

2 SIGAR OVERSIGHT



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Stacks of shipping containers loom over trucks at a facility on the outskirts of Kabul, Afghanistan. (SIGAR photo by Michael Graham)

SIGAR OVERSIGHT ACTIVITIES

This quarter SIGAR issued 21 audits, inspections, alert letters, and other products. SIGAR's performance audits reviewed the U.S. government's efforts to improve Afghan civil aviation abilities and to develop the rule of law in Afghanistan, while its financial audits identified over \$37.4 million in questioned costs. SIGAR also released a special project report that summarizes nearly two years of investigation into the construction of an unwanted, unneeded, and unused 64,000-square-foot command-and-control facility in Afghanistan.

One of SIGAR's performance audits found that the Federal Aviation Administration (FAA) was not able to train enough air-traffic controllers for Afghanistan to operate airspace management on its own, and that the United States was not able to transition airspace-management responsibilities to the Afghans as planned in 2014. A second performance audit reported that U.S. government agencies do not have a comprehensive strategy to help develop the rule of law in Afghanistan, and that problematic performance-management systems make it difficult for agencies to fully determine the effectiveness of rule-of-law programs.

This quarter, SIGAR's financial audits identified over \$37.4 million in questioned costs as a result of internal-control deficiencies and noncompliance issues. To date, SIGAR's financial audits have identified more than \$279.5 million in questioned costs and \$289,880 in unremitted interest on advanced federal funds or other revenue amounts payable to the government. As of July 30, 2015, funding agencies had reached a management decision on 39 audits and are seeking recovery of nearly \$11.6 million in questioned amounts.

Additionally, this quarter SIGAR published two inspection reports. One report found that project construction at the Counter Narcotics Judicial Center (CNJC) mostly met contract requirements, despite two construction deficiencies, and that the detention center was being used as intended. A second report found that the Defense Logistics Agency (DLA) warehouse facility at Kandahar Airfield (KAF) was well built, despite minor deficiencies, but lengthy construction delays led to the facility's never being used as intended.

This quarter, SIGAR's Office of Special Projects issued a report on the 64,000-square-foot command-and-control facility at Camp Leatherneck

TESTIMONY GIVEN

- Testimony 15-56-TY: Why ANSF Numbers Matter: Inaccurate and Unreliable Data, and Limited Oversight of On-Budget Assistance Put Millions of U.S. Taxpayer Dollars at Risk

COMPLETED PERFORMANCE AUDITS

- Audit 15-58-AR: Civil Aviation
- Audit 15-68-AR: Rule of Law in Afghanistan

COMPLETED FINANCIAL AUDITS

- Financial Audit 15-59-FA: Audit of Costs Incurred by the Organization for Mine Clearance and Afghan Rehabilitation
- Financial Audit 15-61-FA: Audit of Costs Incurred by the Consortium for Elections and Political Process Strengthening
- Financial Audit 15-63-FA: Audit of Costs Incurred by DRS Technical Services Inc.
- Financial Audit 15-64-FA: Audit of Costs Incurred by Internews Network
- Financial Audit 15-66-FA: Audit of Costs Incurred by CACI Technologies Inc.
- Financial Audit 15-69-FA: Audit of Costs Incurred by Pacific Architects and Engineers Inc.
- Financial Audit 15-71-FA: Audit of Costs Incurred by Clear Path International
- Financial Audit 15-72-FA: Audit of Costs Incurred by L-3 Services Inc.
- Financial Audit 15-73-FA: Audit of Costs Incurred by International Relief and Development Inc.
- Financial Audit 15-75-FA: Audit of Costs Incurred by AECOM International Development Inc. (SIKA-West)
- Financial Audit 15-76-FA: Audit of Costs Incurred by AECOM International Development Inc. (SIKA-East)

COMPLETED INSPECTIONS

- Inspection 15-70-IP: Detention Center at the Counter Narcotics Judicial Center
- Inspection 15-74-IP: Warehouse Facility at Kandahar Airfield

COMPLETED SPECIAL PROJECT PRODUCTS

- Report 15-57-SP: Command and Control Facility at Camp Leatherneck
- Inquiry Letter 15-60-SP: Downstream Gas Utilization Project
- Inquiry Letter 15-62-SP: Afghanistan Education Data
- Inquiry Letter 15-65-SP: Tarakhil Power Plant
- Inquiry Letter 15-67-SP: Geospatial Coordinates for PCH Health Facilities

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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.

in Helmand Province, Afghanistan (the "64K building"). The report is the culmination of nearly two years of SIGAR's investigative work on the construction of the unwanted, unneeded, and unused facility.

