on this revenue stream and a significant, and improper, advantage over its competitors. Although the risk-management system and the electronic-payment system are highlighted in the TAFAs and ATAR contract documents as important anticorruption measures, SIGAR found that the ATAR contract does not require the implementing partner to meet annual targets for implementation of the systems.

The future of customs revenues as a stable source of income for the Afghan government remains unclear. The TAFAs and BMTF programs achieved some successes in reforming and developing Afghan customs law, policies, and procedures, but larger issues surrounding questionable customs data, the withdrawal of international forces, and corruption remain.

SIGAR recommends that the CBP Acting Commissioner instruct the CBP attaché in Afghanistan to develop clear performance metrics for BMTF mentor operations and submit such metrics to DOD/CENTCOM for incorporation into any future BMTF contracts or task orders. SIGAR also recommends that the USAID Administrator instruct the USAID Mission Director for Afghanistan to (1) direct the ATAR implementing partner to continue to work with Afghanistan's Tariffs Statistics Unit to reduce discrepancies in customs data and make the reduction in statistical discrepancies a requirement of the contract for the ATAR program, and (2) ensure that annual targets for implementation of anticorruption measures, such as the electronic payment system, are included as performance requirements in the ATAR program contract.

Audit 14-52-AR: Afghanistan's Water Sector

USAID's Strategy Needs to Be Updated to Ensure Appropriate Oversight and Accountability

Since March 2006, USAID has invested approximately \$580 million in Afghanistan's water sector to support, among other things, urban and rural water supply and sanitation and agricultural productivity.

The 2010 U.S. Inter-Agency Water Strategy for Afghanistan lays out efforts across U.S. agencies to achieve a consolidated approach to water sector development. USAID plays a central role in guiding U.S. government efforts and has funded nine water projects since FY 2010. SIGAR's report focuses on four of these projects.

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Knowing whether USAID's efforts are properly targeted, measured, and achieving their goals and objectives is vital to supporting Afghanistan's water sector. The objectives of this audit were to determine the extent to which (1) USAID met key objectives of the 2010 U.S. Inter-Agency Water Strategy for Afghanistan and (2) four USAID water projects implemented since 2010 are meeting their project goals and objectives.

SIGAR found that USAID did not meet three key objectives in the 2010 U.S. Inter-Agency Water Strategy, which was developed by USAID, the Department of State, USFOR-A, U.S. Army Corps of Engineers (USACE), and others. For example, USAID did not meet the strategy's objective to implement an agency work plan that would, among other things, link projects and activities to the goals cited in the strategy. The strategy stated that each U.S. agency, including USAID, should develop and implement an annual work plan detailing its activities for meeting the strategy's goals.

Rather than develop an agency work plan, however, USAID intended to use the work plan for a proposed water program—the \$653 million Water Resources Development Program—as the “agency work plan.” However, this program was never implemented because USAID did not have the funds to do so. As a result, no work plan was developed to meet the water strategy's provision. Without a work plan that links projects and activities to goals, it is unclear the extent to which individual USAID water projects contribute to the U.S. government's broader efforts to develop Afghanistan's water sector, and USAID may have additional difficulty planning and implementing ongoing water sector development efforts.

USAID also did not meet the strategy's objective to use key performance indicators to measure and evaluate its performance toward meeting the strategy's goals. The strategy itself identified potential outputs and outcomes, such as increasing agricultural productivity and improving soil and water conservation, but USAID has not evaluated its projects' performance against these indicators. As a result, USAID cannot determine how its work achieves the strategy's goals. Another objective of the strategy called for USAID to update the strategy to reflect changing needs in Afghanistan's water sector and make it a “living document.” However, this did not occur. For example, since the strategy was completed in 2010, USAID has changed its priorities away from large infrastructure projects—such as dams and commercial water and sewer systems—toward building capacity at Afghan ministries to manage these projects themselves. Despite these changes in priorities, the strategy has not been updated, nor does it take into account the political and security transition when most military forces are expected to withdraw from Afghanistan. By failing to update the strategy to reflect current priorities, USAID risks planning and implementing water projects that are not aligned with its goals for the development of Afghanistan's water sector.



Cement irrigation canals installed by USAID Afghanistan as part of an agriculture project. (USAID photo)

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USAID officials stated that even though the agency did not meet the strategy's objectives, some of the strategy's goals have been realized through implementation of individual projects. However, the four key projects implemented since FY 2010 that SIGAR reviewed showed mixed performance results, making it difficult to affirm USAID's assertion.

For example, USAID spent approximately \$43.3 million on its Sustainable Water Supply and Sanitation (SWSS) project to increase access to sustainable sources of clean water for domestic use among Afghanistan's rural population. However, the project did not meet some performance goals and could not measure other performance goals because of budget cuts, unrealistic performance targets, and higher-than-estimated costs. As a result, USAID's investment in and SWSS's overall impact on Afghanistan's water supply and sanitation service is unclear. In another project, USAID spent about \$3.5 million for 27 watershed assessments to identify potential sites for small irrigation dams and micro-hydropower projects across Afghanistan. However, USAID did not use the assessments as intended and did not share them in a timely manner with other U.S. and Afghan agencies. As a result, the assessments could already be outdated and of limited value for developing water projects.

SIGAR recommends that USAID (1) develop a new water sector strategy for Afghanistan with updated short-, medium-, and long-term goals and objectives that reflect USAID's current water sector priorities; (2) develop and implement a performance measurement plan upon completion of the new strategy that can be used to evaluate USAID's performance in meeting the new strategy's goals and objectives; and (3) ensure this strategy includes clear lines of responsibility and accountability of who within USAID will implement the strategy. See page 39 for the status of SIGAR's recommendations.

New Audits Announced This Quarter

This quarter SIGAR initiated audits of the status of audit recommendations made by SIGAR to the State Department (State), USAID, and DOD. SIGAR also initiated audits reviewing U.S. assistance to Afghanistan's rule of law sector, to internally displaced persons and refugees, and to develop Afghanistan's mining, oil, and gas (extractives) industry. The agency also announced an expansion of the scope of its audit on the ANA's National Engineer Brigade.

Audit Recommendations to State, USAID, and DOD

The Office of Management and Budget Circular A-50 and the Inspector General Act of 1978, as amended, require that SIGAR prepare semiannual reports summarizing its activities for the preceding six-month period. The Act requires that the report include a description of recommendations for corrective action made by SIGAR during the reporting period; an

NEW PERFORMANCE AUDITS

- Status of SIGAR's Recommendations to the Department of Defense, Department of State, and USAID
- U.S. Efforts to Develop Afghanistan's Rule of Law
- U.S. Efforts to Assist Afghan Refugees and Internally Displaced Persons
- U.S. Efforts to Develop Afghanistan's Extractives Industry

identification of each significant recommendation identified during previous reporting periods for which corrective action has not been completed; a list of each audit, inspection, and evaluation report issued by SIGAR during the reporting period; where applicable, the total dollar value of questioned costs and the dollar value of recommendations that funds be put to better use; and a description and explanation of the reasons for any significant management decision with which SIGAR is in disagreement. Since its inception, SIGAR has used its quarterly report to fulfill these reporting requirements. However, SIGAR has determined that initiating these three audits would allow for greater in-depth analysis and reporting to better inform Congress on the status of its recommendations.

These three audits will review the status of all recommendations made to State, USAID, and DOD in financial, inspection, or audit reports. Specifically, SIGAR plans to (1) identify the status of all recommendations made and review actions taken or planned to address any open recommendations, and (2) report these actions to Congress as required by Office of Management and Budget Circular A-50 and the Inspector General Act of 1978, as amended.

U.S. Assistance for Rule of Law Programs in Afghanistan

In one of a series of sector-wide audits, SIGAR is initiating an audit of U.S. government efforts to assist and improve the rule of law in Afghanistan. This audit is a more broadly scoped follow-up to SIGAR's January 2014 audit report (SIGAR 14-26-AR) that focused on the Department of State's justice sector training programs. Specifically, SIGAR plans to (1) identify U.S. government programs or initiatives to develop rule of law in Afghanistan; (2) assess the progress that these programs or initiatives have made achieving the objectives of the U.S. Government Rule of Law Strategy; and (3) identify challenges, if any, that the U.S. government has encountered in achieving its rule of law objectives and the extent to which it has addressed these challenges.

Assistance for Afghan Internally Displaced Persons and Refugees

In May 2012, the House of Representatives Committee on Appropriations expressed concerns with the dramatic rise in conflict-induced displacement in Afghanistan. The Committee urged the Special Representative for Afghanistan and Pakistan to ensure that U.S. government strategies to address these issues, such as the Country Assistance Strategy, are incorporated into other existing regional and planned international development strategies. This audit will examine U.S. agencies' efforts to protect and assist Afghan refugees and internally displaced persons (IDPs). Specifically, SIGAR plans to (1) describe the programs and initiatives State and USAID have implemented to assist Afghan refugees and IDPs, and determine the

SIGAR OVERSIGHT ACTIVITIES

extent to which these efforts have achieved U.S. goals and objectives; (2) identify the methods and tools the agencies use to determine and verify the total number of Afghan returnees, refugees still in neighboring countries, and IDPs; and (3) evaluate the agencies' efforts to develop a long-term reintegration strategy for Afghan refugees and IDPs.

