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Incinerators sit unused beside an open-air burn pit at Shindand Airbase.
See Inspection Report 14-81-IP. (SIGAR photo by John Dettinger)

SIGAR OVERSIGHT ACTIVITIES

This quarter SIGAR issued 30 audits, inspections, alert letters, and other reports that looked at programs worth over \$18.2 billion.

One performance audit determined that the State Department (State) implemented nearly 75% of SIGAR's audit recommendations in a timely, successful way, reducing the risk of fraud, waste, and abuse of Afghan reconstruction funds. A second performance audit found that poor Afghan National Security Forces (ANSF) recordkeeping limits the Department of Defense's (DOD) ability to monitor weapons after they are transferred to the ANSF. Another performance audit reported that the Afghan National Army (ANA) may not be able to sustain Mobile Strike Force Vehicles (MSFV) it was given, and that limited security support prevented a DOD contractor from providing maintenance and training for which it was paid as part of the program. This quarter, SIGAR's financial audits identified over \$2.5 million in questioned costs as a result of internal-control deficiencies and noncompliance issues. To date, SIGAR's financial audits have identified more than \$78 million in questioned costs and over \$190,000 in unremitted interest on advanced federal funds.

One inspection report followed an inspection alert letter SIGAR wrote last quarter about the Baghlan prison construction, and states that the \$11.3 million facility requires extensive remedial action due to severe damage. A second inspection found that U.S. Forces-Afghanistan (USFOR-A) operated incinerators at Shindand Airbase were constructed and transferred properly, but that mechanical issues led the incinerators to operate at a highly reduced capacity, leading to the use of open-air burn pits. A third inspection determined that the quality of the construction of Gereshk Cold and Dry Storage Facility appeared to be good, but that the facility is not being used to date.

SIGAR's Office of Special Projects issued a review of the safety of spray foam insulation systems used in ANA facilities. Special Projects also wrote several letters to the Combined Security Transition Command-Afghanistan (CSTC-A), USFOR-A, International Relief and Development (IRD), the U.S. Agency for International Development (USAID), the U.S. Navy, several executive departments and agencies involved in Afghan reconstruction, the Professional Services Council, defense contractors, the U.S. Department of

TESTIMONY GIVEN

- Testimony 14-65-TY: Oversight of USAID and State Department Reconstruction Efforts in Afghanistan

AUDIT ALERT LETTER

- Audit Alert Letter 14-80-AL: Afghan Air Force C-130 Aircraft

COMPLETED PERFORMANCE AUDITS

- Audit 14-83-AR: Status of SIGAR's Recommendations to Department of State
- Audit 14-84-AR: Afghan National Security Forces Weapons Accountability
- Audit 14-85-AR: Afghan Mobile Strike Force Vehicles

COMPLETED FINANCIAL AUDITS

- Financial Audit 14-74-FA: Audit of Costs Incurred by Development Alternatives Inc.
- Financial Audit 14-75-FA: Audit of Costs Incurred by Chemonics International Inc.
- Financial Audit 14-76-FA: Audit of Costs Incurred by Tetra Tech DPK

COMPLETED INSPECTIONS

- Inspection 14-62-IP: Baghlan Prison: Severe Damage to \$11.3 Million Facility Requires Extensive Remedial Action
- Inspection 14-81-IP: Shindand Airbase: Use of Open-Air Burn Pit Violated Department of Defense Requirement
- Inspection 14-82-IP: Gereshk Cold and Dry Storage Facility: Quality of Construction Appears to Be Good, but the Facility Has Not Been Used to Date

COMPLETED SPECIAL PROJECT PRODUCTS

- Special Project 14-54-SP: Inquiry Letter: ANP Patrol Boats
- Special Project 14-55-SP: Inquiry Letter: International Relief and Development's Confidentiality Agreement
- Special Project 14-56-SP: Alert Letter: Alerting USAID on IRD's Confidentiality Agreement

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SIGAR OVERSIGHT ACTIVITIES

COMPLETED SPECIAL PROJECT PRODUCTS (CONTINUED)

- Special Project 14-57-SP: Inquiry Letter: UNDP LOTFA Oversight
- Special Project 14-58-SP: Inquiry Letter: Professional Services Council
- Special Project 14-60-SP: Inquiry Letter: IRD Whistleblower Protections Response
- Special Project 14-61-SP: Inquiry Letter: ANP Mobile Money Pilot Program Response
- Special Project 14-63-SP: Inquiry Letter: SBIR Study
- Special Project 14-64-SP: Inquiry Letter: Maintenance of USAID-Funded Roads
- Special Project 14-66-SP: Inquiry Letter: CSTC-A Response to ANP Patrol Boat Inquiry
- Special Project 14-67-SP: Inquiry Letter: ANP Patrol Boat Disposition
- Special Project 14-68-SP: Inquiry Letter: Kandahar Bridging Solution
- Special Project 14-69-SP: Inquiry Letter: USDA Response to Soybean Inquiry
- Special Project 14-70-SP: Inquiry Letter: Contractor Recruitment of Third Country Nationals for Afghan Work
- Special Project 14-71-SP: Inquiry Letter: Request for Reconstruction Program Data Information
- Special Project 14-72-SP: Inquiry Letter: Maintenance of DOD-Funded Roads
- Special Project 14-73-SP: Inquiry Letter: Cancelled USAID Contracts
- Special Project 14-77-SP: Review: Safety of Spray Foam Insulation in ANA Facilities
- Special Project 14-78-SP: Inquiry Letter: Contractor Recruitment of Third Country Nationals for Afghan Work

Agriculture (USDA), and DOD. These inquiry letters covered a wide range of topics, including confidentiality agreements, mobile money, soybean program, cancelled contracts, safety of spray foam used in construction, the Law and Order Trust Fund for Afghanistan (LOTFA) used to pay Afghan National Police (ANP) salaries, ANP patrol boats, contractor-identified best practices, whistleblower protections, a small-business contract awarded to assist in making reconstruction decisions, maintenance of Afghan roads, Kandahar electrical production plans, request for data on reconstruction funding by smaller U.S. agencies, and inquiry into allegations of human trafficking.

During the reporting period, the criminal fines, restitutions, forfeitures, civil settlements, and cost savings to the U.S. government from SIGAR's ongoing investigations amounted to approximately \$3 million. SIGAR investigations also resulted in two arrests, three criminal informations, three plea agreements, and two sentencing in the United States. In Afghanistan, one subject was arrested, three Afghans were barred from access to military installations, and two government contractors were terminated. SIGAR's suspension and debarment program referred 16 individuals and 39 companies for suspension or debarment based on allegations that they engaged in fraud and non-performance in contracts valued at over \$180 million.

SIGAR TESTIFIES ON OVERSIGHT OF USAID AND STATE DEPARTMENT RECONSTRUCTION EFFORTS

Special Inspector General John F. Sopko testified along with Charles Michael Johnson Jr. from GAO on June 10, 2014, before the House Subcommittee on the Middle East and North Africa of the Committee on Foreign Affairs on oversight of USAID and State Department reconstruction efforts in Afghanistan. Of the approximately \$103.17 billion appropriated for Afghan reconstruction as of that date, \$17.53 billion has been allocated to USAID and \$4.42 billion to State. Also, \$18 billion in appropriated reconstruction funds remain to be spent by U.S. agencies as of March 31, 2014, including nearly \$7 billion by State and USAID.

Reduced oversight access in Afghanistan has put reconstruction funds at risk, Sopko told the subcommittee. SIGAR estimates that less than 20% of the country will be accessible to civilian U.S. oversight personnel by December 2014, a more than 50% decrease since 2009. It is critical to find a way to continue providing oversight to protect the historic investment the United States has made to date, and the billions more yet to be spent on reconstruction.

Sopko highlighted five "high-risk areas" facing USAID and State as they move forward with reconstruction efforts in Afghanistan: sustainability, corruption, counternarcotics, on-budget assistance, and contract management and oversight.

The first challenge, sustainability, refers to the fact that the Afghan government simply cannot sustain the financial and operational burden that the reconstruction has placed on it. Each new development project that USAID or State funds increases operations and maintenance costs, adding pressure to Afghanistan's operating budget. For example, SIGAR reported that USAID built one hospital whose annual operating expenses would jump from \$611,000 to \$1.1–2.1 million, and another whose annual operating expenses would increase from \$98,000 to \$587,000. These are expenses the Afghan Ministry of Public Health likely cannot afford, and that neither USAID nor the Afghan government allocated funds to cover.

Second, long-standing and pervasive corruption could destroy Afghanistan's prospects for continued foreign assistance and for the development and reforms needed to make the government self-sustaining. Recently, General John Allen identified corruption as the worst threat to Afghanistan's future, ranking it above the Taliban, yet there is no comprehensive U.S. strategy or guidance on combating corruption. Further, Afghanistan is tied for last place with Somalia and North Korea as the country perceived as most corrupt of 177 countries rated, and Afghan citizens themselves identify corruption as a serious challenge. This widespread corruption undermines key assistance programs run by USAID and State. For example, SIGAR noted in a recent report that corruption affects all levels of the customs process and is the biggest obstacle to increasing Afghan customs revenue. In fact, USAID officials hypothesize that eliminating or significantly reducing corruption could double the customs revenue remitted to the central government. Yet there are widespread reports of Afghan customs officials being kidnapped and intimidated for listening to U.S. advisors who instruct them to properly collect customs duties.

Third, the expanding cultivation and trafficking of drugs is putting the entire U.S. and international-donor investment in the reconstruction of Afghanistan at risk. Afghan farmers are growing more poppy today than ever before, and in 2013 the value of that opium and its derivatives was estimated at \$3 billion, or the equivalent of 15% of Afghanistan's GDP, representing a substantial increase from 2012. The narcotics trade is poisoning the Afghan financial sector and undermining the Afghan state's legitimacy by stoking corruption. SIGAR continues to express concerns that U.S. programs crucial to the counternarcotics efforts have made limited progress and may not be sustainable. Past audit reports have examined State's construction and administration of the Counternarcotics Justice Center, which was plagued by delayed construction and poor planning that led to over-capacity and detention of low-level, rather than high-profile, detainees. SIGAR continues to evaluate the development of the Counternarcotics Police of Afghanistan and USAID's Kandahar Food Zone program, both of which target the narcotics trade.

TESTIMONY GIVEN

· Testimony 14-65-TY: Oversight of USAID and State Department Reconstruction Efforts in Afghanistan

SIGAR OVERSIGHT ACTIVITIES

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, to provide 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.

Fourth, the U.S. commitment to channel more funds through Afghan government institutions increases the risk of waste, fraud, and abuse of reconstruction funds. Since 2002, the United States has provided nearly \$9 billion in on-budget assistance, including \$5.4 billion to Afghan government ministries and institutions. Subsequently, SIGAR has long been concerned with U.S. agencies' abilities to safeguard these funds provided through on-budget assistance. For example, SIGAR has published audit reports examining USAID's salary support to Afghanistan, as well as USAID's assessments of Afghan government agencies' capacity to account for and manage U.S. funds provided directly to the ministries.

Finally, the effective oversight of reconstruction contracts is critical to achieving U.S. political, security, humanitarian, and development goals for Afghanistan. While there is no central database of contracts and it is difficult to estimate a definitive amount that has been obligated, SIGAR's preliminary work indicates that U.S. agencies have obligated nearly \$37 billion in contracts, grants, and cooperative agreements from fiscal year (FY) 2002 to FY 2013 for Afghan reconstruction efforts. To safeguard these funds, SIGAR has conducted inspections of State Department construction projects such as the Justice Center courthouse in Parwan Province and the Baghlan Prison, and found that contractors did not comply with requirements, leading to structural deficiencies, and that contracting officer representatives did not conduct monthly reviews or submit required reports. Further complicating efforts to provide oversight is the drastic reduction in access to reconstruction projects outside of so-called "oversight bubbles" in Afghanistan. This puts billions in reconstruction funds at risk of fraud, waste, and abuse.

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, three inspections, three financial audit reports, and one audit alert letter. This quarter SIGAR also began one new performance audit, bringing the total number of ongoing performance audits to 15. The published performance audit reports reviewed DOD's ability to account for and safeguard weapons given to the ANSF; contractor performance, government oversight, and ANA handling of Mobile Strike Force Vehicles, and the status and oversight process for reaching audit recommendation resolution at the State Department. The performance audits made a total of six recommendations and the inspections made a total of seven. The financial audits identified over \$2.5 million in questioned costs as a result of internal-control deficiencies and noncompliance issues.

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Alert Letter

With Afghanistan in the midst of transition, U.S. military and civilian officials have asked SIGAR to provide them with real-time information to prevent waste and increase the effectiveness of U.S. reconstruction programs. One of SIGAR's main goals is to provide implementing agencies and Congress with actionable information while there is still time to make a difference. To achieve that goal, SIGAR sends alert letters to highlight concerns in real time while implementing agencies are still able to act. During this reporting period, SIGAR sent one alert letter expressing concern about DOD's plans to provide C-130 cargo planes to the Afghan Air Force (AAF).

AUDIT ALERT LETTER

· Audit Alert Letter 14-80-AL: Afghan Air Force C-130 Aircraft

Audit Alert Letter 14-80-AL: Afghan Air Force C-130 Aircraft

On July 10, 2014, SIGAR informed the Secretary of Defense and senior U.S. military officials in Afghanistan that it has concerns regarding DOD's plan to provide C-130 cargo planes to the AAF. SIGAR's preliminary review of the plan indicates that not all of these aircraft may be needed, and that action taken now could save substantial expenditures.