The Office of Special Projects also wrote to the Department of Defense (DOD) to request information about the \$43 million Downstream Gas Utilization project implemented by the Task Force for Business and Stability Operations (TFBSO). An inquiry letter sent to the U.S. Agency for International Development (USAID) requested information on the data used by the agency to oversee, fund, and assess its education programs in Afghanistan. Other letters to USAID raised concerns about the underutilization of the Tarakhil Power Plant and the accuracy of location information for healthcare facilities funded by the Partnership Contracts for Health (PCH) program.

During the reporting period, SIGAR investigations achieved significant results. Cost savings to the U.S. government amounted to approximately \$214.7 million; civil-settlement recoveries totaled more than \$6.9 million; and fines, forfeitures, and restitutions totaled over \$675,000. Additionally, there were four arrests, eight criminal charges, six convictions, and five sentencing. In Afghanistan, 17 individuals were barred from U.S. military installations. SIGAR initiated 27 new investigations and closed 40, bringing the total number of ongoing investigations to 310. Savings to date from SIGAR investigations total over \$794 million.

SIGAR's suspension and debarment program referred 17 individuals and 25 companies for suspension or debarment from receiving U.S. government contracts. Eight of these individuals were referred for suspension based upon criminal charges being filed against them for misconduct related to or affecting reconstruction contracting in Afghanistan. These referrals bring the total number of individuals and companies referred by SIGAR since 2008 to 650, encompassing 343 individuals and 307 companies to date.

AUDITS

SIGAR conducts **performance audits**, **inspections**, and **financial audits** of programs and projects connected to the reconstruction effort in Afghanistan. Since its last report to Congress, SIGAR has issued two performance audits, two inspections, and 11 financial-audit reports. This quarter, SIGAR also began three new performance audits, bringing the total number of ongoing performance audits to 15. The published performance-audit reports examined U.S. efforts to rebuild the Afghan civil-aviation system and to develop the rule of law in Afghanistan. The performance audits made a total of five recommendations; the inspections made two. The financial audits identified over \$37.4 million in questioned costs as a result of internal-control deficiencies and noncompliance issues.

Performance Audit Reports Published

This quarter SIGAR published two performance audits that examined U.S. efforts to rebuild the Afghan civil-aviation system and to develop the rule of law in Afghanistan.

Audit 15-58-AR: Civil Aviation

U.S. Efforts Improved Afghan Capabilities, but the Afghan Government Did Not Assume Airspace Management as Planned

Since 2002, the U.S. government, primarily DOD and FAA, has spent about \$562.2 million to support reconstruction of Afghanistan's civil-aviation system. The Ministry of Transport and Civil Aviation (MOTCA) and the Afghanistan Civil Aviation Authority oversee the civil-aviation system. The Afghan government helped develop a Civil Aviation Roadmap and Aviation Action Plan (AAP), which outlined steps for the United States and others to help increase aviation capacity and facilitate the transfer of airspace and airports to civil control. Under the AAP, DOD and FAA are responsible for assisting MOTCA in building civil-aviation capacity, transitioning airspace-management services to civilian control, and enhancing civil-aviation infrastructure. One key goal for FAA was to develop an aviation training program, including air-traffic controller training, so that airspace-management services could be transitioned to the Afghans at the end of 2014.

The objectives of this audit were to assess the extent to which DOD and FAA (1) helped strengthen Afghanistan's capability to operate and maintain its civil-aviation system, and (2) transitioned airspace-management services to the Afghan government at the end of 2014.

Since 2002, the U.S. government, primarily DOD and FAA, have helped Afghanistan rebuild its civil-aviation system, which was on the verge of collapsing. Although DOD had a military focus, its activities indirectly benefited the civil-aviation system. For example, DOD provided the Afghan government with \$159.2 million in aviation-related communication, navigation, and surveillance equipment. FAA helped (1) train Afghan civil-aviation personnel, (2) develop the MOTCA's regulatory regime, and (3) improve Kabul International Airport's infrastructure and services. For example, FAA spent \$8.3 million to install an approach-control surveillance system and to rehabilitate the airport's control tower, and \$1.9 million to construct a security building and airport perimeter fence. FAA also helped establish the Afghanistan Civil Aviation Authority in 2013 and helped develop the country's Civil Aviation Law.