Afghanistan's Extractives Industry

This audit will focus on the extent to which the DOD's Task Force for Business and Stability Operations (TFBSO) and USAID programs met their goals to develop Afghanistan's extractives industry and the challenges, if any, to creating a stable and lasting source of extractives revenue for Afghanistan. According to the TFBSO, the current estimated value of Afghanistan's mineral deposits is about \$900 billion in addition to sizable hydrocarbon reserves. These deposits could generate more than \$2 billion in annual royalty and tax revenues for the Afghan government. This audit will review U.S. efforts to develop Afghanistan's extractives industry and strengthen the Afghan Ministry of Mines and Petroleum's ability to regulate and grow the extractives sector. Specifically, SIGAR plans to determine (1) the extent to which TFBSO and USAID efforts to develop the extractives industry in Afghanistan met their stated goals and (2) the challenges, if any, to creating a stable and lasting extractives industry as a source of revenue to Afghanistan.

The ANA's National Engineer Brigade

(Expansion of Scope of Audit Announced Last Quarter)

On November 26, 2013, the Special Inspector General for Afghanistan Reconstruction announced an audit of DOD efforts to train, equip, and sustain the ANA's National Engineer Brigade (NEB). During SIGAR's initial fieldwork, staff found that the NEB is a component of a broader program to build ANA engineering capacity, including regional ANA Corps Engineer Kandaks (CEK). The training, equipping, missions, and assessments of the NEB and CEKs are similar and interdependent. Therefore, SIGAR finds it necessary to review not only the NEB, but also the CEKs. The revised objectives of this audit are to (1) assess the extent to which DOD efforts to train, equip, and sustain the NEB and CEKs will build an independent and capable engineering operations for the ANA; and (2) identify challenges, if any, to building and sustaining the NEB and CEKs.

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

SIGAR OVERSIGHT ACTIVITIES

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.

This quarter, SIGAR completed two financial audits of U.S.-funded cooperative agreements to rebuild Afghanistan. SIGAR also announced 27 new financial audits of DOD, State, and USAID awards with combined incurred costs of more than \$2.3 billion, bringing the total number of ongoing financial audits to 45 with nearly \$4.1 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 amounts**. Since the program's inception, SIGAR's financial audits have identified nearly \$75.3 million in **questioned costs** and \$141,894 in unremitted interest on advanced federal funds. When the implementing agency determines that a questioned amount is unallowable, the agency issues a **bill for collection**. To date, funding agencies have issued bills for collection for 12 of the 22 completed audits to recover more than \$5.1 million in questioned amounts. It takes time for implementing agencies to carefully consider audit findings, and final determinations remain to be made for several of SIGAR's issued financial audits.

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.

TABLE 2.1

SIGAR'S FINANCIAL AUDIT COVERAGE (\$ BILLIONS)	
22 Completed Audits	\$1.8
45 Ongoing Audits	4.1
Total	\$5.9

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 amounts: the sum of potentially unallowable questioned costs and unremitted interest on advanced federal funds.

Questioned costs: costs determined to be potentially unallowable. The two types of questioned costs are 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.

COMPLETED FINANCIAL AUDITS

- Financial Audit 14-34-FA: USAID's Health Service Support Project: Audit of Costs Incurred by Jhpiego Corporation
- Financial Audit 14-39-FA: USAID's Strategic Provincial Roads Program: Audit of Costs Incurred by International Relief and Development Inc.

Financial Audits Published

This quarter, SIGAR completed two financial audits of U.S.-funded cooperative agreements to rebuild Afghanistan. These financial audits identified nearly \$14.5 million in questioned costs as a result of internal-control deficiencies and noncompliance issues. These deficiencies and noncompliance issues included, among other things, inadequate cash-disbursement controls resulting in theft of federal funds, missing timesheets, management and administration costs charged to the wrong Afghanistan reconstruction award, failure to conduct vendor suspension and debarment checks, ineligible entertainment expenses, poor record retention, lack of supporting documentation, failure to adhere to procurement procedures, improper approvals for invoices and payment-application requests, and failure to complete a road construction project in accordance with award requirements.

Financial Audit 14-34-FA: USAID's Health Service Support Project: Audit of Costs Incurred by Jhpiego Corporation

USAID awarded Jhpiego Corporation (Jhpiego) a cooperative agreement to implement a Health Service Support Project (HSSP) in Afghanistan. The purpose of the project was to improve the quality of health-care services provided to Afghan women of reproductive age and children under the age of five. SIGAR's audit covered the period July 1, 2006, through October 31, 2012, and was performed by Williams Adley and Company-DC LLP (Williams Adley). It covered \$60,449,801 in expenditures.

Williams Adley found that the Fund Accountability Statement presented fairly, in all material respects, revenues received and costs incurred under the cooperative agreement. Nevertheless, Williams Adley found that Jhpiego did not take adequate corrective action on four findings identified from prior audits or assessments. In addition, Williams Adley reported two internal-control findings and three instances of noncompliance. These findings prompted the auditors to question \$301,956 in costs—\$46,025 in ineligible costs and \$255,931 in unsupported costs. The audit also found that Jhpiego had not remitted an estimated \$10,954 in interest income on funds drawn from its letter of credit in excess of its immediate cash needs.

Given the results of the audit, SIGAR recommended that the USAID Mission Director for Afghanistan:

- Determine the allowability of and recover, as appropriate, \$301,956 in questioned costs (\$46,025 ineligible and \$255,931 unsupported) identified in the report.
- Recover, as appropriate, the estimated \$10,954 in interest income on funds Jhpiego drew from its letter of credit in excess of its immediate cash needs.
- Advise Jhpiego to address the two internal-control findings identified in the report.

- Advise Jhpiego to address the three compliance findings identified in the report.

Financial Audit 14-39-FA: USAID's Strategic Provincial Roads Program: Audit of Costs Incurred by International Relief and Development Inc.

USAID awarded International Relief and Development Inc. (IRD) a cooperative agreement to provide support for the Strategic Provincial Roads program. The objective of the program was to improve stability and security in eastern and southern Afghanistan by rehabilitating or constructing provincial roads and increasing institutional capacity to maintain the rehabilitated roads. The program also had an outreach component with a budget of \$32.4 million that included (1) arranging memoranda of understanding with tribal leaders, (2) training and safety awareness programs, and (3) a range of infrastructure development projects to enhance the vitality of the roads. The audit, performed by Mayer Hoffman McCann P.C. (MHM), covered the period November 30, 2007, through December 31, 2012, and total expenditures of \$317,448,948.

MHM issued a qualified opinion on the fair presentation of the Special Purpose Financial Statement because of the identification of \$14,179,351 of questioned costs, which represents a material misstatement. MHM identified two prior audit findings pertinent to the SPR program and found that IRD had not taken adequate corrective action to address one of them. The prior finding related to controls over payments to subcontractors. MHM noted a similar condition in a new finding and, as a result, concluded that adequate corrective action had not been taken. MHM reported 12 internal-control deficiencies and 10 instances of noncompliance, which prompted the auditors to question \$14,179,351 in costs. These questioned costs included \$2,580,239 in ineligible costs and \$11,599,112 in unsupported costs.

Given the results of the audit, SIGAR recommended that the USAID Mission Director for Afghanistan:

- Determine the allowability of and recover, as appropriate, \$14,179,351 in questioned costs identified in the report.
- Advise IRD to address the 12 internal control findings identified in the report.
- Advise IRD to address the 10 compliance findings identified in the report.

INSPECTIONS

This quarter, SIGAR published two inspection reports. One report concerned comments from USFOR-A on an inspection report published last quarter of Salang Hospital in Parwan Province. Another inspection report found that it was unclear whether Camp Monitor in Jowzjan Province is being used as intended. SIGAR also issued two inspection alert letters and initiated five new inspections.

COMPLETED INSPECTIONS

- Inspection 14-31a-IP: Salang Hospital: Comments from USFOR-A
- Inspection 14-41-IP: Camp Monitor: Most Construction Appears to Have Met Contract Standards, but It Is Unclear If Facility Is Being Used as Intended

Inspection Reports Published

Inspection 14-31a-IP: Salang Hospital: Comments from USFOR-A

Last quarter SIGAR reported on its inspection of the 20-bed Salang Hospital in Parwan Province. The inspection found a lack of power and water that severely limited service at the hospital. Because USFOR-A's official comments were not provided on a draft of SIGAR's inspection report at the time of its publication last quarter, SIGAR issued the comments and its response separately this quarter. With regard to SIGAR's first recommendation, USFOR-A agreed to hold accountable those contracting officer(s) who may have failed to provide the required contract oversight. Specifically, USFOR-A will investigate why Salang Hospital was not built in accordance with contract specifications and, if necessary, take corrective actions against the contracting officer(s) responsible for oversight and management of the hospital construction project.