During a SIGAR audit of U.S. support for the AAF to determine its capability to absorb additional equipment, the agency became aware of concerns regarding the C-130 program. First, SIGAR could not determine why DOD, in order to provide airlift of medium weight loads to the AAF, decided to provide four C-130s rather than different quantities or types of aircraft.



Special Inspector General Sopko and SIGAR staff meet with members of the NATO Air Training Command-Afghanistan at Kabul International Airport. (SIGAR photo by Greg Bauer)

Although the decision was made in January 2013 to purchase four C-130s, the AAF's requirements had not been updated since March 2010. Second, SIGAR analyzed flight data for the two AAF C-130s currently in Afghanistan and found that they are being underutilized, which raises questions about whether additional aircraft are truly needed. Lastly, during Special Inspector General Sopko's visit to Afghanistan last month, he learned about support problems associated with training, spare parts, and maintenance for the two C-130s currently in the inventory.

Issues with sustaining U.S.-funded infrastructure and equipment in Afghanistan are not new. However, the opportunity exists with the C-130s to ensure that the Afghans are capable of supporting what the United States has already given them before providing additional aircraft.

Accordingly, in this alert letter, SIGAR suggested that, pending a review of the AAF's medium-airlift requirements and its ability to fully utilize the C-130s currently in the inventory, DOD delay delivery of additional C-130s. If DOD's review indicates additional C-130s are unnecessary, DOD should not provide them. Even the elimination of one C-130 could save up to \$40.5 million through 2017.

As a result of this alert letter, the Senate Appropriations Committee included a provision in the FY 2015 Defense Appropriations Act that prohibits DOD from using FY 2015 funds to transfer C-130s to the ANSF until it provides a review to the congressional defense committees of the AAF's requirements. For more information, see page 62.

COMPLETED PERFORMANCE AUDITS

- Audit 14-83-AR: Department of State: Nearly 75% of All SIGAR Audit and Inspection Report Recommendations Have Been Implemented
- Audit 14-84-AR: Afghan National Security Forces: Actions Needed to Improve Weapons Accountability
- Audit 14-85-AR: Afghan Mobile Strike Force Vehicles: Contractor Met Requirements, but Long-Term Operation and Maintenance Remain a Concern

Performance Audit Reports Published

This quarter, SIGAR completed three performance audit reports that reviewed the State Department's resolution of SIGAR audit recommendations, DOD's program providing weapons to the ANSF, and the ANA MSFV program.

Audit 14-83-AR: Department of State

Nearly 75% of All SIGAR Audit and Inspection Report Recommendations Have Been Implemented

SIGAR initiated this audit to (1) identify and assess the status of all recommendations made to State since SIGAR's inception for all performance audits, financial audits, and inspections; and (2) review actions taken or planned by State to address any open recommendations.

To accomplish these objectives, SIGAR identified and examined all 111 recommendations made to State between SIGAR's inception in 2008 and March 31, 2014, and conducted analysis to determine the number of open, closed and implemented, and closed but not implemented recommendations.

SIGAR categorized each recommendation by broad sector, recommended action, and intended outcome. Finally, SIGAR examined

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documentation that State provided for each recommendation to determine any quantifiable financial benefit in the form of cost savings or recovered funds.

SIGAR made 111 recommendations to State from SIGAR's inception in January 2008 through March 2014, and 83 of those recommendations—almost 75%—were implemented. Almost half of the implemented recommendations were designed to improve Afghan governance or promote rule of law and anticorruption efforts. In addition, analysis showed that:

- Almost two-thirds of all recommendations were intended to achieve one of three outcomes: (1) improve State's award, oversight, and management of contracts or grants; (2) assist State to build and sustain the capacity of the Afghan government; or (3) ensure accountability over direct-assistance funds.
- Almost half recommended that State, in order to achieve the intended outcomes, either (1) establish, improve, or follow existing procedures, policies, or other guidance; or (2) improve or implement a plan or strategy.

State's successful and timely implementation of these recommendations resulted in stronger protections against waste, fraud, and abuse in reconstruction activities in Afghanistan. Of the recommendations implemented, two resulted in a total of \$103 million put to better use. Four additional recommendations resulted in the recovery of more than \$6.6 million.

An additional 24 were closed for several reasons:

- Thirteen recommendations were closed because SIGAR planned to conduct additional audit work that could supersede the recommendations.
- Four recommendations were closed because State's failure to take action in a timely way rendered the recommendations moot. In SIGAR's view, if State had taken timely action, improvements could have been made in conducting Afghan elections, and in supporting counterinsurgency initiatives by promoting Afghan employment.
- Four recommendations were closed because, although State did not fully implement the recommendations, it took some actions towards addressing their intent.
- Two recommendations were closed because—although the recommendations were made to multiple agencies, including State—other agencies instead of State implemented the recommendations.
- One recommendation was closed because State did not concur with the recommendation and took no action.

Four of the 111 recommendations remain open. As of July 2014, three of these recommendations were open for six months and one recommendation for one year.

SIGAR did not make any recommendations.



Crated weapons are stored at the ANA Central Supply Depot in Kabul. See Audit Report 14-84-AR. (SIGAR photo by Sarah Kenny)

Audit 14-84-AR: Afghan National Security Forces

Actions Needed to Improve Weapons Accountability

DOD supplies weapons to the ANSF as part of international efforts to train and equip the ANA and the ANP. DOD has provided over 747,000 weapons and auxiliary equipment valued at approximately \$626 million to the ANSF since 2004. Included in these figures are over 465,000 small arms—weapons such as rifles, pistols, machine guns, grenade launchers, and shotguns. CSTC-A is the primary DOD component responsible for overseeing the delivery and transfer of weapons to the ANSF. It works with the Defense Security Cooperation Agency (DSCA) to acquire these weapons. Section 1225 of the National Defense Authorization Act (NDAA) for FY 2010, Pub. L. No. 111-84, requires DOD to implement a program to provide for the registration and monitoring of defense articles transferred to Afghanistan and Pakistan. DOD is also responsible for the oversight of the accountability of these weapons after they are transferred to the ANSF.

This audit focuses on DOD's actions taken to account for and safeguard small arms provided to the ANSF. Specifically, SIGAR's objectives were to (1) evaluate the controls to account for weapons before DOD transfers title to the ANSF, (2) evaluate the controls to account for weapons after DOD transfers title to the ANSF, and (3) determine the extent to which weapons provided by DOD reflect current ANSF requirements and changes in ANSF personnel levels.

DOD maintains information on weapons purchased for the ANSF in two primary information systems: the Security Cooperation Information Portal (SCIP) and the Operational Verification of Reliable Logistics Oversight Database (OVERLORD). SCIP is used by DOD personnel to track the shipment of weapons from the United States, while OVERLORD is used for tracking the receipt of weapons in Afghanistan. Errors and discrepancies often occur because these two systems are not linked to each other and require manual data entry. When SIGAR compared the data in the two systems, it found that the databases did not always match; some records were duplicated, and some records were incomplete. The discrepancies listed below show examples of DOD noncompliance with its internal operating procedures and accountability requirements, and where missing information could result in the inability to locate weapons. Specifically, SIGAR found that:

- Of the 474,823 total serial numbers recorded in OVERLORD, 43%, or 203,888 weapons, had missing information and/or duplication.
- 24,520 serial numbers in OVERLORD and 22,806 weapon serial numbers in SCIP were repeated two or three times, meaning that there are duplicate records of weapons shipped and received.
- OVERLORD contained 50,304 serial numbers with no shipping or receiving dates, and SCIP contained 59,938 serial numbers with no shipping or receiving dates.

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While DOD uses SCIP and OVERLORD to account for weapons it purchases and transfers to the ANSF, the ANA tracks weapons using an automated inventory management system called Core Inventory Management System (CoreIMS). However, CSTC-A Security Assistance Office (SAO) officials stated that the information contained in CoreIMS is incomplete and cannot be relied upon for accurate information. CSTC-A SAO officials concluded that this is due, in part, to the ANA not entering information correctly into the system. A 2008 report by the DOD Inspector General also raised concerns about the ANA's recordkeeping process including CoreIMS. As for weapons provided to the ANP, there is no standardized or automated system to account for them. Instead, the ANP uses a combination of hard-copy documents, handwritten records, and some Microsoft Excel spreadsheets to maintain inventory records.

To test the accuracy of weapons data in the various inventory systems and hard-copy sources used by the ANSF, SIGAR conducted physical inventory testing at four ANSF depots and storage facilities in Afghanistan. Although testing at these locations was challenging for a variety of reasons, including the lack of inventory information, SIGAR was able to assess, to some degree, the reliability of information maintained at these sites.

- At the ANA Central Supply Depot, SIGAR found that 551 weapons documented on the Afghan inventory record, called a “property book,” did not match a physical count of the inventory.
- At the ANP 22 Bunkers Depot—the national depot for the ANP—SIGAR was unable to conduct a fully inclusive inventory test; however, SIGAR's limited testing verified the quantities of weapons in each storage container, and SIGAR found no discrepancies in the weapons it was able to inspect.
- At the ANA Kandahar Regional Military Training Center, SIGAR was unable to obtain a complete inventory record, which limits the assurance of accurate and reliable weapons accountability.
- At the 1st Afghan National Civil Order Police Garrison Facility, SIGAR could conduct only a limited physical inspection of the inventory because no inventory list was available. No discrepancies were noted in the limited weapons inspection.

This poor record keeping by the ANA and ANP limits DOD's ability to monitor weapons after transfer to the ANSF, as required by the NDAA for FY 2010.

The United States and Coalition partners provide weapons to the ANSF according to the quantity and type agreed upon in the *tashkil*—the Afghan government's official list of requirements for the ANSF. The *tashkil* has changed over time, with some weapons requirements increasing and others decreasing. SIGAR found that, as of November 2013, more than 112,000 weapons provided to the ANA and ANP exceed requirements in the current *tashkil*. In some cases, excess weapons were provided because ANSF

requirements changed. For example, the ANA has 83,184 more AK-47s than needed because, prior to 2010, DOD issued both NATO-standard weapons, such as M-16s, and non-standard weapons, such as AK-47s. After 2010, DOD and the Afghan Ministry of Defense determined that interoperability and logistics would be enhanced if the ANA used only NATO standard weapons. Subsequently, the requirement was changed. However, no provision was made to return or destroy non-standard weapons, such as AK-47s, that were no longer needed. DOD officials told SIGAR that they do not currently have the authority to recapture or remove weapons that have already been provided to the ANSF.

This issue will be compounded as the number of ANSF personnel is planned to decrease to lower levels in the coming years. Without confidence in the Afghan government's ability to account for or properly dispose of these weapons, SIGAR is concerned that they could be obtained by insurgents and pose additional risks to Afghan civilians and the ANSF.

To account for weapons procured for and transferred to the ANSF, SIGAR recommends that the Commanding General, CSTC-A, in coordination with the Director, DSCA, (1) perform a full reconciliation of OVERLORD and SCIP and correct any data errors identified between the two systems within six months. SIGAR also recommends that the Commanding General, CSTC-A (2) work with the ANSF to complete a 100% inventory check of weapons transferred to the ANSF, and (3) determine what action can be taken to recover or destroy U.S. and Coalition-provided weapons that the U.S. and Afghan governments jointly identified as being in excess of the current Afghan requirements stated in the Afghan tashkil, and develop a plan that addresses the potential future excess of small arms if the ANSF force strength is reduced.

Audit 14-85-AR: Afghan Mobile Strike Force Vehicles

Contractor Met Requirements, but Long-Term Operation and Maintenance Remain a Concern

To improve the ANA's effectiveness, the NATO Training Mission-Afghanistan (NTM-A)/CSTC-A decided that the ANA should have a Mobile Strike Force (MSF) to provide a mechanized-infantry force that is rapidly deployable with integral firepower, protection, and mobility support. To meet this requirement, the Army Contracting Command-Warren (ACC-WRN) awarded two contracts to Textron Marine & Land Systems (Textron), a U.S. firm. Obligations on these contracts have totaled \$661.3 million for 634 Mobile Strike Force Vehicles (MSFV), spare parts, maintenance, and training. The MSF consists of two brigades—the 1st Brigade in Kabul containing four *kandaks*—an ANA unit similar in size to a U.S. battalion—and 2nd Brigade in Kandahar containing three *kandaks*.

The objectives of this audit were to (1) determine the extent to which Textron has met its contractual obligations to produce, deliver, train, and

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Turreted Mobile Strike Force Vehicles are kept at the ANA Armor Branch School. See Audit Report 14-85-AR. (SIGAR photo by Zach Rosenfeld)

provide field support for the ANA MSFVs; (2) evaluate the effectiveness of U.S. government oversight in the procurement, delivery, training, and maintenance of MSFVs for the ANA; and (3) determine the extent to which the ANA has the capacity to operate and maintain its current and planned fleet of MSFVs.

Textron produced 634 MSFVs and provided initial operator and maintenance training to the Afghan MSF at the Armor Branch School in Kabul, in accordance with contract requirements. SIGAR found that all of these vehicles were properly documented and transferred to the DOD. In addition, as of March 25, 2014, DOD had transferred 419 MSFVs to the ANA and could account for the remaining 215 vehicles, 204 of which will eventually be transferred to the ANA and 11 of which DOD will retain as test vehicles. Textron also met other contract requirements such as receiving and inspecting MSFVs upon arrival in Afghanistan; providing initial spare parts, tools, equipment, and weapons installation; and maintaining training vehicles.