Despite its efforts, FAA was not able to train enough air-traffic controllers for Afghanistan to operate airspace-management services on its own. FAA's basic air-traffic control training was supposed to be supplemented with on-the-job training, but due to security concerns, Afghan students could not access the facilities they needed for on-the-job training. FAA attempted to train students abroad, but faced problems obtaining passports

COMPLETED PERFORMANCE AUDITS

- Audit 15-58-AR: Civil Aviation: U.S. Efforts Improved Afghan Capabilities, but the Afghan Government Did Not Assume Airspace Management as Planned
- Audit 15-68-AR: Rule of Law in Afghanistan: U.S. Agencies Lack a Strategy and Cannot Fully Determine the Effectiveness of Programs Costing More Than \$1 Billion



Kabul International Airport is a key part of civil aviation in Afghanistan. Since 2002, the U.S. government has spent about \$562.2 million to support reconstruction of Afghanistan's civil-aviation system. (SIGAR photo by Kyu Sin)

and visas for the students, and some students did not return to Afghanistan after training. FAA also contacted training institutions abroad about sending instructors to Afghanistan, but these efforts were unsuccessful due to the lack of support services, such as secure housing.

The United States planned to transition airspace-management responsibilities back to the Afghans at the end of 2014, but, partly due to a lack of certified air-traffic controllers, that did not occur. In 2013, the U.S. recognized that the transition might not occur and assisted the Afghans in developing a contract for those services. The Afghan government narrowed its decision to two contractors, but it did not award the contract because it believed the bids were too high. Due to the potential for air-service disruption, the Department of State funded an interim, DOD-managed contract for \$29.5 million to provide the services through September 2015. If a follow-on contract is not awarded before this contract expires, the United States could be called on to fund another interim contract. Although Afghanistan may need some funding assistance for a contract initially, over time, the Afghan government has the potential to contribute a significant amount towards providing airspace-management services. In particular, the Afghan government's ability to fund the contract may increase if it collects additional over-flight revenue as planned and all such revenue is used to fund airspace-management services, which it has committed to doing.

SIGAR recommends that the Secretary of State ensure, to the extent possible, that the Afghan government awards a new airspace-management services contract before the current interim DOD contract expires in September 2015.

Audit 15-68-AR: Rule of Law in Afghanistan

U.S. Agencies Lack a Strategy and Cannot Fully Determine the Effectiveness of Programs Costing More Than \$1 Billion

In Afghanistan, access to fair, efficient, and transparent justice is limited. Formal Afghan courts are often difficult to access and are widely viewed as corrupt by Afghan citizens. According to the U.S. Institute of Peace, informal justice mechanisms remain the “preferred” path to justice for a large majority of Afghans, but frequently do not provide outcomes that meet international human-rights standards.

Since 2003, the U.S. government, through DOD, DOJ, State, and USAID, has worked to develop the rule of law in Afghanistan. This effort has focused on areas such as the judicial system, corrections system (detention centers and prisons), informal justice system, legislative reform, legal education, public outreach, and anticorruption efforts.

The objectives of this audit were to determine the extent to which (1) the strategies and objectives guiding U.S. government support are current and have consistently defined the scope of rule-of-law assistance; (2) U.S. agencies can fully identify and account for U.S. government programs and

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As part of SIGAR's rule-of-law audit, auditors visited the Justice Center in Parwan. (SIGAR photo by Michael Graham)

funding; (3) current rule-of-law programs' performance-management systems are measuring progress made in achieving program objectives and in contributing to achieving U.S. strategic objectives; and (4) the U.S. government has encountered challenges in achieving its objectives and the extent to which it has addressed these challenges.

SIGAR found that U.S. agencies lack a comprehensive rule-of-law strategy to help plan and guide their efforts. Although State is working to finalize a new strategy, it will be less robust than the previous U.S. Rule of Law Strategy for Afghanistan approved in September 2009. For example, U.S. embassy officials told SIGAR that, unlike the 2009 strategy, the new draft strategy does not include monitoring and evaluation components intended to help determine if strategic objectives are being achieved. Without an approved strategy in place, U.S. efforts may not be properly coordinated across agencies, monitored for alignment with U.S. and Afghan development goals and objectives, or managed effectively to ensure proper expenditure of U.S. taxpayer monies.

SIGAR determined that DOD, DOJ, State, and USAID have spent more than \$1 billion on at least 66 programs since 2003 to develop the rule of law in Afghanistan. However, this amount does not represent total spending on that objective because DOD could not provide complete funding figures.

SIGAR reviewed six of the 66 completed and ongoing rule-of-law programs, which totaled at least \$635 million, and found problems with all six programs' performance-management systems, making the programs' level of objectives achievement unclear. For example, State's Corrections System Support Program, which cost approximately \$259.5 million, lacked a performance-management plan, as called for by State, until October 2012—over

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USAID's Rule of Law Stabilization-Informal Component conducts a family law workshop in Dara-e-Noor. (USAID photo)

six years after the program had started—and only in March 2014 was an adequate plan for measuring program performance outputs and outcomes created. Because DOD, DOJ, State, and USAID did not systematically measure and report on their programs' achievements, it remains unclear what overall outcomes and impact have resulted from the expenditure of more than \$1 billion to develop the rule of law in Afghanistan.