USFOR-A also agreed with SIGAR's recommendation to perform a physical inspection of the hospital and, if needed, determine corrective actions to be taken to ensure the building's structural integrity. With regard to SIGAR's recommendation to determine why required documents were not placed into the Combined Information Data Network Exchange (CIDNE) database and to identify and hold accountable the contracting officer(s) responsible for this problem, USFOR-A did not concur, citing U.S. Central Command's Joint Theater Support Contracting Command's (C-JTSCC) comment that contracting officers have no authority to enter documents into CIDNE and that the responsibility lies instead with the Commander's Emergency Response Program project manager and/or purchasing officer. In SIGAR's view, USFOR-A's and C-JTSCC's comments indicate agreement with the spirit of the recommendation and SIGAR has revised it accordingly to direct it to the correct officials. USFOR-A also indicated that the missing documents have been found and placed in the database. SIGAR will close the recommendation once it verifies that all missing documents have been placed in CIDNE.

Inspection 14-41-IP: Camp Monitor: Most Construction Appears to Have Met Contract Standards, But It Is Unclear if Facility Is Being Used as Intended

As of April 2013, DOD had obligated \$9.2 billion from the Afghanistan Security Forces Fund for hundreds of ANA and ANP infrastructure projects. One of these ANA projects, Camp Monitor, was built in Jowzjan Province, in northern Afghanistan bordering Turkmenistan. On December 4, 2010, the Kabul Regional Contracting Center awarded the first of five contracts to construct Camp Monitor. The first contract, with a 120-day period of performance, was awarded to Fazlullah Construction and Engineering Company (FCEC)/UI Projects Joint Venture for \$830,000 to construct three open-bay

SIGAR OVERSIGHT ACTIVITIES



A SIGAR inspection of Camp Monitor found that the dining-facility construction was limited to the concrete footings that appeared to be of poor quality, with uneven and cracked concrete surfaces. (SIGAR photo)

barracks. Subsequently, Kabul Regional Contracting Center awarded two additional contracts for three more barracks, latrines, an administration building, and force-protection walls. The Regional Contracting Command–North also awarded two contracts for guard towers; a firing range; additional force-protection walls; a dining facility; a power plant; a water well; a leach field; a 5,000-gallon fuel point; and for connecting water, sewer, and electrical systems. The combined value of the five contracts was \$3.9 million.

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.

The agency conducted its Camp Monitor site inspection on March 2, 2013. The facilities SIGAR inspected at the time appeared to be well constructed, but the agency’s inspectors could not fully assess the camp’s lighting, heating, water, sewer, and other mechanical systems because the generators were not operational at the time of SIGAR’s inspection in March 2013. The camp’s greatest shortcoming was the lack of a dining facility, which prevented the ANA from occupying and using the facility. The Combined Security Transition Command-Afghanistan (CSTC-A) addressed the problem by providing \$1.2 million in direct assistance to the Afghan government to construct the dining facility, and Afghan personnel in January 2014 told U.S. officials that the dining facility was under construction and

60% complete, with 700 ANA personnel using the base. However, SIGAR is concerned that CSTC-A officials could not provide SIGAR inspectors with any oversight information regarding the status of the dining facility's construction or whether the ANA was currently occupying the camp. As a result, the U.S. government is relying solely on the Afghan government to report on the spending of U.S.-provided funding, the progress of construction, and how the camp is being used.

Camp Monitor is located in an area that can no longer be reached by U.S. civilian employees because it sits outside the so-called "oversight bubble." The "oversight bubbles" are defined by the ability of the U.S. government to provide both adequate security and rapid emergency medical support to civilians traveling to the area. As a result, SIGAR inspectors can no longer access this area and cannot independently verify that the dining facility is being constructed in accordance with the contract requirements or whether the camp is being used as intended.

In SIGAR's view, oversight by CSTC-A or NATO Training Mission-Afghanistan (NTM-A) is needed to ensure funds are being spent properly, construction of the dining facility is completed in accordance with requirements, and the camp is being used as intended.

INSPECTION ALERT LETTERS

- Alert Letter 14-42-AL: FOB Sharana Incinerators
- Alert Letter 14-45-AL: Baghlan Prison Construction

Inspection Alert Letters

This quarter, SIGAR's Audit and Inspection Directorate issued two alert letters.

Alert Letter 14-42-AL: FOB Sharana Incinerators

On March 18, 2014, SIGAR wrote to DOD to announce that it has opened a preliminary investigation into USACE's decision to accept substandard work on the construction of an incinerator system at FOB Sharana in Paktika Province. SIGAR issued a report examining the construction of the incinerators in December 2013. The report found that the system was completed nearly three years behind schedule and that the incinerators had unaddressed construction deficiencies. As a result, they were never used and \$5.4 million was wasted. USACE subsequently conducted an inquiry in which it found that the incinerator facility was constructed in accordance with the contract technical specifications and that none of the personnel assigned to perform oversight of the incinerator contract failed to appropriately perform their duties. Upon request, USACE submitted nine documents to SIGAR that, according to USACE, were used for its inquiry. However, SIGAR's analysis of the nine documents continues to raise concerns about why the contractor was not held responsible for the construction deficiencies and calls into question the thoroughness of USACE's inquiry.

Alert Letter 14-45-AL: Baghlan Prison Construction

On April 2, 2013, SIGAR wrote to State to inform the department of design and construction defects at a prison in Baghlan Province built by a contractor hired by State's Bureau of International Narcotics and Law Enforcement (INL) in December 2013. SIGAR announced its inspection of Baghlan prison in December 2013. Although SIGAR has been unable to conduct a physical inspection of the prison because of security concerns, its review of the contract files found serious structural damage. The structural damage resulted in at least one of the prison's housing units being demolished. The designs indicate that this unit and other buildings at the site were built using unreinforced brick walls between concrete columns. Subsequent information provided by INL confirms that the facilities were built using an inadequate amount of reinforcing steel. Although INL officials told SIGAR that any rebuilt structure(s) will use the same construction materials and methods that were previously used, SIGAR believes that INL should, for security and safety reasons, instead use sufficient steel-reinforced masonry, such as concrete-masonry units with rebar.



Soil settlement led to serious structural damage to, and eventual demolition of, building 17 at Baghlan Prison. (State Department photo)

New Inspections Announced This Quarter

This quarter, SIGAR initiated five new inspections. Each inspection will assess whether (1) construction has been or is being completed in accordance with contract requirements and applicable construction standards; and (2) the parts of the facility, if any, that are occupied are being used as intended and properly maintained. These five inspections will assess:

- The Afghan Ministry of Defense Headquarters, a \$142 million facility located in Kabul
- The ANA Camp Commando Complex near Kabul
- The ANA Slaughterhouse Facility in Pol-i-Charki District in Kabul
- The Gorimar Industrial Park in Balkh Province
- The Shorandam Industrial Park in Kandahar Province

NEW INSPECTIONS

- Inspection of Ministry of Defense Headquarters
- Inspection of ANA Camp Commando Complex
- Inspection of ANA Slaughterhouse Facility
- Inspection of Gorimar Industrial Park
- Inspection of Shorandam Industrial Park

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 46 recommendations contained in 14 audit and inspection reports. These recommendations resulted in over \$22 million of savings to the U.S. taxpayer. Corrective actions taken for the closed audit recommendations this period include:

- The de-obligation of over \$22 million from expired USAID grants. (Audit 12-9);
- The recovery of nearly \$332,000 in ineligible and/or unsupported contract costs paid by the U.S. Government. (Financial Audits 13-2, 13-4, 13-5, 13-8, 14-9, 14-11, 14-14, and 14-29); and

SIGAR OVERSIGHT ACTIVITIES

- The establishment of a review process to check the validity of Risk Management Company licenses prior to approving USAID contract awards for security advisory services.

For one audit report, the remaining open recommendation was closed because the corrective action was overtaken by events when the Provincial Reconstruction Team (PRT) overseeing the planned use of electrical equipment was disbanded before a plan of action could be completed. (Audit 13-7)

From 2009 through March 2014, SIGAR published 130 audits, alert letters, and inspection reports and made 410 recommendations to recover funds, improve agency oversight, and increase program effectiveness. SIGAR has closed 77% 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 29 audit and inspection reports. There was one audit with recommendations over 12 months old where the agency had not yet proposed a corrective action that SIGAR believes would resolve the identified problem. The audit report was titled *Afghan National Army: Controls Over Fuel for Vehicles, Generators, and Power Plants Need Strengthening to Prevent Fraud, Waste and Abuse* (Audit 13-4). Released in January 2013, it questioned the process used to order, receive, and pay for petroleum, oil, and lubricants for ANA vehicles. Additionally, there are three audit and inspection reports over 12 months old where SIGAR is waiting for an agency to complete the agreed-upon corrective action.