Textron, however, was not always able to provide MSF field training and maintenance services for which it was being paid. This was primarily due to the limited number of International Security Assistance Force (ISAF) Joint Command personnel assigned to provide security as called for under the contract. In addition, although all four deployed kandaks received their 60-day initial supply of vehicle spare parts, only one MSF kandak assigned to the 2nd Brigade received any of its comprehensive one-year supply of spare parts maintained at the brigade level. Due to shortfalls in contract funding, ACC-WRN delayed ordering these parts—including replacement engines and drive shafts—which take about a year to manufacture and deliver. As a result, for example, another MSF kandak assigned to the 2nd Brigade had no spare parts beyond an initial 60-day supply for the nine

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months that it received Coalition and contractor support. Coalition advisors noted that the absence of spare parts resulted in a steady deterioration of the MSF kandak's ability to conduct missions. SIGAR requested information on MSFV operational-readiness rates, but this information is not maintained by the brigades, kandaks, or NTM-A.

SIGAR also found that DOD exercised limited oversight of Textron activities at MSF brigades and kandaks. ACC-WRN assigned a contracting officer's representative (COR) to oversee and monitor Textron's performance in Afghanistan. However, the COR was not always physically located in Afghanistan, which limited the COR's ability to visit MSF brigades and kandaks to observe Textron's work. Further, the Product Manager for Allied Tactical Vehicles—a U.S. Army group of acquisition personnel responsible for the life-cycle management of tactical vehicle fleets—assigned associates to help the COR oversee and monitor Textron's performance. The associate in Afghanistan arrived in Kabul in January 2014, but, as of April 2014, had been unable to reach sites outside of Kabul. For example, the associate attempted to travel to the 2nd MSF Brigade in Kandahar on multiple occasions, but the flights were always cancelled for unknown reasons. According to NTM-A officials, oversight personnel rarely conducted site inspections beyond Kabul, even though kandaks are deployed to other provinces such as Zabul and Helmand. On April 22, 2014, ACC-WRN reported that a COR was assigned to Kabul. Although this provides for oversight of activities in Kabul, it does not ensure that someone will provide oversight of Textron's activities at MSF brigades and kandaks outside of Kabul.

Although the ANA has received the majority of its MSFVs, the ANA's ability to independently operate and maintain them has been affected by training and spare-parts problems. Each initial crew member receives eight weeks of basic MSFV operator training at the Armor Branch School in Kabul, but in only one of the three positions—driver, gunner, or vehicle commander. As a result, if for any reason an MSFV loses a crew member, the vehicle may not operate at its full potential until that crew member is replaced. Coalition advisors noted that replacement crew members are normally selected from field units and come to the force without any MSFV experience. While MSF brigades and kandaks located near Kabul can send replacements to the Armor Branch School, it is less feasible for those outside of Kabul to do so. Coalition advisors at the 3rd MSF Kandak in Kandahar stated that getting inexperienced replacements has lowered mission-capable rates for the kandak. As a result, the advisors created a training program to address the issue, but other kandaks do not have a similar program.

Lastly, difficulties in distributing spare parts using the ANA logistics system raise concerns about the ANA's ability to sustain MSFVs. As part of its contract with ACC-WRN, Textron organizes and inventories MSFV spare parts arriving in Afghanistan before they are sent to the ANA. Textron

assists the ANA in sending parts to the two MSF brigades, which in turn are responsible for distributing the parts to their respective kandaks. The continued drawdown of Coalition personnel in Afghanistan means that neither Coalition forces nor Textron will have the resources to continue to provide the level of logistics support services the MSF has relied on to date. Instead, the MSF will rely on the ANA logistics system for ordering and receiving spare parts, which SIGAR and other oversight agencies have previously reported on as having deficiencies. For example, SIGAR reported in October 2013 on the ANA's limited ability to manage vehicle spare parts.

To ensure that Textron is adequately supported in its implementation of the MSFV contracts and that appropriate contract oversight is provided, SIGAR recommends that the Executive Director, ACC-WRN, and the Commander, ISAF Joint Command, (1) review the requirements for contractor support at the MSF brigades and kandaks, taking into account the level of security support available, and modify the contract to reflect realistic capabilities for oversight, and determine which actions are needed to conduct proper oversight of maintenance and training; and (2) assign oversight responsibilities to government personnel working with Textron at the brigades and kandaks and have them report to the contracting officer's representative. To improve the long-term sustainability of MSF operations, SIGAR recommends that the Commanding General, NTM-A, (3) work with the ANA to provide post-Armor Branch School operator training.

See page 40 for the status of SIGAR's recommendations.

New Audits Announced This Quarter

This quarter SIGAR initiated one performance audit which will evaluate the effectiveness, sustainability, and oversight of DOD's Afghan Local Police program.

DOD's Afghan Local Police Program

This audit will focus on the Combined Joint Special Operations Task Force-Afghanistan's (CJSOTF-A) implementation of the Afghan Local Police (ALP) program, which is intended to strengthen local governance by training local Afghans in rural areas to defend their communities against insurgents and other illegally armed groups. CJSOTF-A is responsible for ALP program planning and execution, and provides oversight, mentorship, and training to the ALP. The ALP, created in 2010 and organized under the Ministry of Interior (MOI), had 24,647 officers assigned as of March 2014, and is expected to grow to 30,000 officers by December 2014. The ALP is funded through the ASFF, and as of March 2014, DOD has obligated and expended \$196 million. DOD estimates that the ALP program will cost \$121 million a year to sustain once the ALP reaches 30,000 officers.

Specifically in the course of this audit, SIGAR plans to (1) determine the extent to which the ALP is achieving its goals, (2) assess the MOI's capacity

NEW PERFORMANCE AUDIT

· DOD's Afghan Local Police Program

SIGAR OVERSIGHT ACTIVITIES

to manage cash resources and oversee dispersals to ALP officers, and (3) identify how CJSOTF-A and the MOI plan to monitor and sustain the ALP program after 2014, when the number of U.S. forces will be reduced.

Financial Audits

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

This quarter, SIGAR completed three financial audits of U.S.-funded contracts to rebuild Afghanistan. SIGAR's financial audits program has completed a total of 25 financial audits with over \$2.2 billion in auditable costs and has another 40 financial audits ongoing with more than \$3.6 billion in auditable costs, as shown in Table 2.1. These audits help provide the U.S. government and the American taxpayer reasonable assurance that the funds spent on these awards were used as intended. The audits question expenditures that cannot be substantiated or are potentially unallowable.

SIGAR issues each financial audit report to the funding agency that made the award(s). The funding agency is responsible for making the final determination on **questioned amounts** identified in the report's audit findings. Since the program's inception, SIGAR's financial audits have identified nearly \$78 million in **questioned costs**, as shown in Table 2.2, and \$191,638 in unremitted interest on advanced federal funds. When the funding agency determines that a questioned amount is unallowable, the agency issues a **bill for collection**. To date, agencies have issued bills for collection for 14 of the completed audits to recover more than \$4.1 million in questioned amounts. It takes time for funding agencies to carefully consider audit findings, so final determinations remain to be made for several of SIGAR's issued financial audits. SIGAR's financial audits have also identified and communicated 109 compliance findings and 117 internal control findings to the auditees and funding agencies.

SIGAR's financial audits have four specific objectives:

- Express an opinion on whether the **Special Purpose Financial 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.

TABLE 2.1

SIGAR'S FINANCIAL AUDIT COVERAGE (\$ BILLIONS)	
25 Completed Audits	\$2.2
40 Ongoing Audits	3.6
Total	\$5.8

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.

Special Purpose Financial Statement: a financial statement that includes all revenues received, costs incurred, and any remaining balance for a given award during a given period.

SIGAR OVERSIGHT ACTIVITIES

- Evaluate and obtain a sufficient understanding of the audited entity’s internal control related to the award; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
- Perform tests to determine whether the audited entity complied, in all material respects, with the award requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations.
- Determine and report on whether the audited entity has taken adequate corrective action to address findings and recommendations from previous engagements.

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

Financial Audits Published

This quarter, SIGAR completed three financial audits of U.S.-funded cooperative agreements to rebuild Afghanistan. These financial audits identified over \$2.5 million in questioned costs as a result of internal-control deficiencies and noncompliance issues. These deficiencies and noncompliance issues included, among other things, failure to follow competitive bidding procedures, improper cost allocations, lack of supporting documentation, over-reimbursement of indirect costs, poor record retention, unexplained discrepancies between a contractor’s general ledger balance and various supporting documents, and failure to conduct vendor suspension and debarment checks.

Financial Audit 14-74-FA: USAID’s Afghanistan Small- and Medium-Sized Enterprise Development Program and Afghanistan Stabilization Initiative Program: Audit of Costs Incurred by Development Alternatives Inc.

USAID entered into contracts with Development Alternatives Inc. (DAI) to support two USAID programs—the Afghanistan Small- and Medium-Sized Enterprise Development (ASMED) program and the Afghanistan Stabilization Initiative (ASI). ASMED was designed to eliminate nongovernmental barriers to establishing and running a business in Afghanistan by funding such activities as supporting the development of local business infrastructure. ASI was designed to build trust between communities and the Afghan government through small community-improvement projects. SIGAR’s audit covered the period of October 26, 2006, through November 30, 2012, and expenditures of \$113,387,067 for ASMED, and November 1, 2011, through September 25, 2012, and \$31,269,391 for ASI.

TABLE 2.2

CUMULATIVE COSTS QUESTIONED IN SIGAR’S FINANCIAL AUDITS (\$ MILLIONS)	
Type	
Ineligible	\$14.2
Unsupported	63.4
Total	\$77.6

Note: Numbers have been rounded.

Source: SIGAR Audits Directorate.

COMPLETED FINANCIAL AUDITS

- Financial Audit 14-74-FA: USAID’s Afghanistan Small- and Medium-Sized Enterprise Development Program and Afghanistan Stabilization Initiative Program: Audit of Costs Incurred by Development Alternatives Inc.
- Financial Audit 14-75-FA: USAID’s Accelerated Sustainable Agriculture Program and Afghanistan Stabilization Initiative: Audit of Costs Incurred by Chemonics International Inc.
- Financial Audit 14-76-FA: USAID’s Afghanistan Rule of Law Stabilization Program-Formal Component: Audit of Costs Incurred by Tetra Tech DPK

SIGAR OVERSIGHT ACTIVITIES

Kearney & Company P.C. (Kearney) identified two material weaknesses with DAI's internal control over financial reporting and five instances of DAI's noncompliance with the terms of the award and applicable laws and regulations. The material weaknesses and instances of noncompliance resulted in Kearney questioning \$455,883 in unsupported costs. Kearney did not identify any ineligible costs.

Given the results of the audit, SIGAR recommended that the USAID Mission Director for Afghanistan and the Acting Director of the Office of Transition Initiatives work in conjunction to:

- Determine the allowability of and recover, as appropriate, \$455,883 in unsupported costs identified in the report.
- Advise DAI to address the report's two internal-control findings.
- Advise DAI to address the report's five noncompliance findings.

Financial Audit 14-75-FA: USAID's Accelerated Sustainable Agriculture Program and Afghanistan Stabilization Initiative: Audit of Costs Incurred by Chemonics International Inc.

USAID awarded a contract to Chemonics International Inc. (Chemonics) to implement the Accelerated Sustainable Agriculture Program (ASAP). The program sought to provide economic opportunities in agriculture for rural Afghans. USAID also awarded a contract to Chemonics to support the Afghanistan Stabilization Initiative (ASI) to build trust and confidence between communities and the Afghan government through small community-improvement projects. SIGAR's audit covered the period of November 22, 2006, through October 30, 2011, and expenditures of \$132,818,195 for ASAP, and June 26, 2009, through June 25, 2012, and \$119,549,834 for ASI and was performed by Kearney.

Kearney identified three internal-control deficiencies and five instances of Chemonics's noncompliance with the terms of the award and applicable laws and regulations. These internal-control deficiencies and instances of noncompliance resulted in Kearney questioning \$2,032,485 in costs, including \$2,032,312 in unsupported costs and \$173 in ineligible costs.

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

- Determine the allowability of and recover, as appropriate, \$2,032,485 in questioned costs identified in the report.
- Advise Chemonics to address the report's three internal-control findings.
- Advise Chemonics to address the report's five noncompliance findings identified.



USAID's ASAP program has given Afghanistan its first state-of-the-art fruit-processing facility. See Financial Audit 14-75-FA. (USAID photo)

Financial Audit 14-76-FA: USAID’s Afghanistan Rule of Law Stabilization Program-Formal Component: Audit of Costs Incurred by Tetra Tech DPK

On May 19, 2010, USAID issued a task order to Tetra Tech DPK (Tt DPK) to implement the Rule of Law Stabilization Program-Formal Component (RLS-F). RLS-F sought to develop the capacity of the formal justice sector—principally the judiciary and law schools—and to raise public legal awareness and encourage the citizens of Afghanistan to resolve their disputes by accessing and asserting their rights through the Afghan government’s justice system. SIGAR’s audit reviewed expenditures of \$30,619,409 on the RLS-F task order from May 19, 2010, through July 15, 2012.