SIGAR is currently performing audits of the agency resolution process at the Departments of Defense and State, and USAID. The audits are examining the status and oversight process for reaching audit resolution at these agencies.

SPECIAL PROJECTS

The Inspector General'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.

COMPLETED SPECIAL PROJECT PRODUCTS

- Special Project 14-35-SP: Inquiry Letter: Mi-17 Crash and Demolition
- Special Project 14-36-SP: Inquiry Letter: Afghan National Police Ghost Worker and Law and Order Trust Fund for Afghanistan Financial Management
- Special Project 14-37-SP: Inquiry Letter: Communications Towers
- Special Project 14-38-SP: Inquiry Letter: 64,000-Square-Foot Building Review Document Preservation
- Special Project 14-40-SP: Inquiry Letter: Kajaki Unit 2 Project
- Special Project 14-43-SP: Inquiry Letter: DOD Contract Data Request
- Special Project 14-44-SP: Inquiry Letter: Cancelled USAID Contracts
- Special Project 14-49-SP: Fact Sheet: Department of State Assistance to Afghanistan: \$4 Billion Obligated between 2002 and 2013
- Special Project 14-50-SP: Inquiry Letter: ANP Mobile Money Pilot Program
- Special Project 14-51-SP: Inquiry Letter: USDA Soybean Program

During this reporting period, SIGAR's Office of Special Projects asked DOD to take immediate action to retain and preserve all records related to issues surrounding the planning and construction of a 64,000-square-foot building at Camp Leatherneck in Helmand Province. Special Projects wrote to CSTC-A to warn that the United States might be unwittingly helping to pay the salaries of non-existent members of the ANP. It wrote to State and DOD about communications towers built with reconstruction funds that are not being and may never be used for their intended purpose, and it queried USAID about 17 cancelled projects. The office also issued an inquiry letter to USAID about concerns that the estimated cost to install an additional power generating turbine at Kajaki Dam has increased significantly. Special Projects is planning to examine aspects of human-trafficking issues to determine whether prime contractors and subcontractors employed by the U.S. military are adequately conforming to federal laws and regulations designed to protect the health and safety of thousands of foreign workers laboring at bases in Afghanistan.

Inquiry Letter 14-35-SP: Mi-17 Crash and Demolition

On February 18, 2014, SIGAR wrote to Special Operations Joint Task Force-Afghanistan to ask about the crash of an Mi-17 helicopter from the Ministry of Interior's Special Mission Wing in Nangahar Province on November 25, 2013. SIGAR inquired about the Afghan government's process for investigating military aircraft incidents, whether an incident report had been completed, and whether U.S. military advisors participated in these investigations. SIGAR wrote that the issue merits review because the Mi-17 aircraft were purchased for the Special Mission Wing with funds provided by U.S. taxpayers for the support of Afghan security forces. It also highlights the importance of helping the Afghans identify equipment maintenance and repair priorities prior to providing them with additional replacement aircraft.

Inquiry Letter 14-36-SP: Afghan National Police Ghost Worker and Law and Order Trust Fund for Afghanistan Financial Management

On February 19, 2014, SIGAR wrote to CSTC-A to express concern that the United States might be unwittingly helping to pay the salaries of non-existent members of the ANP.

The issue of "ghost workers" is not a new one for SIGAR. In 2011, a SIGAR audit report raised questions about the United Nations Development Program's (UNDP) management of the Law and Order Trust Fund for Afghanistan (LOTFA), which is used to pay ANP salaries. SIGAR auditors found that neither the Afghan Ministry of Interior nor the UNDP could verify payroll data. SIGAR concluded that there was "limited assurance that only ANP personnel who worked received pay."

SIGAR OVERSIGHT ACTIVITIES

SIGAR noted that there is a very significant amount of U.S. taxpayer money at stake in this program. Since 2002, the international community has contributed \$3.17 billion to LOTFA. The United States has provided 38% of that amount—approximately \$1.21 billion.

In recent discussions with officials from the European Commission and the European Anti-Fraud Office about oversight issues, SIGAR learned that the European Union (EU) is withholding €100 million (half of its €200 million contribution to LOTFA), due to concerns about how that money is being used, including the possibility of payments to ghost workers and other instances of financial mismanagement. SIGAR was told the Commission does not intend to release this funding until proper controls are in place to ensure that LOTFA funds are used as intended.

Special Inspector General Sopko raised the issue of ghost workers and the European Commission's concerns with senior CSTC-A officials on his November visit to Afghanistan. None of the officials were aware of any investigations of ghost workers or of the EU's decision to withhold funds from LOTFA.

SIGAR asked CSTC-A to provide any evidence it has of this problem and to identify any efforts to coordinate with other donors to LOTFA in order to share information on possible mismanagement of donor funds. SIGAR is encouraged by recent information that CSTC-A is taking specific actions to address these issues including strengthening CSTC-A's independent audit capabilities and performing assessments scrutinizing Afghan financial processes.

Inquiry Letter 14-37-SP: Communications Towers

On February 25, 2014, SIGAR wrote to DOD and State to ask for information about the construction of communications towers in Afghanistan that are not being used and may never be used for their intended purpose.

SIGAR staff learned that sometime during 2011–2012, State entered into a contract with MNM Communications Inc. for the design and construction of six communications towers that, when completed, would be three times taller than any existing towers in their vicinity. The towers were to provide cell phone support and be made available to Afghan telecommunications providers for television and radio broadcasters, who it was anticipated would want to access these towers to extend their area of broadcast coverage in southwestern Afghanistan.

The tower project was proposed and implemented by State's Political Affairs Section (PAS), Office of Strategic Communications (STRATCOM) at the U.S. Embassy Kabul. On June 20, 2011, STRATCOM issued a Task Order Proposal Request for the design/build of six communications towers in southwestern Afghanistan at an estimated total cost of between \$5 million and \$10 million. The contract to design and build the six towers was awarded to MNM Communications Inc. for \$7.2 million. Construction of all six towers was

completed during 2012. Four of these towers are located in Helmand Province, one is located in Kandahar Province, and one is located in Ghazni Province.

According to information received by SIGAR, PAS/STRATCOM greatly underestimated the cost of the contracts to operate, maintain, and market the towers. PAS/STRATCOM had set a \$2 million limit on contract costs, but bids received were four to five times higher than the limit. As a result of the high bids, the decision was made to not award these service contracts. SIGAR was also told that DOD cancelled the Expeditionary Cellular Communications project, and according to information received, the U.S. government lost most of its potential use for the towers.

Research by SIGAR found that this program may have been intended to provide continuous uninterrupted cell phone coverage for forces in Afghanistan operating in remote areas. Some of the towers may have been designated by State as “excess property,” which allows them to be turned over to DOD. On May 18, 2013, one tower at Camp Leatherneck was transferred to the DOD garrison for \$150,000. SIGAR asked State and DOD for more information on the decision to construct these six communications towers, the reasons for their lack of utilization, their future use, subsequent sale, or transfer. In a March 28 response, DOD acknowledged that one of the towers was transferred to DOD and is not currently being utilized. DOD reported that the five remaining towers are under State control. An extensive response was received from State and is currently being evaluated.

Inquiry Letter 14-38-SP: 64,000-Square-Foot Building Review Document Preservation

On February 27, 2014, SIGAR wrote to DOD to request that it take immediate action to retain and preserve all records relating to issues surrounding the planning and construction of an unoccupied 64,000-square-foot building at Camp Leatherneck. SIGAR had written in July and again in December asking for information about why the building, originally intended to serve as a command headquarters in support of the troop surge in Helmand Province, which ended in September 2012, had been built. In the most recent letter, Special Inspector General Sopko wrote that it had come to his attention that his request for the preservation and retention of records may not have been honored, which DOD acknowledged. DOD subsequently issued a retention order, and the department is currently assembling the requested documents for SIGAR’s review.

Inquiry Letter 14-40-SP: Kajaki Unit 2 Project

On March 11, 2014, SIGAR sent an inquiry letter to USAID regarding the cost of the installation of an additional power generating turbine at the Kajaki Dam.

In December 2010, USAID awarded a contract to Black and Veatch Special Projects Corporation (Black & Veatch) to complete the Kandahar

SIGAR OVERSIGHT ACTIVITIES

Helmand Power Program (KHPP). KHPP is one of USAID's largest active programs in Afghanistan, with a total estimated cost of about \$266 million. This project had six components, including the installation and commission of an additional turbine for the Kajaki Dam, known as the Kajaki Unit 2 Project. In January 2013, at the request of the Afghan government, USAID removed the requirement for the installation of Kajaki Unit 2 from its KHPP contract with Black & Veatch and transferred responsibility to the Afghan government. However, USAID did not reduce the original total estimated cost of \$266 million for the program, but instead modified the contract to fund technical assistance support to the Afghan government. USAID then obligated an additional \$75 million under an existing grant with the Afghan government to fund the installation of the turbine unit.

With the additional funding provided for the Kajaki Unit 2 project, the cost for all six components of the original KHPP consequently increased to \$345 million. SIGAR is concerned that with this cost increase KHPP may no longer be economically viable. According to a 2012 USAID economic analysis of KHPP, the costs of the program would outweigh its benefits if actual costs exceeded the original cost estimate of \$266 million costs by more than 16%. In other words, based on the original cost estimate of \$270 million for the KHPP, any cost increase exceeding \$43 million (16%) would make the KHPP economically unviable. SIGAR's analysis showed that the cost increase of \$75 million for the turbine unit represents a discounted-value increase of \$59 million (22%) for the overall KHPP.

USAID disagreed with SIGAR's letter in a response dated March 28, 2014. USAID stated that the \$75 million estimate was aligned with USAID's 2012 cost estimate. USAID also noted that the agency made a contract modification that decreases KHPP's ceiling by \$38 million. USAID asked SIGAR to consider the U.S. government's broader policy and economic goals in implementing the project. USAID stated that its investment is not simply based on direct economic returns, but predicated on significant security and governance objectives.

In a follow-up letter, SIGAR stated it appreciates that USAID's investment is not based on cost alone and that a contract modification did take place. However, SIGAR maintains that by USAID's own analysis, KHPP has very nearly reached the threshold of economic viability.

Inquiry Letter 14-43-SP: DOD Contract Data Request

On March 19, 2014, SIGAR wrote to DOD reiterating an earlier request for detailed information for all contracts, cooperative agreements, and grants for reconstruction in Afghanistan for the period from FY 2002 through February 28, 2013. In April 2013 DOD provided the requested contract, cooperative agreement, and grant data to SIGAR in response to the earlier SIGAR request.

The data submitted in April 2013 totaled approximately \$23 billion in obligations. However, high-level fund data in the Defense Finance and Accounting Services (DFAS) database indicated that, as of March 31, 2013, obligations for the Afghanistan Security Force Fund alone totaled \$44 billion. The significant difference between the total of DOD's contract data and that indicated in the DFAS database led SIGAR to conclude that it does not have complete data or has not received information that would allow the agency to reconcile the two. SIGAR personnel met with representatives of the Office of the Secretary of Defense (OSD) (Policy) and OSD (Comptroller). The OSD officials agreed that there were significant gaps in the initial contract, cooperative agreement, and grant data submission and agreed to re-examine what data is available and provide a narrative explanation for the data that is not available.

Inquiry Letter 14-44-SP: Cancelled USAID Contracts

On March 25, 2014, SIGAR wrote to USAID requesting information on 17 projects in Afghanistan that USAID had identified as terminated since 2008. SIGAR noted that it appeared that USAID cancelled multiple programs after some \$212 million had been disbursed. SIGAR's letter also raised two general questions: why did USAID not take action earlier to terminate or cancel some of these contracts, and, given that multiple programs were cancelled due to either the contractor "no longer meeting the needs" of the partner entity, or lack of cooperation from the partner entity, to what extent are these issues curtailing USAID reconstruction efforts in Afghanistan? USAID has since provided extensive information on these cancelled contracts which SIGAR is currently reviewing.

Fact Sheet 14-49-SP: Department of State Assistance to Afghanistan: \$4 Billion Obligated Between 2002 and 2013

To provide more effective oversight and to meet SIGAR's reporting requirements to monitor contracts and reconstruction activities in Afghanistan, SIGAR has requested information from U.S. government agencies concerning how and where U.S. funds appropriated for the reconstruction of Afghanistan are spent. This report provides an analysis of the information obtained in State's response.

According to SIGAR analysis of State data, State obligated nearly \$4 billion for reconstruction in Afghanistan between the beginning of FY 2002 and March 2013. State awarded reconstruction funding through contracts, grants, and cooperative agreements. Recipients of State reconstruction awards included for-profit entities, non-profit non-governmental organizations (NGOs), and individuals.

State awarded 1,874 contracts, grants, and cooperative agreements to 771 organizations and individuals. Nearly 90% of awards by total award amount were issued for the governance and rule of law project sector,

SIGAR OVERSIGHT ACTIVITIES

which includes peacekeeping initiatives and activities intended to develop the ANP and the Afghan judiciary system. Other project sectors for State funding included landmine removal, support to cultural activities and civil society, education, humanitarian aid, human rights, and economic development.

Contracts accounted for the majority of State reconstruction funds by total value, with \$3.5 billion. Grants accounted for a total of \$350.7 million. Cooperative agreements accounted for a total of \$108.8 million of total State Department reconstruction funds for Afghanistan.

The top recipient of State reconstruction funding by total awards was DynCorp International Limited Liability Corporation (DynCorp). DynCorp received approximately \$2.8 billion in contracts, accounting for 69% of total State Department reconstruction awards. The majority of DynCorp contracts were for governance and rule-of-law activities such training and equipping the ANP. DynCorp contracts included police trainers, construction of police infrastructure, and fielding police equipment and vehicles. PAE Government Services Incorporated (PAE) received the second-largest amount of total State reconstruction awards, receiving \$598 million in contracts. PAE contracts supported development of the rule of law, including police training, counternarcotics advising, and justice sector development.

Of the total reported awards between the beginning of FY 2002 and March 2013, 98% of awards by total value were scheduled to be complete by the end of calendar year 2013. On April 14, 2014, SIGAR released a fact sheet summarizing data provided by the State Department on the agency's spending on reconstruction in Afghanistan. The report analyzed the data by type of legal instrument, kind of project, and project completion status.

Inquiry Letter 14-50-SP: ANP Mobile Money Pilot Program

On April 16, 2014, SIGAR wrote U.S. military commanders in Afghanistan to inquire about the current status of an MOI pilot program using mobile-money technology to pay salaries to the ANP. These salary payments are funded in part by U.S. taxpayers through direct-assistance funds to LOTFA. Despite the promise of reducing corruption, the pilot has since produced mixed results.

Established in 2009, the pilot demonstrated early success in reducing administrative corruption. As late as March 2013, media reported that Afghan police officers participating in the pilot thought they had received a 30% salary increase because middlemen were no longer able to skim cash from legitimate salary payments. However, SIGAR uncovered information that Afghan police commanders began registering their own phone numbers in lieu of those of their subordinates, and resumed their past practice of claiming a portion of the salaries paid out to individual police officers.

Inquiry Letter 14-51-SP: USDA Soybean Program

On April 17, 2014, SIGAR wrote to the Secretary of Agriculture requesting information on a U.S. Department of Agriculture (USDA)-sponsored program to promote soybean cultivation and consumption in Afghanistan. Following a staff visit to a USDA-funded soybean processing factory outside Mazar-e-Sharif, SIGAR became concerned that a key component of the program faces significant sustainability challenges due to a lack of raw materials for processing, ineffective technical assistance, and a lack of local demand for soybean products in Afghanistan. SIGAR requested justification and cooperative agreement documents as well as any plans the USDA had implemented to address challenges to the success of the program.

INVESTIGATIONS

During the reporting period, SIGAR's ongoing investigations saved the U.S. government approximately \$2.7 million. SIGAR investigations also resulted in an arrest, a **criminal information**, two plea agreements, and six sentences in the United States. In Afghanistan, two subjects were convicted and sentenced and eight individuals were barred from having military installation access. Criminal fines, restitutions, and forfeitures amounted to nearly \$4 million. SIGAR initiated 60 new investigations and closed 40, bringing the total number of ongoing investigations to 338, as shown in Figure 2.1. In addition, SIGAR's suspension and debarment program referred 16 individuals and 15 companies for suspension or debarment based on allegations that they engaged in fraud and non-performance as part of contracts valued at almost \$61 million.

Investigation Results in \$2.5 Million Savings to U.S. Government

SIGAR initiated an investigation into allegations that the Afghan trucking company Kandahar Mahali Transit & Forwarding Limited (KMT) submitted 51 false Transportation Movement Requests (TMRs) to the CENTCOM Joint Theater Support Contracting Command (C-JTSCC) at Camp Phoenix in Kabul, Afghanistan. The investigation determined that 43 of the 51 TMRs were fraudulent. During the course of the investigation, C-JTSCC identified an additional 305 questionable TMRs submitted by KMT. Further investigative efforts revealed that 262 of these were fraudulent as well.

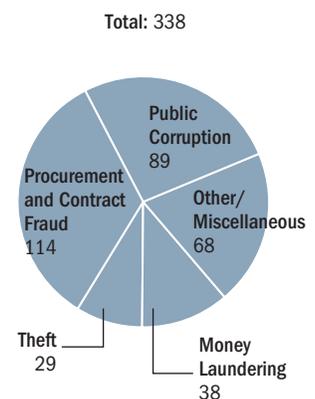
On February 17, 2014, the contracting officer at the C-JTSCC/General Support Contracting Center (GSCC) provided SIGAR with a copy of the letter of concern informing KTM of its three-week suspension. The total value of the fraudulent TMRs withheld from payment amounted to over \$2.5 million, a significant savings to the U.S. government.