Crowe Horwath LLP (Crowe Horwath) identified two internal-control deficiencies and two instances of noncompliance in its audit of incurred costs by Tt DPK involving RLS-F. As a result of these deficiencies and instances of noncompliance, which were combined into two findings, Crowe Horwath questioned \$39,327 in ineligible costs related to a subcontractor’s use of outdated indirect cost rates. Ineligible costs are costs questioned because they are prohibited by the contract, applicable laws, or regulations.

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

- Determine the allowability of and recover, as appropriate, \$39,327 in ineligible costs identified in the report.
- Collect from Tt DPK the \$50,449 payable to USAID.
- Advise Tt DPK to address the report’s two internal control findings.
- Advise Tt DPK to address the report’s two noncompliance findings.

INSPECTIONS

This quarter, SIGAR published three inspection reports. One report followed an inspection alert letter SIGAR wrote last quarter about the Baghlan prison construction, and determined that the \$11.3 million facility requires extensive remedial action due to severe damage. A second inspection determined that USFOR-A operated incinerators at Shindand Airbase were constructed and transferred properly, but that mechanical issues led the incinerators to operate at a highly reduced capacity, leading to the use of open-air burn pits. A third inspection found that the quality of the construction of Gereshk Cold and Dry Storage Facility appeared to be good, but that the facility is not being used to date.

COMPLETED INSPECTIONS

- Inspection 14-62-IP: Baghlan Prison: Severe Damage to \$11.3 Million Facility Requires Extensive Remedial Action
- Inspection 14-81-IP: Shindand Airbase: Use of Open-Air Burn Pit Violated Department of Defense Requirement
- Inspection 14-82-IP: Gereshk Cold and Dry Storage Facility: Quality of Construction Appears to Be Good, but the Facility Has Not Been Used to Date

Inspection Reports Published

Inspection 14-62-IP: Baghlan Prison

Severe Damage to a \$11.3 Million Facility Requires Extensive Remedial Action

On September 28, 2010, the Department of State's Bureau of International Narcotics and Law Enforcement (INL) awarded a contract to Omran Holding Group (OHG), an Afghan firm, to build a 495-inmate prison in Baghlan Province. OHG completed construction of the Baghlan prison on November 8, 2012. For this inspection, SIGAR assessed (1) INL's management and oversight of construction, and (2) whether the facility is being used as intended and maintained.

After construction of the Baghlan prison was completed, building settling led to serious structural damage including wide cracks to three buildings. As a result, one building was demolished. Two other buildings also have collapsing walls and cracked structural beams and columns, and will likely need to be rebuilt. INL and its contractor, OHG, an Afghan firm, do not agree on the cause of the building settling and remain in negotiation regarding OHG's responsibility for repairing the facilities and assuming the cost of those repairs.

Nonetheless, both parties agree that OHG did not fully comply with all contract requirements. For example, OHG failed to construct a required stormwater-management system and substituted lower-grade plumbing materials that had been prohibited by INL. OHG also failed to deduct 10% from its billed invoices to create a retainage fund as required by the contract. This led to an \$807,254 shortfall that should have been retained for INL's protection in the event of a contract dispute.

Many of the construction deficiencies may be the result of fraudulent actions by the project's original COR—a former embassy employee—and, possibly, OHG personnel. SIGAR is currently conducting a preliminary inquiry to determine whether any OHG or embassy officials may have been complicit in these alleged activities. In 2013, the contracting officer and INL appointed a new COR and lead engineer for the Baghlan prison. INL also took measures to correct problems at the site, such as the missing stormwater-management system. These are positive steps, but SIGAR remains concerned about an unaddressed construction deficiency, the use of unreinforced brick walls between the column supports of the structures, which violates the International Building Code (IBC) standards called for in the contract. American Concrete Institute manuals, referenced by the IBC, do not allow building unreinforced walls in a seismic zone, where such walls are prone to collapse. According to U.S. Geological Survey data, the Baghlan prison is located in the second-highest earthquake-hazard zone in Afghanistan.

In April, SIGAR alerted the Secretary of State and the U.S. Ambassador to Afghanistan to this problem and suggested that INL rebuild the

SIGAR OVERSIGHT ACTIVITIES



Building 17, one of the three most seriously damaged structures at Baghlan Prison, was demolished due to safety concerns. See Inspection Report 14-62-IP. (INL photo)

structures at Baghlan with steel-reinforced masonry. In response, INL provided photographs that it said showed the buildings had been built using reinforced masonry. To the contrary, these photos demonstrate that the concrete columns at Baghlan were improperly constructed and, moreover, that the method of demolition was unsafe. The methods and materials used to place the concrete in the columns caused voids in the concrete that exposed the reinforcing steel, seriously compromising the column strength. Moreover, the building's heavy concrete roof was left in place, while portions of the brick walls that help support the roof were removed. INL has informed SIGAR that it intends to rebuild any structures at Baghlan in conformance with the original design specifications. However, in SIGAR's view, INL's apparent reluctance to use reinforced masonry to rebuild the Baghlan prison presents a risk to both prisoner and worker safety. Despite extensive structural damage, the prison is being used.

Furthermore, the prison, which was originally designed for 495 inmates, is overcrowded, with an INL-reported current population of 777. The prison also faces two major maintenance issues, which both INL and contractor officials attribute to poor or nonexistent maintenance by the Afghan government. First, both diesel generators, which were designed to be the prison's exclusive sources of power, are non-operational. As a result, the prison is being powered by a much smaller capacity generator that was purchased in July 2012 with the assistance of the International Red Cross. Second, the prison's sewer system is backed up with debris. INL is working to address these problems by helping to fund a nationwide prison operation-and-maintenance program that will train mobile maintenance teams of electricians,

plumbers, masons, carpenters, and painters for facilities throughout the region, including the Baghlan prison.

To ensure prisoner safety and security and to ensure that the U.S. government receives the highest value for its contract dollars, SIGAR recommends that the Secretary of State direct INL to (1) recoup the \$807,254 in invoice charges paid to OHG that should have been retained in order to protect INL in the event of a contract dispute, (2) require that any rebuilding at the Baghlan prison comply with IBC and American Concrete Institute requirements regarding the use of steel-reinforced masonry walls, (3) determine the structural adequacy of the other buildings constructed under the contract and take action to repair or replace those found structurally inadequate, and (4) require the contractor to follow an INL-approved demolition safety plan.

Inspection 14-81-IP: Shindand Airbase

Use of Open-Air Burn Pit Violated Department of Defense Requirement

In May 2011, USACE awarded a \$4.4 million contract to construct solid-waste management facilities, including two incinerators, at Shindand Airbase, a Coalition base located in Herat Province in western Afghanistan housing approximately 4,000 U.S. and Afghan military personnel and contractors. At the time of the contract award, Shindand Airbase was primarily using open-air burn pit operations to dispose of its solid waste. In addition to the two USFOR-A-operated incinerators, in September 2009, USACE awarded an \$11 million contract for incinerators at various bases for use by the Afghan military. Shindand Airbase has two of these Afghan-operated incinerators, which were provided to the Afghan military in August 2012 and cost about \$755,000.

For this inspection, SIGAR assessed whether (1) construction of the incinerators was completed in accordance with contract requirements and applicable construction standards, (2) the incinerators and supporting facilities were being used as intended and maintained, and (3) the use of an open-air burn pit to dispose of solid waste complied with applicable requirements.

SIGAR found that the two USFOR-A-operated incinerators at Shindand Airbase were generally constructed in accordance with contract specifications and transferred to the base in operable condition in June 2012. Further, the two U.S.-funded incinerators built for the Afghan military were transferred in August 2012 with no significant issues that would inhibit their operation.

However, a USFOR-A report completed in December 2012 found that the USFOR-A-operated incinerators were operating at a highly reduced capacity due to mechanical problems and that only 35% of U.S.-produced solid waste was being incinerated, with the remaining burned in an Afghan-run open-air burn pit. While these incinerators were repaired under warranty

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in January 2013, U.S.-generated solid waste continued to be sent to the Afghan-operated burn pit after these repairs took place. USFOR-A did not provide justification for the continued use of the Afghan-operated burn pits after the incinerators became fully operational. Additionally, a May 2013 USFOR-A evaluation found that the Afghan-operated incinerators were in operable condition and the Afghans had been trained and had the proper equipment to operate their incinerators; however, the Afghans did not use them because the burn pits were cheaper to operate.

Despite U.S. Central Command (CENTCOM) requirements to find alternatives to open-air burn pit operations, USFOR-A sent their solid waste to the open-air burn pit until June 2013, and the Afghan military continued to use burn pits to dispose of USFOR-A waste until October 2013. Further, environmental surveys released in 2011 and 2012 stated that solid waste such as batteries and plastics—referred to as “covered waste,” which is prohibited from being disposed of in open-air burn pits—was sent to the Shindand open-air burn pit. Moreover, pursuant to the NDAA for FY 2010, use of open-air burn pits is prohibited unless the Secretary of Defense determines that no alternative disposal method is feasible. The Secretary of Defense is also required to notify Congress of this determination. Despite evidence that covered waste has been disposed of in open-air burn pits at Shindand Airbase, neither CENTCOM nor USFOR-A have justified the use of burn pits to dispose of this waste, determined that there is no alternative to the use of burn pits, or made the required congressional notifications.



An open-air burn pit is used to dispose of solid waste at Shindand Airbase. See Inspection Report 14-81-IP. (SIGAR photo by John Dettinger)

SIGAR recommended that the Commander, CENTCOM, direct the appropriate CENTCOM units to conduct inquiries and report to SIGAR within 90 days to (1) determine why the U.S. military continued to send its solid waste to the open-air burn pit at Shindand Airbase for five months after USFOR-A incinerators became fully operational and (2) determine why prohibited “covered” waste was burned in open-air burn pits at Shindand Airbase as early as January 2011, and why DOD did not notify Congress, as required under Section 317 of the 2010 NDAA.

As part of these inquiries, CENTCOM should determine which officials were responsible for the decision to burn solid waste generated by U.S. forces in open-air burn pits even after the incinerators became fully operational and did not notify Congress as required by law and DODI 4715.19. CENTCOM should also identify what steps will be taken to hold these officials accountable.

Inspection 14-82-IP: Gereshk Cold and Dry Storage Facility

Quality of Construction Appears to Be Good, but the Facility Has Not Been Used to Date

In 2010, the Task Force for Business and Stability Operations (TFBSO) approved the reconstruction of a bombed cotton-factory site in Helmand Province owned by the Afghan Ministry of Commerce and Industry (MOCI). At this site, TFBSO decided to build the \$2.89 million Gereshk Cold and Dry Storage Facility with the intention that it serve as a hub for agricultural development within the province. The project would construct separate cold-and-dry storage warehouses to store local produce, provide a location for sorting and packaging, and serve as a transit point for trucks.

Since TFBSO was originally scheduled to cease operations on September 30, 2011, TFBSO gave the U.S. Army Corps of Engineers (USACE) responsibility for awarding the construction contract and transferred project oversight responsibility to the International Security Assistance Force’s Regional Command-Southwest (RC-SW). On September 7, 2011, USACE awarded an Afghan company the contract to design, build, and equip the facility.

TFBSO’s initial plans called for two cold-storage warehouses with a contract option for two dry-storage warehouses. However, due to limited funding, the final design was changed to one cold-storage and one dry-storage warehouse. The contract also included demolishing two structures; making road improvements; providing on-site prime power generation, an electrical distribution system, and a new water well; and the removal of mines and unexploded ordnance from the site. Construction was completed in May 2013, and USACE approved the completed construction. The facility was transferred to the Afghan government in September 2013. The completed facility provides approximately 10,000 square feet of cold storage and 13,000 square feet of dry storage.

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

Due to security concerns, SIGAR was not able to conduct an on-site inspection and was therefore unable to determine whether the project fully met contract requirements. Based on interviews with agency officials and on a thorough review of contract and management documentation, SIGAR determined that the Gereshk Cold and Dry Storage Facility appears to be well constructed. However, the project was completed 243 days after the date of completion required by the contract.

To spur contractor performance, USACE sent 26 letters to the contractor, many of them expressing concerns regarding scheduling and delays in contractor performance. At one point, USACE considered terminating the contract for default, but instead assessed liquidated damages of \$223,317 to keep the pressure on the contractor to complete the project. According to USACE documents, USACE was able to keep a local-national quality assurance inspector on-site for part of the project to oversee the construction. In addition, USACE engineers and quality-assurance personnel made 23 site visits during construction.

Although the facility appears to be well constructed, in April 2014, TFBSO, RC-SW, and MOCI officials told us that the Gereshk Cold and Dry Storage Facility had never been used and was not being maintained. TFBSO has not achieved what it told SIGAR was the key to the project's success—the operation, maintenance, and control of the facility by an Afghan business. However, a potential investor was not identified until well after TFBSO approved the project and USACE awarded the contract and, subsequently, the investor failed to expand its business in the Gereshk area. TFBSO officials told us that several other Afghan investors have expressed interest in the facility. However, final deals have never been reached. According to TFBSO officials, the investors told them that the Afghan district governor was asking for money from the investors and the construction contractor before leasing the property. MOCI officials confirmed that the facility is still not being used, but stated that there are some businesses interested in the facility. Unfortunately, as of April 2014, the MOCI had not identified a business willing to lease the facility. MOCI's Deputy Minister told SIGAR that the ministry is continuing to look for private sector investors to lease the facility.

As a lesson learned for successfully commercializing future TFBSO investment projects, SIGAR recommended that the Acting Under Secretary of Defense for Policy direct TFBSO to ensure that before approving future investment projects of any kind, there are willing investor(s) capable of assuming ownership of and responsibility for maintaining constructed



The cold-storage facility at Gereshk includes shelving and cooling equipment. See Inspection Report 14-82-IP. (RC-SW photo)

SIGAR OVERSIGHT ACTIVITIES

facilities; or, in the absence of investors, that the MOCI is willing and able to assume those responsibilities itself.

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 seven recommendations contained in two audit reports. One of these recommendations resulted in the recovery of \$311,887 in ineligible or unsupported contract costs paid by the U.S. government. (Financial Audit 14-34-FA)

From 2009 through June 2014, SIGAR published 134 audits, alert letters, and inspection reports and made 420 recommendations to recover funds, improve agency oversight, and increase program effectiveness. SIGAR has closed nearly 80% 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 five inspection reports. As previously reported, there continues to be one audit with recommendations over 12 months old where the agency has yet to produce a corrective action plan that SIGAR believes would resolve the identified problem. However, an agency response was recently received and is being reviewed by SIGAR. The recommendation is from audit report 13-4, *Afghan National Army: Controls Over Fuel for Vehicles, Generators, and Power Plants Need Strengthening to Prevent Fraud, Waste, and Abuse*. Released in January 2013, the report questioned the process used to order, receive, and pay for petroleum, oil, and lubricants for ANP vehicles. Additionally, there are four audit reports over 12 months old where SIGAR is waiting for the respective agencies to complete their agreed-upon corrective actions.

SIGAR recently initiated audits of the agency resolution process at the Departments of Defense and State, and USAID. The audits examine the status and oversight process for reaching audit resolution at these agencies. This quarter, SIGAR issued the final report for the Department of State. Report issuance for the work performed at the other two agencies is expected later this year.

SPECIAL PROJECTS

The Inspector General's Office of Special Projects was created to examine emerging issues and deliver prompt, actionable reports to federal agencies

and the Congress. The team conducts a variety of assessments, producing reports on all facets of Afghanistan reconstruction. The directorate is made up of auditors, analysts, investigators, lawyers, subject-matter experts, and other specialists who can quickly and jointly apply their expertise to emerging problems and questions.

During this reporting period, SIGAR's Office of Special Projects issued a review of the safety of spray foam insulation systems used in ANA facilities. Special Projects also wrote several letters to CSTC-A, USFOR-A, the U.S. Navy, the Professional Services Council, USAID, IRD, defense contractors, USDA, DOD, and several other U.S. government agencies. These inquiry letters covered a wide range of topics, including confidentiality agreements, mobile money, soybean program, cancelled contracts, safety of spray foam used in construction, LOTFA money used to pay the ANP, contractor-identified best practices, whistleblower protections, ANP patrol boats, an award which studied ways to make reconstruction decisions, maintenance of Afghan roads, Kandahar electrical production plans, a request for data on reconstruction funding by smaller U.S. agencies, and allegations of human trafficking.

Completed Special Projects

At this time Special Projects considers these projects complete and does not anticipate doing any additional work on these issues.

Inquiry Letter 14-55-SP: International Relief and Development's Confidentiality Agreement

On May 5, 2014, SIGAR wrote to IRD to express serious concerns about IRD's use of confidentiality agreements to possibly prohibit employees from making critical statements about IRD to funding agencies or officials of any government. As IRD receives millions of taxpayer dollars from USAID, its conduct leads SIGAR to be especially concerned about IRD's commitment to transparency and government oversight. SIGAR requested that IRD provide information about its current and past practices regarding confidentiality agreements. (See "Ongoing Special Projects" for a related inquiry, Inquiry Letter 14-60-SP.)

Alert Letter 14-56-SP: Alerting USAID on IRD's Confidentiality Agreement

SIGAR wrote to USAID on May 5, 2014, to alert the agency to allegations made in a *Washington Post* article that IRD has attempted to use confidentiality agreements to prevent employees from making critical statements. SIGAR suggested that USAID notify all contract, cooperative agreement, and grant recipients in Afghanistan that SIGAR will not tolerate efforts to restrict the rights of whistleblowers. Furthermore, SIGAR suggested that USAID's future contracts include provisions to forbid recipients of federal

COMPLETED SPECIAL PROJECT PRODUCTS

- Special Project 14-55-SP: Inquiry Letter: International Relief and Development's Confidentiality Agreement
- Special Project 14-56-SP: Alert Letter: Alerting USAID on IRD's Confidentiality Agreement
- Special Project 14-61-SP: Inquiry Letter: ANP Mobile Money Pilot Program Response
- Special Project 14-69-SP: Inquiry Letter: USDA Response to Soybean Inquiry
- Special Project 14-73-SP: Inquiry Letter: Cancelled USAID Contracts
- Special Project 14-77-SP: Review: Safety of Spray Foam Insulation in ANA Facilities

SIGAR OVERSIGHT ACTIVITIES

funds from using confidentiality agreements to prohibit employees from talking to U.S. government officials.

Inquiry Letter 14-61-SP: ANP Mobile Money Pilot Program Response

Last quarter, SIGAR wrote to CSTC-A generals to inquire about the status of the MOI pilot program that uses “mobile money” to pay salaries directly to ANP personnel via electronic transfers. These salaries are funded, in part, by U.S. taxpayer money through direct-assistance funds to LOTFA. On May 3, 2014, CSTC-A responded to SIGAR’s original inquiry letter.

On May 28, 2014, SIGAR again wrote to CSTC-A about the mobile-money pilot program, expressing concern about CSTC-A’s estimate that 18% of ANP salaries are paid in cash directly to ANP employees. As much as half of those direct cash payments are diverted from rightful recipients, putting up to \$45.5 million in salary payments in FY 2014 at risk of diversion. SIGAR emphasized the importance of ensuring that ANP employees receive their full salaries in order to create an honest, reliable, and sustainable police force. This can be accomplished, in part, by less reliance on using the so-called “trusted agent” system currently used to pay some ANP employees.

Inquiry Letter 14-69-SP: USDA Response to Soybean Inquiry

Last quarter, SIGAR sent an inquiry letter to the U.S. Department of Agriculture (USDA) about its Soybeans for Agricultural Renewal in Afghanistan Initiative (SARAI). In May 2014, SIGAR Special Projects received USDA’s response. Upon review of the requested materials, SIGAR Special Projects identified the following concerns:

- Soybean production levels were not up to expected levels, jeopardizing the sustainability of the soybean factory built as part of the initiative.
- The project implementer, the American Soybean Association (ASA), did not conduct feasibility or value-chain studies prior to proposing and initiating the project.
- Scientific research conducted for the United Kingdom Department for International Development between 2005 and 2008 concluded that soybeans were inappropriate for conditions and farming practices in northern Afghanistan, where the program was implemented.
- Despite the lack of prior planning and analysis, and despite evidence that may have put the success of the program in doubt, USDA provided \$34.4 million in commodities, transportation, and administrative funds to ASA for SARAI.



The USDA’s soybean program in Afghanistan has raised concerns at SIGAR. See Special Project 14-69-SP. (SIGAR photo by Smythe Anderson)

Following the identification of these areas of concern, SIGAR wrote a letter to the Secretary of Agriculture, suggesting that the Secretary implement a comprehensive evaluation of the project before any further

SIGAR OVERSIGHT ACTIVITIES

investment and develop a plan to address the deficiencies and challenges already identified.

Inquiry Letter 14-73-SP: Canceled USAID Contracts

SIGAR wrote to USAID on July 1, 2014, to share preliminary observations made after reviewing USAID's responses to two prior inquiry letters about 19 contracts that USAID has terminated in Afghanistan since 2008. SIGAR's Investigations and Audits Directorates will conduct further analysis on the comprehensive information provided by USAID.

Review 14-77-SP: Safety of Spray Foam Insulation in ANA Facilities

In April 2013, SIGAR raised safety concerns regarding substandard spray polyurethane foam insulation systems used in arch-span type facilities USACE constructed for the ANA. The concern was prompted by fires that destroyed two buildings under construction using insulation systems which did not comply with International Building Code (IBC) standards. USACE responded to SIGAR stating that the agency would stop installing noncompliant systems and would identify corrective measures to ensure compliance with IBC standards in both completed and future construction. Shortly thereafter, SIGAR initiated a review to determine why USACE contractors installed noncompliant systems in the first place, the cost of remediation, and whether USACE's efforts would ensure full IBC compliance.

On July 9, 2014, SIGAR reported on the results of its review. SIGAR found that 1,600 of the nearly 2,000 buildings constructed in the



A fire at a non-code-compliant ANA classroom destroyed the structure in 30 minutes. See Special Project 14-77-SP. (USACE photo)

\$1.57 billion program did not meet IBC standards and remediation efforts bringing them into compliance could cost \$50–60 million. Further, despite assurances from USACE that they would stop installing noncompliant systems, a memorandum issued in January 2014 by a senior official countermanded those representations by authorizing the use of noncompliant materials in 285 buildings in various stages of construction for the ANA. USACE acknowledged that the buildings have “an increased risk in the event of a fire” but contended that the operational needs of the ANA justified the change in policy. USACE also relied on the physical conditioning of the building occupants stating “the typical occupant populations for these facilities are young, fit Afghan soldiers and recruits who have the physical ability to make a hasty retreat during a developing situation.” The affected buildings include 83 barracks, four medical clinics, and two fire stations, according to USACE.

Moreover, USACE failed to enforce its own contract requirements because personnel tasked with approving contractor construction proposals were not sufficiently familiar with arch-span construction or IBC standards. USACE also provided incomplete information in the requests for proposals it supplied to contractors; an outside architect-engineering firm concluded requirements were missing in 31 out of 58 contracts. Additionally, USACE failed to identify and reject substandard products proposed for use by contractors.

SIGAR concluded that it was imperative for immediate action to be taken to bring all the buildings into compliance with safety standards or to show what action will be taken to remedy the dangerous conditions; notify the ANA about the hazardous buildings; rescind the January 2014 memorandum; and review the internal procedures that led USACE to adopt contract requirements it was unable to enforce.

Ongoing Special Projects

At this time the Office of Special Projects does not consider these inquiries complete. Special Projects is waiting for the responses to requested information, or is in the process of analyzing information already received.

Inquiry Letter 14-54-SP: ANP Patrol Boats

On April 24, 2014, SIGAR wrote to the commanding general of CSTC-A to request information about \$3 million worth of patrol boats procured for the ANP with ASFF funds. CSTC-A requested that the U.S. Navy purchase the patrol boats in 2010, but cancelled the requirement for the new boats in 2011. Because 80% of the funds had been disbursed, the contract was allowed to proceed to completion. The patrol boats are now sitting in storage in Yorktown, Virginia, as they have for three years.

SIGAR requested that CSTC-A provide information about the ANSF's existing watercraft fleet and mission, the procurement process CSTC-A

conducted including the rationale for the initial justification for the procurement as well as for its cancellation, the cost to store and preserve the patrol boats, and plans to dispose of or utilize the boats in the future. (See “Ongoing Special Projects” for related inquiries, Inquiry Letters 14-66-SP and 14-67-SP.)

As a result of SIGAR Special Project inquiry letters about the ANP patrol boats, the House version of the FY 2015 Defense Appropriations Act includes a provision that prohibits DOD from using FY 2015 funds to store patrol boats purchased for the ANP. For more information, see page 63.

Inquiry Letter 14-57-SP: UNDP LOTFA Oversight

On February 19, 2014, SIGAR wrote to CSTC-A and NTM-A to express concern that the United States might be unwittingly helping to pay the salaries of non-existent members of the ANP. A 2011 SIGAR audit report also raised questions about the UNDP’s management of LOTFA, which is used to pay ANP salaries. Contributions to LOTFA to date have totaled \$3.72 billion with the United States contributing \$1.52 billion. CSTC-A responded to SIGAR’s letter on March 7, 2014, recognizing the potential vulnerabilities in providing Afghan security ministries with direct contributions and outlining measures they have taken to mitigate such risk. While recognizing that more must be done, CSTC-A highlighted corrective actions including establishing new audit efforts and the removal of 54,000 erroneous personnel ID numbers in the LOTFA database used to manage ANP payroll.

SIGAR furthered its inquiry into the financial management of LOTFA on May 13, 2014, in a letter to the UNDP Administrator. SIGAR focused its letter on potential improper use of funds generated by deductions taken by the MOI from police salaries supposedly for retirement and pension purposes within the ANP. The UNDP response on June 6, 2014, outlined their position that LOTFA does not exercise oversight of certain salary deductions or potential overpayments to highly ranking ANP officials serving in posts that require a lower rank. SIGAR is evaluating next steps to improve oversight of the control mechanisms governing LOTFA expenditures.

Inquiry Letter 14-58-SP: Professional Services Council

On May 13, 2014, SIGAR wrote to the Professional Services Council (PSC) following a speech that Special Inspector General Sopko gave to members in February 2014. In its letter, SIGAR asked for PSC members’ insight and observations on: factors shaping greater or lesser successes of programs and projects, in-country challenges while operating in Afghanistan, federal issues that impede programs, and any suggested improvements in federal entities’ engagement, interaction, management, and oversight of contractors in Afghanistan. Insights and observations from PSC members will help SIGAR focus its work as it becomes more challenging for contractors to carry out their mission in a post-2014 Afghanistan.