Criminal Information: a written accusation made by a public prosecutor, without the participation of a grand jury. The function of an information is to inform the defendant of the nature of the charge made against him, and the act constituting such charge so that he can prepare for trial and to prevent him from being tried again for the same offense.

Source: *Black's Law Dictionary*.

FIGURE 2.1

SIGAR INVESTIGATIONS: NUMBER OF OPEN INVESTIGATIONS AS OF MARCH 31, 2014



Source: SIGAR Investigations Directorate, 4/9/2014.

SIGAR OVERSIGHT ACTIVITIES



SIGAR and USAID OIG special agents, with the help of the ANP, arrest an Afghan employee of a USAID contractor in Mazar-e-Sharif on embezzlement charges. (SIGAR photo)

Two Former U.S. Soldiers Sentenced for Bribery and Conspiracy

On February 3, 2014, in the U.S. District Court of Colorado, Stephanie Charboneau was sentenced to 87 months incarceration, three years supervised release, and restitution of \$1,225,000. SIGAR initiated the investigation when information was obtained that Charboneau, Sergeant Christopher Weaver, and Jonathan Hightower, a former contractor, were alleged to have conspired with Afghan nationals to help them steal fuel from the base in exchange for cash.

Agents from SIGAR, the Federal Bureau of Investigation (FBI), U.S. Army Criminal Investigation Command (CID), and the Defense Criminal Investigative Service (DCIS) executed search warrants at the homes of Weaver and Charboneau in Colorado and Hightower in Texas. During the course of these searches, Weaver, Charboneau, and Hightower all admitted to conspiring with an Afghan representative of the company Afghan American Army Services to facilitate the theft of fuel from FOB Fenty.

Weaver and Hightower also implicated Staff Sergeant Bilah Abdullah in the same scheme. When interviewed by SIGAR agents in June 2012, Abdullah admitted to receiving \$50,000 in bribes from Afghan contractors. A criminal information was eventually filed against Abdullah and on

March 13, 2014, he was sentenced to 12 months plus one day incarceration, two years supervised release, and restitution of \$466,250.

Weaver and Hightower have already been prosecuted for their role in this conspiracy.

Two Convicted From FOB Ghazni Sting Operation

On March 4, 2014, Chief Prosecutor Rashid of the Afghan Attorney General's Office, Ghazni Province, informed SIGAR that on February 3, 2014, the Ghazni Public Security Division convicted two Afghan truck drivers, Khairullah and Yar-Mohammad, of theft and sentenced them both to two years in prison and a fine of \$500.

SIGAR's investigation began on December 9, 2013. 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 that resulted in the arrest of the two truck drivers.

SIGAR Disrupts Human Trafficking at Kandahar Airfield

SIGAR disrupted a human-trafficking scheme this quarter at Kandahar Airfield (KAF). The investigation began when a SIGAR special agent attended a meeting in January 2014 at the office of RONCO, a company hired to conduct entrance and exit interviews of all contractor employees at KAF. At this meeting, a Sri Lankan working at KAF for a Canadian company specializing in passenger and cargo transport in Afghanistan told RONCO that his supervisor solicited a \$600 payment from him during his job interview. The supervisor informed the Sri Lankan that the payment was required to reimburse the company for his airfare to Afghanistan.

On March 1, 2014, SIGAR interviewed the Sri Lankan employee, who admitted to paying his supervisor \$600. During the interview, he identified other Sri Lankans employed by the Canadian company who made similar payments, as required by management. On March 20, 2014, SIGAR conducted interviews of six other Sri Lankan men employed by the company and confirmed four of the six paid their supervisor out of their first few paychecks.

SIGAR Agents subsequently interviewed the supervisor, who admitted to forcing his employees into paying him. SIGAR provided the information to the company director, who advised he would promptly terminate the employee and arrange for his departure home. Additionally the company agreed to reimburse the employees what they had paid to the supervisor. The supervisor was referred to the Army for debarment on March 31, 2014.



During his March 2014 trip to Afghanistan, Special IG Sopko presents retirement credentials to Special Agent Danny Min. (SIGAR photo by Elizabeth Faulkner)

Tennessee Couple Sentenced for Conspiracy to Commit Fraud

On February 14, 2014, in the U.S. District Court for the Eastern District of Virginia, Keith and Angela Johnson were sentenced for 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. Keith Johnson received a sentence of 30 months in prison, a supervised release for two years, and a forfeiture of over \$2 million to be paid in conjunction with his wife, whose sentence also included a prison term of six months and two years supervised release.

SIGAR, DCIS, FBI, and Army CID opened the 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 rigging bids contracts to a company owned and operated by Angela Johnson and another relative. Keith Johnson 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. The Tennessee couple used part of the proceeds for extravagant purchases, including luxury vehicles and jewelry.

John Eisner and Jerry Kieffer, two co-conspirators involved in this scheme, pled guilty, and were sentenced in 2013.

Keith Johnson, Angela Johnson, and two of their companies were proposed for debarment on January 8, 2014, and on February 24, 2014, all of them were debarred for a period of eight years. Kieffer was proposed for debarment on January 8, 2014, and on February 20, 2014, was debarred for a period of six years. Eisner and his company were proposed for debarment on January 8, 2014, and on March 6, 2014, were debarred for a period of six years.

U.S. Army Sergeant Sentenced for Conspiracy and Theft

On March 7, 2014, in the Eastern District of North Carolina, former Sergeant First Class Mauricio Espinoza, U.S. Army, was ordered to serve 51 months in a federal prison, followed by three years supervised probation, and to pay \$114,034 in restitution. A federal bench warrant had been issued for Espinoza's arrest because of his failure to appear in the Eastern District of North Carolina court for sentencing in January 2014.

A SIGAR initiative to review and analyze postal money-order purchases by personnel deployed in Afghanistan had identified Espinoza and Staff Sergeant Philip Wooten as being involved in suspicious monetary transactions. Both men were assigned to the 7th Special Forces Group based at Fort Bragg, North Carolina, when they stole about \$225,000 in U.S. funds earmarked for the reconstruction effort. Espinoza deployed to Afghanistan

as a paying agent, while Wooten was responsible for contracting with local vendors. Between July 2009 and April 2010, the two conspired to steal funds meant for Afghan contractors and falsified payment receipts to cover up the scheme. In some instances, they submitted inflated civil work project bids to the finance office for approval, then paid the vendor less than the approved amount and pocketed the difference for themselves. They converted the money into U.S. dollars and shipped some of it back to the United States via postal money orders. Wooten was convicted and is currently serving his sentence.

U.S. Army Sergeant Pleads Guilty

On February 19, 2014, Sergeant Albert Kelly III of Fort Knox, Kentucky, pled guilty to charges of theft of government property and aiding and abetting in the theft of fuel at FOB Salerno. A criminal information was filed against Kelly on November 11, 2013.

From November 2011 until January 2012, Kelly permitted the diversion of fuel-delivery trucks from FOB Salerno to other locations, where the trucks were downloaded and the fuel stolen. To conceal the diversions, Kelly falsely certified that the diverted fuel had in fact been delivered and downloaded at FOB Salerno. In exchange for assisting in the fuel-theft missions and diverting approximately 25,000 gallons of fuel, Kelly received approximately \$57,000 from an Afghan trucking company. The total loss to the government was approximately \$100,000.

Investigation Saves the U.S. Government More Than \$150,000

SIGAR initiated an investigation that saved the U.S. government \$156,669 after a contracting officer at Camp Phoenix in Afghanistan noticed 45 TMRs that appeared to be fraudulent. The C-JTSCC, CSCC referred the case to SIGAR. A review of the TMRs determined they were all generated and submitted by Rahmat Siddiqi Transportation Company (RSTC) and that each of the TMRs had been paid prior to the discovery. When informed of the investigative findings, the CSCC issued a demand letter for overpayment to RSTC. On January 14, 2014, DFAS confirmed that an offset of payment had been issued on a RSTC contract in order to collect the debt of \$156,669 owed by the company.

Investigation Uncovers False TMRs

SIGAR initiated an investigation after a contracting officer alleged that the trucking firm Speedline Handling and Logistics (SHL) had submitted false TMRs to the C-JSCC at Camp Phoenix in Kabul, Afghanistan. Investigative efforts determined that five of the SHL TMRs were fraudulent. SIGAR informed the contracting officer, who responded with a memo indicating he withheld payment for all five TMRs. The investigation resulted in a cost savings of \$30,887.

State Department Contractor Sentenced

On January 14, 2014, in the U.S. District Court of Delaware, Kenneth Brophy received a sentence of one year unsupervised probation, a \$3,000 fine, and \$30,000 forfeiture. In September 2013, the court accepted Brophy's guilty plea to count two of his indictment, receipt of an illegal gratuity by a public official. On March 25, 2014, the State Department Office of Inspector General's (OIG) Office of Investigations provided SIGAR with a copy of a State letter dated March 24, 2014, debarring Brophy from soliciting or performing U.S. government contracts as either a contractor or sub-contractor for a three-year period commencing January 27, 2014.