ONGOING SPECIAL PROJECT PRODUCTS

- Special Project 14-54-SP: Inquiry Letter: ANP Patrol Boats
- Special Project 14-57-SP: Inquiry Letter: UNDP LOTFA Oversight
- Special Project 14-58-SP: Inquiry Letter: Professional Services Council
- Special Project 14-60-SP: Inquiry Letter: IRD Whistleblower Protections Response
- Special Project 14-63-SP: Inquiry Letter: SBIR Study
- Special Project 14-64-SP: Inquiry Letter: Maintenance of USAID-Funded Roads
- Special Project 14-66-SP: Inquiry Letter: CSTC-A Response to ANP Patrol Boat Inquiry
- Special Project 14-67-SP: Inquiry Letter: ANP Patrol Boat Disposition
- Special Project 14-68-SP: Inquiry Letter: Kandahar Bridging Solution
- Special Project 14-70-SP: Inquiry Letter: Contractor Recruitment of Third Country Nationals for Afghan Work
- Special Project 14-71-SP: Inquiry Letter: Request for Reconstruction Program Data Information
- Special Project 14-72-SP: Inquiry Letter: Maintenance of DOD-Funded Roads
- Special Project 14-78-SP: Inquiry Letter: Contractor Recruitment of Third Country Nationals for Afghan Work

Inquiry Letter 14-60-SP: IRD Whistleblower Protections Response

On May 19, 2014, IRD responded to SIGAR's May 5, 2014, letter about the company's confidentiality policy. In turn, SIGAR wrote back to IRD on May 20, 2014, disagreeing with the statement that IRD and SIGAR have "come to an understanding" about the confidentiality provisions of former employees' separation agreements. SIGAR expressed concern that IRD continues to discourage current and former employees from pursuing their rights under federal whistleblower laws. SIGAR requested that IRD provide copies of separation agreements, contact information for the 49 employees who signed separation agreements with confidentiality provisions, and a list of IRD contracts, grants, and cooperative agreements with U.S. government agencies with which each of the 49 employees were involved. IRD has provided the requested information and SIGAR is reviewing the information contained in that response.

Inquiry Letter 14-63-SP: SBIR Study

SIGAR wrote to the Office of the Assistant Secretary of Defense for Research and Engineering on June 5, 2014, to request information concerning a study titled "Contextual Sociocultural Reasoning in Weak Signal Environments," which is funded by a Small Business Innovations Research (SBIR) award. The objective of the study was to develop an "automated decision-making tool" for "predicting the success of proposed military actions in areas of interest and providing early warnings and alerts for activities that are precursors for hostile responses, outbreaks of conflict, and breeding grounds for terrorism." SIGAR is reviewing the information received on this study from DOD and its potential implications on reconstruction decision making.

Inquiry Letter 14-64-SP: Maintenance of USAID-Funded Roads

SIGAR sent a letter to USAID on June 6, 2014, to express concern that the U.S. government may be supporting road projects in Afghanistan that will be unsustainable due to inadequate maintenance. The letter requested information about USAID's contract with a Louis Berger Group/Black and Veatch (LBG/BV) joint venture to develop an organic Afghan government road-maintenance capability, the status of USAID's funding of road maintenance programs, and any existing plans for maintaining existing roads or building new roads. USAID responded that the Afghan Road Maintenance Unit developed in the LBG/BV contract was still operational, though it is focusing only on provincial roads. USAID stated that it was supporting programs run by the World Bank and other international partners to ensure that the Afghan government has the capacity and funding to maintain the roads built by the United States and other international donors. SIGAR is reviewing USAID's response and information provided.



Many U.S.-funded roads, like this one from Gardez to Khowst, may not be sustainable. See Special Project 14-64-SP. (USAID photo)

Inquiry Letter 14-66-SP: CSTC-A Response to ANP Patrol Boat Inquiry

CSTC-A responded to Inquiry Letter 14-54-SP, stating that they could not locate records of the justification or cancellation of the ANP patrol boats. On June 6, 2014, SIGAR again wrote to USFOR-A and CSTC-A about the \$3 million procurement of patrol boats for the ANP. SIGAR expressed concerns that CSTC-A was unable to respond to the majority of SIGAR's original questions about the patrol boats, and noted that CSTC-A's lack of records makes it difficult for SIGAR to discern the history of the procurement and cancellation decisions. SIGAR also requested that CSTC-A supply a detailed accounting of its review board's decision that the patrol boats do not fill a valid requirement for Afghanistan. CSTC-A responded to the second letter and pledged to conduct an investigation to track down the documents relating to the justification and cancellation of the requirements for the ANP patrol boats.

Inquiry Letter 14-67-SP: ANP Patrol Boat Disposition

SIGAR sent an inquiry letter to the Secretary of the U.S. Navy on June 6, 2014, to request information about the ANP patrol boats that are being stored in Yorktown, Virginia. SIGAR's letter asks the Navy to explain its plans for disposing of the patrol boats, the cost of storing the boats, and the source of funding for the storage costs.

Subsequent to this inquiry letter SIGAR Special Projects personnel traveled to Naval Supply Station-Cheatham Annex in order to inspect the boats in storage. SIGAR personnel found the boats stored in shipping containers in a field within the Naval Supply Station. SIGAR personnel were informed that the boats were approaching the end of the time during which they should be serviced to ensure functionality and that the extreme heat and humidity of the shipping containers were not ideal storage conditions. SIGAR personnel informed a representative of the Office of the Secretary of the Navy of their concerns with the storage conditions. SIGAR is waiting for the Navy's response on actions they are taking to dispose of these boats.

Inquiry Letter 14-68-SP: Kandahar Bridging Solution

On June 10, 2014, SIGAR wrote to State, DOD, ISAF, and USAID to inquire about the U.S. government's plans to provide electric power in Kandahar after December 2014. Presently two large generators provide 10 megawatts of power to assist Kandahar in meeting its electrical needs. The fuel for these generators will be provided by DOD through December 2014. Beginning in January 2015 both the amount of fuel that DOD will provide and the rate of subsidy will be diminished until the program is completely halted in September 2015. Several U.S. government electrification projects that will make up that shortfall are slated to come on-line between late 2015 to 2018. However, this could leave a considerable gap in time between



Patrol boats intended for ANP use sit unused in a storage facility in Yorktown, Virginia. See Special Projects 14-54-SP, 14-66-SP, and 14-67-SP. (SIGAR photo by Nicole Stauch)

the termination of subsidized fuel and the completion of the electrification projects. SIGAR is concerned that a planned “bridging solution to the bridging solution”—an Afghan-led hybrid program that would provide Kandahar with power from a combination of sources during that time—has a tight timeline, and ambitious cost estimates which could potentially compromise electrical service to Kandahar, thus endangering counter-insurgency and economic gains made over the last few years. DOD and USAID provided a joint response which contained greater detail into proposed plans for continued electrification in Kandahar. This response is being reviewed and analyzed by SIGAR staff.

Inquiry Letter 14-71-SP: Request for Reconstruction Program Data Information

On June 26, 2014, SIGAR sent an inquiry letter to several executive departments and agencies to follow up on a 2013 inquiry letter sent to U.S. government agencies conducting reconstruction efforts in Afghanistan. While State, DOD, and USAID responded in 2013, several agencies with smaller roles did not. SIGAR has requested that agencies that did not respond previously provide comprehensive information on all completed, ongoing, and planned reconstruction projects in Afghanistan. SIGAR also expanded the request to agencies that were not included in the first request in order to ensure that it would receive comprehensive information on all U.S. reconstruction programs in Afghanistan. Information requested in the inquiry letter includes program name and description, vendor or implementing partner, contract identifier and type of legal instrument, estimated total project cost, start and end date, funding source, and location. SIGAR will evaluate and categorize these responses once received.

Inquiry Letter 14-72-SP: Maintenance of DOD-Funded Roads

SIGAR sent an additional letter relating to the construction and maintenance of roads in Afghanistan to DOD on June 26, 2014. This letter requested information on the total reconstruction costs for road projects funded by DOD; raised additional questions about ongoing and planned road construction projects; and questioned whether maintenance of these projects was anticipated and funded. SIGAR also inquired about the current capacity for the Afghan government to maintain these roads and any possible future funding sources to maintain road networks in Afghanistan.

DOD responded by informing SIGAR that the Commander’s Emergency Response Fund (CERP) has provided funding for approximately 252 transportation-construction projects valued over \$159 million and the Afghanistan Infrastructure Fund (AIF) provided \$67.6 million for road construction, respectively. It also provided details relating to the three AIF projects under construction at a cost of \$34.6 million, one CERP repair

project nearing completion at a cost of \$4.9 million, and information that there are “no future CERP or AIF roads planned at this time.”

DOD also commented that all CERP and AIF projects require signed sustainment agreements from local provincial governments and/or the Afghanistan Ministry of Public Works (MOPW) prior to commencing work on any road-construction project. Additionally, DOD confirmed that neither CERP nor AIF provide funding for maintenance or sustainment projects and noted that the MOPW is provided an annual budget and is responsible for the execution of project design, survey, reconstruction and rehabilitation of roads, road maintenance, contracting for road construction with private sector/road companies, monitoring and planning of railways, and the restoration of roads and bridges.

Inquiry Letters 14-70-SP and 14-78-SP: Contractor Recruitment of Third-Country Nationals for Afghan Work

Utilizing findings from a human-trafficking initiative started by SIGAR Investigations special agents at U.S. military bases in Afghanistan, Special Projects conducted numerous interviews with LOGCAP contracting officials and their military overseers at Rock Island Arsenal in Illinois. These interviews focused on the recruitment and treatment of foreign workers employed at the bases. Special Projects subsequently issued several letters of inquiry asking for documentation of foreign-worker recruiting practices and policies, and contractors’ adherence to federal human-trafficking rules. Also, Special Projects staff consulted with DOD’s Combating Trafficking in Persons task force, which is conducting separate reviews of human-trafficking regulations and enforcement. This inquiry is ongoing and may be expanded.

On June 13 and July 9, 2014, SIGAR wrote to two contractors to express concern that the companies’ recruiters may be engaged in improper and deceptive recruiting of third-country nationals for work at U.S. military bases, in the form of applicants paying large fees to recruiters. One contractor provided SIGAR with information showing that more than 2,400 third-country nationals who work for the prime contractor have paid recruiting fees. Furthermore, SIGAR special agents have gathered information on allegations of other improper recruitment practices as well as alleged mistreatment of third-country national employees at U.S. military bases.

INVESTIGATIONS

During the reporting period, monetary results from SIGAR’s ongoing investigations totaled \$3.1 million. Criminal fines, restitutions, and forfeitures amounted to \$600,000, **contract monies protected** totaled \$500,000, and two civil settlement agreements had a combined total of \$2 million. Investigations resulted in two arrests, three **criminal informations**, three plea agreements, and two sentencing in the United States. In Afghanistan,

Contract Monies Protected: appropriated reconstruction funds not obligated to contractors based on SIGAR activity.

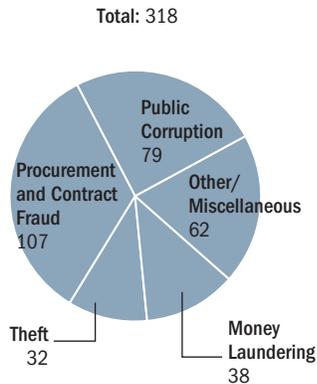
Criminal Information: a written accusation made by a public prosecutor, without the participation of a grand jury. The function of an information is to inform the defendant of the nature of the charge made against him and the act constituting such charge so that he can prepare for trial and to prevent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

Sources: SIGAR Investigations Directorate; Black’s Law Dictionary.

SIGAR OVERSIGHT ACTIVITIES

FIGURE 2.1

SIGAR INVESTIGATIONS: NUMBER OF OPEN INVESTIGATIONS AS OF JUNE 30, 2014



Source: SIGAR Investigations Directorate, 7/8/2014.

one subject was arrested, three Afghans were barred from having military installation access, and two government contractors were terminated. SIGAR initiated 26 new investigations and closed 46, bringing the total number of ongoing investigations to 318, as shown in Figure 2.1. SIGAR's suspension and debarment program referred 16 individuals and 39 contractors for suspension or debarment. Of these 55 contractors, 39 individuals and 12 companies were referred for debarment based on allegations that they engaged in fraud and nonperformance of as part of contracts valued at \$180,179,563.

Former U.S. Contractor Employee Pleads Guilty to Fraud Scheme

On May 23, 2014, in the Middle District of Florida, Alan Simmons, a former employee of U.S. contractor PAE Inc., pled guilty to conspiracy to defraud the U.S. government. Simmons worked in Afghanistan as a training program coordinator for PAE. PAE had a contract with the State to provide training and uniforms to Afghan correctional officers. Simmons was responsible for coordinating with others at PAE as to the number and types of uniforms to be ordered and provided to the Afghan correctional officers upon completion of training.

Simmons and others created a company, Aminzian Logistics Services (Aminzian) to provide uniforms to PAE as a subcontractor. Aminzian would submit false and fraudulent invoices to PAE seeking payment for goods that were never provided. After Aminzian was paid, Simmons and his co-conspirators split the proceeds. The U.S. government incurred a loss of over \$120,000 from paying the false invoices.

\$1.25 Million Civil Settlement from Investigation

On May 6, 2014, Afghan American Army Trucking Services (AAA) entered into a civil settlement agreement whereby AAA is obliged to pay \$1,250,000 to the United States by an electronic funds transfer. The settlement agreement marks the final outcome of SIGAR's criminal investigation involving U.S. Army Sergeant Christopher Weaver, former U.S. Army Specialist Stephanie (Shankel) Charboneau, and a former FLUOR Corporation employee, Jonathan Hightower.

AAA had entered into a Host Nation Trucking (HNT) contract with the U.S. Army to provide point-to-point dry goods and fuel-shipping services throughout Afghanistan. The civil claims against AAA arose from services provided by AAA under the HNT contract related to Forward Operating Base (FOB) Fenty. The claims include the submission of 55 false and forged transportation-movement requests for fuel shipments that were stolen from FOB Fenty and/or never delivered to other FOBs by employees of AAA during the period of September 2010 through December 2010. The settlement

agreement represents AAA's compromise to avoid litigation and does not represent an admission of liability.

Former U.S. Army Sergeant Sentenced for Fuel-Theft and Kickback Scheme

On April 9, 2014, in the Eastern District of North Carolina, James Edward Travis was sentenced to 60 months' federal incarceration and ordered to pay restitution of \$422,302. Following completion of the sentence, Travis must serve three years' supervised probation.

The investigation revealed that during his deployment, Travis, a sergeant first class, had the dual role of paying agent and contracting officer representative at FOB Sharana. Between January 3, 2012, and October 4, 2012, Travis accepted \$211,890 in kickbacks from various contractors. Additionally, he was involved in a fuel-theft scheme of government-appropriated fuel that totaled in excess of \$400,000.

\$14,500 in Illicit Proceeds Seized

A DynCorp International contract employee, Samuel Muturi, confessed to SIGAR and International Military Police (IMP) Officers he attempted to smuggle \$12,500 concealed in stolen U.S. government laptops and other materials in a DHL shipment from Kandahar Airfield (KAF) to Kenya, where he resides. The investigation uncovered that the currency was bribe payments Muturi received from Afghan nationals for facilitating the theft and sale of over 200 drums of U.S. government motor and waste oil taken from the DynCorp's KAF storage facility. Muturi also confessed to having in his room an additional \$2,000 of illicit funds obtained from the same scheme and which IMP recovered. The IMP, pursuant to this SIGAR investigation, seized a total of \$14,500 of illicit funds as evidence. Muturi immediately resigned from his contract position with DynCorp International and departed KAF. On February 17, 2014, the Commander at KAF issued Muturi a notice barring him indefinitely from U.S. bases in Afghanistan.

On April 23, 2014, the IMP Detachment disposed of the \$14,500 held in evidence for SIGAR pursuant to U.S. Army regulations, and turned the seized currency into the KAF Finance Center. The money was deposited into U.S. Army accounts at the Defense Finance and Accounting Service for final reimbursement to the U.S. government.

Investigation Results in Two Convictions for Money Laundering Scheme

On May 15, 2014, in the Eastern District of Tennessee, James C. Pittman entered a guilty plea to a one-count criminal information for money laundering. On May 28, 2014, Jimmy Wayne Dennis entered a guilty plea to a one-count criminal information for conspiracy to commit money

laundering. Both subjects were released on a personal-recognizance bond pending sentencing.

The investigation of Pittman and Dennis focused on Afghan contractors bribing U.S. military personnel in return for government contracts associated with the Bagram Airfield Humanitarian Aid Yard, which functions as storage for large quantities of clothing, food, school supplies, and other items available to military units, in support of humanitarian aid for the Afghan people.

Pittman and Dennis will be sentenced in September 2014.

U.S. Army Sergeant Sentenced for Fuel-Theft Scheme

On May 22, 2014, in the Western District of Kentucky, U.S. Army Sergeant Albert Kelly III was sentenced to 18 months' incarceration and three years' supervised release. He was ordered to pay restitution of \$100,000.

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

Employee Terminated at U.S. Embassy Kabul

In June 2014, the U.S. Embassy Kabul terminated a locally employed staff member at the embassy because of an investigation by SIGAR, the State Department OIG, and DCIS. The investigation was initiated upon receipt of information indicating Abdul Masood Walizada, a shipping and customs assistant for the U.S. Army, Surface Deployment and Distribution Command (SDDC), General Services Office (GSO), was receiving bribes from contractors for securing improper diplomatic notes for tax exemption of U.S. cargo coming into Afghanistan through the Iranian border at Islam Qala. Additional information indicated unidentified local employee(s) working for the U.S. Army, SDDC, GSO at the U.S. Embassy Kabul delayed the certification of the diplomatic notes in order to receive payments from the contractors who bring in cargo for the United States in order to "expedite" the tax-exemption process.

Approved consensual monitoring efforts produced recordings wherein Walizada agreed to help an undercover agent posing as a contractor to import products believed to originate in Iran. The undercover agent informed Walizada he intended to purchase Iranian materials, as they were much cheaper, and ship them from Iran. The U.S. Code of Federal Regulations prohibits the importation of products manufactured or shipped through Iran. Contractors for the U.S. military are forbidden to obtain or ship products through Iran even though they may realize a much larger profit by doing so.

On June 12, 2014, after obtaining the evidence against Walizada from the consensually monitored phone calls with the undercover agent, SIGAR and State OIG agents interviewed Walizada. Upon completion of the interview, they called in U.S. Embassy Kabul Human Resources, who, with the Regional Security Officer's assistance, terminated Walizada's employment and permanently removed him from the embassy.

\$575,000 Civil Settlement from SIGAR Investigation

An investigation was opened in May 2011, based upon a complaint alleging an American based company, Recon International, LLC, submitted inflated invoices and supplied construction material originating from Iran on an \$11.5 million dollar contract awarded by USACE. Investigative analysis failed to identify the exact gravel quantities or evidence of Iranian construction material delivered on the contract. The matter was declined criminally, however, Recon International agreed to pay the U.S. government \$575,000 to resolve the civil case.

SIGAR Instrumental in Completion of National Police Training Center

In May 2012, the Regional Contracting Center (RCC) Shank, FOB Shank, in Logar, Afghanistan, awarded Qesmatullah Nasrat Construction Company (QNCC) a \$455,000 contract to build a four-building adobe compound in Wardak, Afghanistan, which was to be part of the National Police Training Center. In February 2013, RCC Shank was notified that the building was falling apart.

When an inspection revealed the building was not constructed in accordance with the contract's statement of work, RCC Shank requested assistance from SIGAR. From February 2013 until as recently as March 2014, a SIGAR special agent worked with QNCC and RCC Shank (and eventually RCC Bagram, which took over the project after RCC Shank closed) to ensure QNCC completed the warranty work on the adobe compound to bring it up to the standards of the contract's statement of work. All warranty work was completed except for re-asphalting the roof. RCC Bagram recognized that SIGAR's efforts were instrumental in providing a viable, functional training center for the government of Afghanistan. An estimated value of the warranty work is \$400,000, as confirmed by RCC Bagram in April 2014.

Arrest of Afghan Contractor

On April 2, 2014, the ANP in Mazar-e-Sharif arrested Afghanistan Agricultural Enhancement Credit Program (ACE) employee Abdul Kahlil Qadery pursuant to an arrest warrant issued by the Afghan Attorney General's Office. Qadery's arrest was based on embezzlement charges stemming from the findings in a joint SIGAR/USAID-OIG investigation.

SIGAR OVERSIGHT ACTIVITIES

In 2010, ACE began operations with the primary purpose of helping the Afghan government establish and manage the Agricultural Development Fund (ADF), which was funded by a USAID grant to the Government of the Islamic Republic of Afghanistan. DAI, a USAID contractor based in Bethesda, Maryland, was the implementing partner of the ACE program. The grant monies within the ADF provide agricultural loans to Afghan small commercial farmers and Afghan agricultural businesses throughout the country. In August 2012, ACE hired Qadery, an Afghan national, to work as the ACE's credit administration accountant. Qadery's duties included taking the Afghanistan International Bank (AIB)'s "Fund Transfer Application Form" along with the copy of the ACE loan agreement between ACE and the approved loan applicant to the AIB branch in Kabul, so the approved Afghan loan recipient of the ACE's ADF fund could receive the loan amount from ACE via an AIB wire transfer.

In January 2013, ACE approved an ADF loan to an Afghan agricultural company for 28,560,000 afghanis (\$539,173 USD). After the ADF loan was approved in April 2013, ACE was to wire-transfer the money to the Afghan agricultural company via AIB. Instead, Qadery set up a fictitious company and caused ACE to wire the money to it. On the same day, Qadery withdrew the 28,560,000 afghanis from his fictitious company's account and became a fugitive until SIGAR and USAID-OIG located him in Mazar-e-Sharif. Pending trial, Qadery remains in custody at a correctional facility in Kabul.

Suspensions and Debarments

This quarter, SIGAR's suspension and debarment program referred 16 individuals and 39 companies for suspension or debarment based on evidence developed as part of investigations conducted by SIGAR in Afghanistan and the United States. Of these 55 contractors, 39 individuals and 12 companies were referred for debarment based on allegations that they engaged in fraud and non-performance as part of contracts valued at \$180,179,563. These referrals bring the total number of individuals and companies referred by SIGAR since 2008 to 490, encompassing 248 individuals and 242 companies to date, as shown in Figure 2.2.

As of June 30, 2014, SIGAR's use of suspension and debarment to address fraud, corruption and poor performance in Afghanistan has resulted in 73 suspensions and 195 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 government in lieu of exclusion from contracting.

Suspensions and debarments are an important tool for ensuring that agencies award contracts only to responsible entities by excluding companies or individuals from receiving federal contracts or assistance because of misconduct. SIGAR's program addresses three challenges posed by U.S. policy and the contingency-contracting environment in Afghanistan: the

SIGAR OVERSIGHT ACTIVITIES

FIGURE 2.2

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



Source: SIGAR Investigations Directorate, 7/3/2014.

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 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 the supporting documentation needed for an agency to support that decision should it be challenged by the contractor. Based on the evolving nature of the contracting environment in Afghanistan and the available evidence of contractor misconduct and/or poor performance, SIGAR has at times found it necessary to refer individuals or companies on multiple occasions for consideration by agency suspension and debarment officials.

SIGAR's increasing emphasis on suspension and debarment is illustrated by the fact that of the 490 referrals for suspension and debarment that have been made by the agency to date, 461 have been made since the second quarter of 2011. During the 12-month period prior to April 2014, the

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efforts of SIGAR's suspension and debarment program resulted in actions by agency suspension and debarment officials to exclude 155 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 \$728,846,004.

Debarment of 14 Companies and Individuals in Connection with the Failure to Complete the Construction of the Courthouse at the Justice Center in Parwan

During the previous quarter, the efforts of SIGAR's investigators and its suspension and debarment program resulted in debarment of CLC Construction Company, its owners Bradley Rhoden and Masiuddin Mohammed, as well as 11 affiliated companies and individuals based upon their failure to construct the Justice Center in Parwan (JCIP) courthouse at Bagram Airfield. Specifically, CLC, Rhoden, and Mohammed failed to provide adequate design drawings, evidencing an inability to properly manage a construction project of the magnitude of the JCIP courthouse. In addition, they failed to conduct fundamental tests necessary to ensure that the JCIP courthouse was structurally sound and that the concrete foundation and columns met the minimum standards set forth in the statement of work. This pattern of unsatisfactory performance by CLC, Rhoden, and Mohammed resulted in the government's decision to terminate the contract for default on October 3, 2013. In addition, SIGAR's investigation determined that during November 2012, CLC, Rhoden, and Mohammed engaged in a scheme to obtain and submit fraudulent documentation to the government in an effort to conceal their failure to perform a geotechnical investigation, concrete-and rebar-strength tests, and soil-compression tests required as part of the JCIP courthouse contract. Based on these facts, on June 12, 2014, the Army Suspension and Debarment official concurred with SIGAR's recommendation for debarment, resulting in the exclusion of all parties for a period of three years, ending on June 12, 2017.

Debarment of Four Former Soldiers Convicted of the Theft of 90 Truckloads of Fuel from FOB Fenty

On June 10 and 16, 2014, Christopher Weaver, Jonathan Hightower, Stephanie Charboneau, and Bilal Kevin Abdullah were debarred by the Department of the Army based upon criminal convictions for the theft of fuel from FOB Fenty between January and June of 2010. Specifically, Weaver, Hightower, Charboneau, and Abdullah, while deployed to Afghanistan, engaged in a scheme to request fuel trucks over and above those required for legitimate fuel transportation, created fraudulent documentation supporting fuel-transportation missions and facilitated

the departure of the trucks containing the stolen fuel from FOB Fenty in exchange for cash payments.

This scheme ultimately resulted in the theft of approximately 90 truckloads of fuel from FOB Fenty, valued in excess of \$1,575,000. Based on these facts, Weaver, Hightower, and Charboneau entered pleas of guilty to conspiracy and bribery in the U.S. District Court for the District of Colorado. Abdullah entered a plea of guilty to conspiracy and bribery in the U.S. District Court for the Western District of Kentucky. Subsequently, Weaver was sentenced to 37 months of confinement, Hightower was sentenced to 27 months' confinement, Charboneau was sentenced to 87 months of confinement, and Abdullah was sentenced to 12 months of confinement. All were ordered to jointly pay restitution of \$1,691,250 to the government. Based on these convictions, on June 10, 2014, Weaver was debarred for a period of 80 months, ending on November 28, 2019; Hightower was debarred for a period of 72 months, ending on January 28, 2019, and Charboneau was debarred for a period of 120 months, ending on May 3, 2024. On June 16, 2014, Abdullah was debarred for a period of 46 months, ending on March 13, 2018. The periods of debarment include the time that each was previously suspended from contracting with the government and take into account their respective periods of confinement.