SIGAR initiated this joint investigation of Brophy with the FBI and State OIG after receiving allegations that Brophy, a State Department contract employee for INL at the U.S. Embassy Kabul during 2009, accepted bribes and had otherwise engaged in corruption in connection with his employment. On April 2, 2013, Brophy was indicted in a three-count indictment charging him with conspiracy, receipt of an illegal gratuity by a public official, and willful receipt by an executive-branch employee of an illegal payment in consideration of assistance in the prosecution of a claim against USACE. At INL, Brophy had supervised construction contracts of Afghan police facilities, including the renovation of the Poli-Charkhi Prison by an Afghan contractor. The contractor paid Brophy \$30,000 in exchange for his lobbying USACE to reinstate the Afghan company's contract previously terminated due to unsatisfactory performance. Brophy assisted company officers in drafting documents for submission to USACE, provided general advice regarding the Afghan company's communications with USACE, and personally lobbied a USACE official to re-instate the contract.

Contractor Barred from U.S. Military Installations in Afghanistan

A SIGAR investigation found that James Ethridge, vice-president of Fernridge Strategic Partners (FSP), accepted a \$100,000 loan from his subcontractor, Etihad Hamidi Group of Companies (Etihad). The subcontractor provided the first \$30,000 of the loan to Ethridge in cash. Etihad deducted the remaining \$70,000 due the company on its subcontract work to FSP. Etihad later offered to forgive \$40,000 of the loan FSP owed Etihad in exchange for five third country national badges that would allow Etihad employees access to KAF to develop work for Etihad outside the established subcontract between FSP and Etihad. SIGAR briefed the KAF Deputy Garrison Commander the case. He subsequently debarred Ethridge from all U.S. installations in the Afghanistan Combined Joint Operations Area because having individuals on the base with improper badges could have endangered U.S. troops.

Afghan Truck Drivers Barred from U.S. Military Installations in Afghanistan

On February 5, 2014, the 831st Transportation Battalion notified SIGAR's office at Bagram Airfield (BAF) that four flatbed trucks from the trucking company ATC Logistics were parked at the entry control point at BAF awaiting access to the base. Soldiers at the entry control point had discovered a discrepancy between the names on the manifest and the names of the drivers of the four trucks.

Subsequently, a SIGAR special agent interviewed the four drivers. Each stated they were hired to replace the original truck driver because the original driver had been blacklisted and was prohibited from entering the base. Upon completion of the interviews, the special agent submitted a request for the four drivers to be barred from every U.S. military installation in Afghanistan. Captain Steven Brady, CJTF-10 Chief of Administrative Law, granted the request.

Suspensions and Debarments

This quarter, SIGAR's suspension and debarment program referred 16 individuals and 15 companies for suspension or debarment based on evidence developed as part of investigations conducted by SIGAR in Afghanistan and the United States. Of these 31 contractors, 14 individuals, and 15 companies were referred for debarment based on allegations that they engaged in fraud and non-performance as part of contracts valued at \$60,512,177. These referrals bring the total number of individuals and companies referred by SIGAR since 2008 to 433—encompassing 230 individuals and 203 companies to date, as shown in Figure 2.2 on the following page.

As of the end of March 2014, the efforts of SIGAR to utilize suspension and debarment to address fraud, corruption, and poor performance in Afghanistan have resulted in a total of 72 suspensions and 154 finalized debarments of individuals and companies engaged in U.S.-funded reconstruction projects. An additional seven individuals and companies have entered into administrative compliance agreements with the U.S. government in lieu of exclusion from contracting.

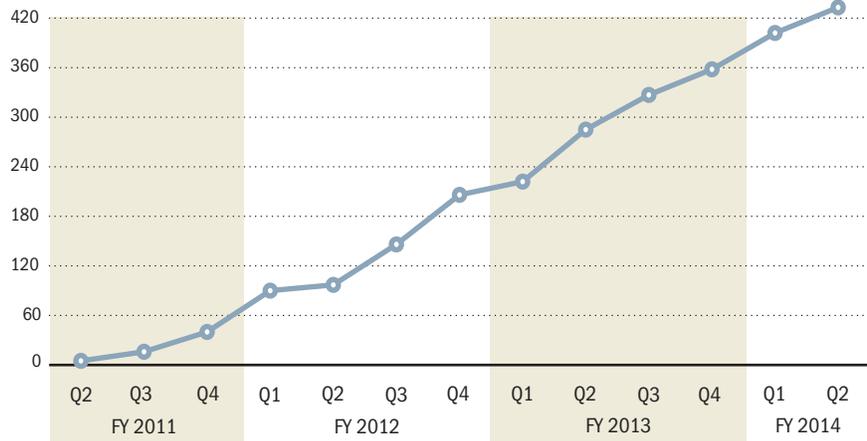
Suspensions and debarments are an important tool for ensuring that agencies award contracts only to responsible entities. SIGAR's program addresses three challenges posed by U.S. policy and the contingency contracting environment in Afghanistan: the need to act quickly, the limited U.S. jurisdiction over Afghan nationals and Afghan companies, and the vetting challenges inherent in the use of multiple tiers of subcontractors. SIGAR continues to look for ways to enhance the government's responses to these challenges through the innovative use of information resources and investigative assets both in Afghanistan and the United States.

SIGAR makes referrals for suspensions and debarments—actions taken by U.S. agencies to exclude companies or individuals from receiving federal

SIGAR OVERSIGHT ACTIVITIES

FIGURE 2.2

SIGAR INVESTIGATIONS: CUMULATIVE REFERRALS FOR SUSPENSION AND DEBARMENT, Q3 FY 2011–Q2 FY 2014



Source: SIGAR Investigations Directorate, 4/9/2014.

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

SIGAR’s emphasis on suspension and debarment is exemplified by the fact that of the 433 referrals for suspension and debarment that have been made by the agency to date, 406 have been made since the second quarter of 2011. During the 12 month period prior to April 2014, the efforts of SIGAR’s suspension and debarment program resulted in actions by agency suspension and debarment officials to exclude 125 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 \$563,621,648.

Debarment of Mesopotamia Group

During the previous quarter, the efforts of SIGAR's suspension and debarment program resulted in debarment of Mesopotamia Group, John Dawkins, Candice Boulware, and Geoffrey Nordloh based upon false claims of approximately \$5,000,000 as part of a U.S. Army contract to provide medical-equipment maintenance to ANA hospitals. SIGAR's investigation found that Mesopotamia Group had provided inadequately trained personnel, substandard repairs to equipment, and a complete lack of calibration or record keeping, all in violation of the terms of the contract. This lack of performance was illustrated by the inability of staff at the Dawood National Military Hospital to use any of its ventilators to aid victims of an October 2007 suicide bomb attack on a Kabul bus that resulted in the deaths of 13 Afghans and second incident at Herat Provincial ANA Hospital where an improperly attached regulator prevented hospital staff from using a breathing incubator during surgery, contributing to the death of an Afghan soldier. On repeated occasions, Mesopotamia Group allegedly refused to provide its staff with the resources to address these problems while billing the entire amount the contract allowed, regardless of whether the work was actually completed according to the terms of the contract. Based upon the allegations in SIGAR's referral, the Army proposed Mesopotamia Group, John Dawkins, Candice Boulware, and Geoffrey Nordloh for debarment on May 7, 2013. Following the submission of information in response to this proposal for debarment, the Army determined on February 20, 2014, that a final debarment was in the best interests of the government. As a result, all were excluded from contracting with the government for a period of three years, ending on May 7, 2016.

OTHER SIGAR ACTIVITIES

SIGAR Speaks Before Public Policy Group and Professional Associations

In this reporting period, Special Inspector General Sopko spoke about SIGAR's work to the Atlantic Council, a bipartisan forum for the discussion of challenges facing the United States and its European allies; the Professional Services Council, the national trade association of the government professional and technical services industry; and the National Sheriffs' Association.

Sopko told the Atlantic Council on March 20, 2014, that allowing corruption to continue unabated in Afghanistan will likely jeopardize all the United States has accomplished in 12 years of reconstruction. The inspector general pointed out that SIGAR has been sounding the alarm for some time on the need to address corruption. He noted that a U.S. military study recently drew upon SIGAR audits to make three points. First, the initial

SIGAR OVERSIGHT ACTIVITIES

U.S. strategy in Afghanistan not only failed to recognize the significance of corruption, but may have even fostered a political climate conducive to corruption. Second, massive military and aid spending overwhelmed the Afghan government's ability to absorb the assistance. Third, the lack of a comprehensive, coordinated anticorruption strategy reduced the effectiveness of U.S. anticorruption efforts.

Sopko went on to say that with a new government coming into Afghanistan, the international community has a window of opportunity to tackle corruption. If the United States and its allies get it right, they can create a model for future contingencies and help the Afghan people build a country that does not become another failed criminal state and a safe haven for terrorists.

Sopko spoke to the Professional Services Council Dialogue Lunch Series on February 18, 2014. He told the group that after the contracting community brought its concerns about the illegal taxation of U.S. contractors in Afghanistan to SIGAR, the agency produced an audit recommending that the U.S. government develop a consistent position on appropriate taxation of contractors supporting its efforts in Afghanistan. SIGAR also urged Congress to seek reimbursement from the Afghan government for taxes levied in violation of its agreements with U.S. agencies. Congress has since passed legislation requiring DOD to withhold assistance for Afghanistan in an amount equal to the total of all taxes assessed by the Afghan government on assistance provided by DOD. Sopko asked members of the contracting community to let SIGAR know about their successes, in-country challenges, impediments, and suggested improvements for future reconstruction efforts.

At the National Sheriffs' Association on January 23, 2014, Sopko described the work of SIGAR's Investigations Directorate and called upon the sheriffs to establish a partnership with SIGAR. He observed that many local law enforcement officers are currently in the National Guard or Reserve or were formerly in the military. Many have served in Afghanistan, and have seen things or may have information that could help SIGAR fight fraud, waste, and abuse of U.S. taxpayer funds. "My hope here today," Sopko said, "is that we can build on the relationships we've already forged, and create new ones—especially with your brave colleagues who have served their nation, and who can help fight crimes against the United States and our reconstruction effort."

SIGAR Addresses NATO Conference

On February 25–26, 2014, at the request of the North Atlantic Treaty Organization (NATO), SIGAR attended the "Building Integrity Education and Training Discipline Conference" at the Supreme Headquarters Allied Powers Europe in Mons, Belgium. The conference, hosted by NATO's Political Affairs and Security Policy Division, aimed to further NATO

SIGAR OVERSIGHT ACTIVITIES

education and training requirements for strengthening transparency, accountability, and integrity to reduce the risk of corruption in the defense and security sector. Conference participants represented over 20 countries, including NATO members' civilian and military staff; representatives of Georgia, Moldova, Serbia, Sweden, and Ukraine; NATO international staff from the Integration, Partnerships, and Cooperation Directorate; international organizations such as the United Nations Office on Drugs and Crime (UNODC) and the Organization for Security and Co-Operation in Europe (OSCE); and third-party organizations such as the Defense Academy of the United Kingdom, the U.S. Naval Postgraduate School, and representatives from Afghanistan's and Colombia's ministries of defense.

Deputy Inspector General Gene Aloise presented to the conference on the topic of "lessons learned" in the reconstruction of Afghanistan. NATO and its members were particularly interested in SIGAR's perspective as the only organization participating in the Building Integrity working group with a specific, unique mission to promote transparency and accountability of NATO-supported contingency operations and reconstruction efforts within Afghanistan. While SIGAR's efforts are ongoing, Aloise made some broad observations. First, he said more money does not necessarily lead to better results. Many in the international donor community have told SIGAR



SIGAR attendees gather with conference participants from 20 countries at a February NATO conference. (SIGAR photo)

that too much foreign aid has been pumped in Afghanistan too quickly—in fact, some experts have suggested that the massive infusion of international donor funds in Afghanistan has fueled corruption. Second, oversight must be a policy priority. Support from senior government officials is critical to ensure that the international community maintains accountability and transparency in reconstruction efforts from the onset, not just after the money has been spent. Third, international donors need to better understand how corruption and patronage networks operate within a host country, and know how money flows in and out, so donors can identify theft and misuse of foreign assistance funds.

Aloise also described ways NATO member countries can improve contract-management practices for future reconstruction efforts. He suggested that contract managers and implementers should be given the flexibility to adjust contract scope and requirements as security and logistical conditions change on the ground. He proposed that contract managers and administrators place more focus on recordkeeping and documentation, not only to understand work being currently conducted, but also to provide much needed institutional knowledge for meeting the challenges of frequent staff turnover. He said that staff responsible for managing contracts must have the requisite training and experience to do their jobs. Finally, he urged that agencies funding contracts hold their contractors accountable for poor performance.

NATO intends to incorporate the information SIGAR provided into training requirements and education curricula to better prepare NATO staff for financial management and oversight of future reconstruction activities. NATO hopes to also use SIGAR's insights and perspectives to help prepare a "best practice" guide that NATO civilian and military staff will use in the field. SIGAR and NATO cooperation will not end with the conference. SIGAR plans to maintain this successful relationship and share insights with NATO from its one-of-a-kind mission to provide oversight of Afghanistan reconstruction.

SIGAR Convenes Symposium on Third-Party Monitoring in Insecure Environments

On February 12, 2014, SIGAR, in conjunction with the United States Institute of Peace (USIP), convened an international symposium on "Monitoring and Management in Insecure Environments: Applying Best Practices to Afghanistan." Special Inspector General Sopko conceived the symposium as a means for U.S. government agencies, international donors, think tanks, and others to discuss best practices, techniques, and technologies for conducting effective project management and oversight in insecure environments. The symposium grew out of SIGAR's concerns about the rapidly shrinking oversight access to reconstruction sites in Afghanistan



Special IG John F. Sopko speaks at the SIGAR-USIP symposium on remote monitoring. (SIGAR photo by Bruce Keo)

as Coalition troops are withdrawn. A report on the symposium will be published shortly.

SIGAR Completes New Strategic Plan

This quarter SIGAR completed a new strategic plan to guide its programmatic and management decisions in 2014–2016. The U.S.-funded reconstruction effort in Afghanistan, now in its 12th year, is designed to support Afghanistan as it transitions to controlling its own security, governance, and development. The success of the entire reconstruction effort depends in large measure on how this transition unfolds. SIGAR's new strategic plan will help the agency adapt its oversight work to the changing environment in Afghanistan, ensuring that its efforts continue to help the executive branch and congressional stakeholders protect U.S. taxpayers' interests.

House Budget Committee Credits SIGAR

The House Budget Committee credited SIGAR in its FY 2015 Budget Resolution with highlighting several examples of wasteful spending of reconstruction funding, including multi-million-dollar infrastructure projects that have never been used, nor will be used for the intended purpose, if at all. The committee said it will continue to closely monitor the use of Overseas Contingency Operations/Global War On Terror (OCO/GWOT) funds to ensure taxpayer dollars are spent effectively and efficiently in achieving U.S. strategic goals overseas. It said continued reports of waste, fraud, and abuse will be taken into consideration as OCO/GWOT funding levels are determined.

SIGAR OVERSIGHT ACTIVITIES

SIGAR BUDGET

SIGAR received a budget of \$49.65 million for FY 2014 in the Consolidated Appropriations Act from Congress. 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.

SIGAR STAFF

Since its last report to Congress, SIGAR increased its staff, bringing the FY 2014 total staffing number to 203 federal employees. At the end of the quarter, SIGAR had 37 authorized personnel at the U.S. Embassy Kabul and 10 authorized at Afghan locations outside the U.S. Embassy. SIGAR staff members were stationed at five locations across the country, including Kandahar and Bagram Airfields, Mazar-e-Sharif, Camp Leatherneck (closed in March 2014, whereupon SIGAR agents moved to Kabul), and USFOR-A headquarters in Kabul. 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 14 personnel on temporary duty in Afghanistan for a total of 252 days.



BG John Michel, Commanding General of the NATO Air Training Command-Afghanistan with SIGAR auditors and other NATC-A personnel at Kabul airport. (SIGAR photo)

VICTORIA BUTLER

Victoria A. Butler, director of Research and Analysis since 2009, will step down in May 2014 after managing more than 20 SIGAR Quarterly Reports to Congress. Under Butler's leadership, the Quarterly Report has become the nation's most authoritative source of information about the U.S.-funded reconstruction of Afghanistan. Before joining SIGAR, Butler was the lead author for the Special Inspector General for Iraq Reconstruction's principal lessons-learned report, *Hard Lessons: The Iraq Reconstruction Experience*. Earlier she worked as a foreign correspondent in Asia and Africa for *Time*, NBC News, Voice of America, and the Associated Press. She is the author of *Sudan: The Land and the People* (Marquand Books, 2005). Butler also served as a spokesperson for the United Nations High Commissioner for Refugees in Washington, D.C., and led a team for the United Nations Transitional Authority in Cambodia to develop print, television, and radio products to inform Cambodians about elections managed by the United Nations. Upon leaving the Research and Analysis Directorate, Butler will take a new post as Strategic Advisor to SIGAR.



“Today there is reason for celebration in Afghanistan. Millions turned out to vote, with Afghan National Security Forces looking out for the safety of Afghan people as they cast votes at more than 6,000 polling sites. Clearly, this is an important step in the first democratic transfer of power in Afghanistan’s history.”

—*Joint Chiefs of Staff Chairman
Army General Martin Dempsey*