Debarment of Construction Contractor and Nine Individuals for False Claims and Statements at Kandahar Airfield

On June 5, 2014, Clark Logistic Services Company, as well as its two owners and seven other employees, were debarred by the Army based on allegations of false claims and statements made regarding contracts for electrical work on airfield lighting at Kandahar Airfield in Afghanistan. As a result of SIGAR's investigation, Clark Logistic Services Company's owners admitted that they had fraudulently claimed that they had employed a U.S. citizen, certified as a master electrician, when, in fact, the company subcontracted the work to an Afghan subcontractor or used third-country nationals instead of properly certified electricians. In addition, Clark Logistic Services Company failed to comply with regulations concerning personnel accountability and badging, non-tactical vehicles registration, and environmental- and ground-safety procedures, among other violations, resulting in the company's removal from Kandahar Airfield by the ISAF installation commander on July 30, 2013. Based on SIGAR's investigation and referral for debarment, all parties have been excluded from contracting with the government for a period of four years and five months, ending on November 14, 2018.

Debarment of Afghan Contractors for Bribery of Provincial Reconstruction Team Members and Poor Construction of Two Collapsed Bridges in Kunar Province

On June 5, 2014, Rainbow Construction Company, the Abdul Haq Foundation, Hassan Sardar, and Wadir Abdullahmatin Mullakhiel were debarred by the Army based on offers to pay bribes in exchange for the award of contracts by the Kunar Provincial Reconstruction Team (PRT) in October and November 2009. Specifically, Sardar, one of the company's owners, offered payments of cash, diamonds, and other items valued at approximately \$627,000 in exchange for the award of three contracts for the construction of bridges at Ziyaribaba and Pashad and an upgrade to the road between Asmar and Nishigam, all located in Kunar Province and valued at approximately \$8,000,000.

Subsequent investigation by SIGAR determined that both bridges collapsed in 2010 due to the use of inferior materials and poor design by the Abdul Haq Foundation in its performance of the contracts. In addition, as a result of the investigation SIGAR, the FBI, and the DCIS conducted into the offers of payment by Sardar, Captain Sidharth Handa, a former member of the Kunar PRT, was subsequently arrested in Arlington, Virginia, on charges of bribery and conspiracy to distribute heroin when he attempted to collect a \$500,000 payment as part of this scheme.

On September 24, 2011, Handa pled guilty to both counts of the criminal information and was sentenced to 120 months of confinement and a \$315,000 restitution. Rainbow Construction Company, the Abdul Haq Foundation, Sardar, and Mullakhiel were all debarred for a period of five years, ending on September 29, 2018. Handa was previously debarred on July 27, 2012, for a period of 12 years and three months, ending on September 21, 2024. The periods of debarment include the time that each was previously suspended from contracting with the government and Handa's period of confinement.

Referral for Debarment of Lakeshore Toltest Corporation

On May 2, 2014, six of the companies that make up Lakeshore Toltest Corporation, a Chicago, Illinois, construction contractor, filed for Chapter 7 bankruptcy in the state of Delaware. SIGAR has recommended that the U.S. Army suspend and debar the remaining 26 companies, subsidiaries, and joint ventures belonging to Lakeshore Toltest.

Prior to its bankruptcy, Lakeshore Toltest had been actively engaged in obtaining construction contracts in Afghanistan since May 2009. At that time, the company received multiple contracts valued at \$78,824,694 from the Army and Air Force to construct the Afghan National Defense University, the Joint Services Academy, the Legal Branch School, and the Religious and Cultural Affairs School for the ANA. Lakeshore Toltest also received contracts for the construction of the ANA Headquarters in

Laghman Province, as well as ANA facilities in Ghazni, Khas Kunar, and other locations. The company maintained 40 office locations in 12 countries throughout the world through its network of 32 affiliated companies, subsidiaries, and joint ventures, with approximately \$537.5 million in revenues from both domestic and overseas contracts during 2012.

SIGAR opened an investigation into Lakeshore Toltest after receiving 15 complaints from the company's subcontractors in the last 18 months claiming that it failed to pay for goods and services totaling approximately \$50,894,436. SIGAR also learned that following its filing for bankruptcy, the company took no steps to properly demobilize its operations in Afghanistan or make an effort to ensure that its employees were repatriated back to the United States, effectively abandoning them at their deployed locations. Based on these allegations, SIGAR referred Lakeshore Toltest and all of its affiliates for debarment to prevent further loss to the U.S. government in Afghanistan and other locations where the Lakeshore Toltest operates across the world.

OTHER SIGAR OVERSIGHT ACTIVITIES THIS QUARTER

SIGAR Speaks about Lessons Learned Before Middle East Institute and at Conference

In this reporting period, Special Inspector General Sopko spoke at the Middle East Institute and at the Effective Development in Conflict Zones Conference about lessons learned from the reconstruction effort in Afghanistan. At the Effective Development in Conflict Zones Conference, Sopko was the keynote speaker, and Deputy Inspector General Gene Aloise spoke on a panel about linking research and policy on fragile and conflict-affected environments.

Sopko told attendees at both events that the mission in Afghanistan is far from over, despite the drawdown of U.S. and Coalition forces. In fact, almost \$18 billion has been appropriated but not yet spent for reconstruction efforts, and another \$6 to \$10 billion will likely be promised annually for years to come, making Afghanistan still very relevant to every U.S. taxpayer and policy maker.

Of many lessons gleaned over the 12-year reconstruction effort, Sopko highlighted four that are particularly relevant during this year of transition:

1. One must consider a country's ability to sustain the assistance we provide.
2. Reconstruction in a conflict zone is inherently risky. That risk must be properly mitigated, largely through aggressive management and oversight.
3. All reconstruction efforts must have clearly articulated goals and a sound way to measure their progress toward those goals.

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4. One must consider how to ensure a country's long-term economic self-sufficiency so that it does not remain dependent on foreign assistance.

The Inspector General went on to explain each lesson, providing examples from SIGAR's work of what can go wrong when taxpayer funds are not used judiciously and programs are not planned, executed, and monitored properly. These anecdotes from the work of SIGAR and other oversight agencies clearly show that the U.S. government can and should do a better job.

Sopko repeated SIGAR's frequent warning that time and resources in Afghanistan are becoming scarcer, and that reconstruction programs must do the most good possible to ensure meaningful and long-lasting benefits for the people of Afghanistan and U.S. interests abroad. Furthermore, it is essential that these lessons be heeded not just in Afghan reconstruction efforts, but in future efforts as well, in order to provide more robust stewardship of U.S. funds.

SIGAR and USIP Issue Symposium Report

In February, SIGAR convened an international symposium, in conjunction with the United States Institute of Peace (USIP), on "Monitoring and Management in Insecure Environments: Applying Best Practices to Afghanistan." The symposium was convened 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.

This quarter, SIGAR and USIP issued a report on applying best practices for monitoring and management in insecure environments to Afghanistan. The report also summarizes the symposium discussion and offers observations of attendees. The symposium discussion covered topics including the new challenges transition poses to reconstruction, lessons learned about management and monitoring, and recommendations going forward.

SIGAR's Work Leads to Special Provisions in FY 2015 Legislation

Senate Armed Services Committee Bases Provision on SIGAR Oversight Access Maps

Based on issues raised by SIGAR's oversight-access maps, highlighted in the October 2013 *Quarterly Report to Congress*, the Senate Armed Services Committee included Section 1226 in the FY 2015 National Defense Authorization Act (NDAA). Section 1226 prohibits DOD from obligating or expending FY 2015 funding for reconstruction and infrastructure projects in Afghanistan if military or civilian personnel of the United States

government responsible for conducting oversight of the program or project cannot safely access it. The section allows DOD to waive this restriction if it determines that the program or project clearly contributes to U.S. national interests or strategic objectives; that the government of Afghanistan has requested or expressed a need for the program or project; that the program or project has been coordinated with the government of Afghanistan and with any other implementing agencies or international donors; that security conditions permit effective implementation and oversight of the program or project; that the program or project includes safeguards to detect, deter, and mitigate corruption and waste, fraud, and abuse; that adequate arrangements have been made for the sustainment of the program or project following its completion, including arrangements with respect to funding and technical capacity for sustainment; and that meaningful metrics have been established to measure the progress and effectiveness of the program or project. This legislation was pending consideration by the full Senate at the time this report went to press.

House Armed Services Committee Includes Several Provisions in NDAA Based on SIGAR's Work

The House Armed Services Committee included several provisions in the House version of the FY 2015 NDAA that were based on SIGAR's work. The bill, passed by the House in May 2014, includes the following requirements:

- Section 312 requires that combatant commanders certify biannually that covered waste is not disposed of in open-air burn pits under their jurisdiction in violation of the policy in section 317 of the FY 2010 NDAA. This provision is based on SIGAR's ongoing and completed inspection concerning the use of open-air burn pits and solid-waste incinerators at U.S. military facilities in Afghanistan.
- Section 1220B prohibits DOD from obligating or expending FY 2015 funds for a construction project in Afghanistan in excess of \$500,000 that cannot be audited and physically inspected by authorized U.S. government civilian personnel or their designated representatives, in accordance with generally accepted auditing guidelines. The section further provides that DOD may waive this restriction if it submits a plan to Congress that outlines how it will monitor the use of funds to ensure they are used as intended and to mitigate fraud, waste, and abuse. This section is based on SIGAR's reporting on U.S.-funded infrastructure projects in Afghanistan, as well as the agency's work highlighting oversight-access challenges in Afghanistan.

Furthermore, in its committee report for the FY 2015 NDAA, the House Armed Services Committee directs the Under Secretary of Defense for Acquisition, Technology, and Logistics to provide a briefing for the House Committee on Armed Services not later than March 2, 2015, on the lessons

learned related to waste-disposal methods in contingency operations, and to provide an update on the Department's assessment of waste-disposal technologies, to include those that would provide an efficient, reliable, and deployable capability that adheres to electrical and construction standards that ensure life, safety, and health of U.S. personnel. This is another example of the impact of SIGAR's ongoing and completed inspection work on solid-waste incinerators.

The committee report for the House version of the FY 2015 NDAA also directs the Inspector General of DOD to conduct a comprehensive assessment of the financial-management capacity and risks within the Afghan Ministries of Defense and Interior. "The committee believes that an assessment of the financial management capacity of the Afghan MOD and MOI will improve the protection of U.S. direct assistance to Afghanistan to fund and equip the ANSF and to ensure the assistance is used as intended," the report says. It further directs the Inspector General to assess the capacity and risks within the Afghan Ministry of Finance, to the extent that such an assessment is required to protect Department funds and would not duplicate efforts conducted by other agencies of the U.S. government. The report also requires the Inspector General to provide a report on the results of the assessments to the House and Senate Armed Services Committees by December 31, 2014. The report language was based on SIGAR's Special Project report (SP-14-12) regarding on-budget assistance funds provided to the MOI and MOD.

Senate Appropriations Committee Includes Provision in FY 2015 Defense Appropriations Act Based on SIGAR's C-130 Alert Letter

The Senate-version of the FY 2015 Defense Appropriations Act, as reported by the full Senate Appropriations Committee on July 17, prohibits DOD from using FY 2015 funds for the transfer of additional C-130 cargo aircraft to the ANSF or the AAF until it provides a review to the congressional defense committees of the AAF's medium-airlift requirements. The provision states further that such a review should identify the AAF's ability to utilize and maintain existing medium-lift aircraft in the inventory and the best alternative platform, if necessary, to provide additional support to the AAF's current medium-airlift capacity. This provision was written in response to a SIGAR audit alert letter that raised concern about providing additional C-130 aircraft to the AAF. SIGAR suggested in the alert letter that DOD, pending a review of the AAF's medium-airlift requirements, delay delivery of additional C-130s. The alert letter also said if DOD's review indicates that additional C-130s are unnecessary, it should not provide them.

Defense Appropriations Act for FY 2015 Includes Provision Based on SIGAR Special Project

Section 10015 of the House version of the Defense Appropriations Act for FY 2015, as passed by the House on June 20, 2014, prohibits DOD from using FY 2015 funding to store patrol boats purchased for the ANP. This provision is based on SIGAR's Special Project inquiry letters to the Department of Navy and CSTC-A. For more information on those letters, see pages 44–47 of this section.

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

SIGAR's total staffing at the time of this report is 198 federal employees. At the end of the quarter, SIGAR had 31 personnel at the U.S. Embassy Kabul and eight employees at other locations in Afghanistan outside the U.S. Embassy: Kandahar Airfield, Bagram Airfield, and Mazar-e-Sharif. SIGAR employed two local Afghans in its Kabul office to support investigations and audits. In addition, SIGAR supports its work with stateside staff assigned to short-term temporary duty in Afghanistan.

This quarter, SIGAR had 24 employees on temporary duty in Afghanistan for a total of 416 days. This is an increase from the last reporting period, when 14 employees were on temporary duty for 252 days.

“The Afghan people have an opportunity now to build on the progress that’s been made, to achieve a more secure, more prosperous, and more peaceful future. President Obama has made it clear that as they do, the United States will stand with them.”

—*U.S. Secretary of State John Kerry*