Two major challenges continue to undermine U.S. efforts to develop the rule of law in Afghanistan: (1) the pervasive corruption in Afghanistan's justice sector, and (2) the uncertainty regarding whether the Afghan government can or will sustain U.S. program activities and reforms. DOD, DOJ, State, and USAID officials have taken steps to address these challenges. For example, the agencies have made efforts in the past to reduce corruption within the justice sector; however, DOD, DOJ, State, and USAID officials and rule-of-law experts told SIGAR that U.S. anticorruption efforts have not been successful because, among other things, the Afghan government has lacked the political will and commitment to tackle corruption in the justice system.

In addition, the Consolidated Appropriations Act, 2012, Pub. L. No. 112-74 (2011), calls for State and USAID to consider the sustainability of reconstruction programs in Afghanistan. However, officials from these agencies told SIGAR they do not know whether the Afghans will be able to continue the work, and they raised concerns with some specific rule-of-law programs. These challenges will greatly influence the effectiveness of future U.S. assistance and sustainability of any gains that have been made in developing the rule of law in Afghanistan.

SIGAR made one recommendation to State to finalize and improve the development of, and measure the performance of, a new U.S. rule-of-law strategy for Afghanistan. SIGAR made one recommendation to DOD to track the activities and funding for any future rule-of-law efforts and report this information to State in its capacity as lead coordinator of U.S. rule of law development assistance in Afghanistan.

SIGAR also made two recommendations to DOD, DOJ, State, and USAID: (1) to revise existing performance-management plans for ongoing rule-of-law programs and improve future plans to ensure program progress is consistently monitored and reported; and (2) to assess whether ongoing and future programs are sustainable and whether and how they will be continued. If programs are to be continued or new programs are to be initiated, the agencies should obtain Afghan government commitment to help support them through a formal, written agreement prior to the expenditure of U.S. taxpayer funds.

NEW PERFORMANCE AUDITS

- U.S. Efforts to Sustain Afghanistan's Road Infrastructure
- USAID's Efforts to Support Land Reform in Afghanistan
- U.S. Salary Supplements for Afghan Government Employees and Technical Advisors

New Performance Audits Announced

This quarter SIGAR initiated three new performance audits. They will assess U.S. efforts to sustain Afghanistan's road infrastructure, USAID's

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efforts to sustain land reform in Afghanistan, and U.S. salary supplements for Afghan government employees and technical advisors.

U.S. Efforts to Sustain Afghanistan's Road Infrastructure

In 2002, after years of conflict and inadequate funding, Afghanistan's road infrastructure was largely nonexistent or in disrepair, with an estimated 50 kilometers (about 30 miles) of paved road in the country. In an effort to extend the reach of the central government, provide economic growth, and increase freedom of movement for its citizens, the Afghan government and the international community made road infrastructure projects a priority. According to USAID, since 2002, over 9,200 kilometers (about 5,700 miles) of national highways and local and provincial roads have been constructed or rehabilitated by the U.S. and international partners, with USAID completing over 2,100 kilometers (about 1,300 miles). In addition to USAID's efforts, DOD, through the use of the Commander's Emergency Response Program (CERP) funds, has contributed an additional \$159 million to construct roads in Afghanistan.

In addition to constructing new roads and rehabilitating existing infrastructure, the U.S. government has focused on developing the capacity of the Afghans to build and maintain road infrastructure. USAID worked toward this initially through the \$53 million Roads Maintenance Unit (RMU) program. From 2008 through 2012, USAID contracted advisors to mentor Afghans on road maintenance. In 2012, the World Bank took over the RMU program, and USAID started the Road Sector Stability program, a new maintenance program. The goal of the Road Sector Stability program, which is expected to operate through 2017, is to provide technical operations and maintenance assistance to the Afghan government to help maintain roads in a sustainable way.



SIGAR has initiated an audit of U.S. efforts to build and sustain Afghanistan's road infrastructure. (USAID Afghanistan photo)

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In an effort to become self-sufficient in funding road maintenance, the Afghan government has instituted a fuel tax. The Afghan government estimates that it will collect approximately \$60 million a year from the new tax when it is fully implemented.

This audit will review U.S. efforts to sustain roads and strengthen the Afghan government's ability to perform ongoing road maintenance. Specifically, SIGAR plans to (1) determine the extent and current condition of U.S.-funded roads within Afghanistan; (2) assess the extent to which road construction, rehabilitation, and capacity building projects funded directly by U.S. agencies or indirectly through the Afghanistan Infrastructure Trust Fund met their stated goals; and (3) identify the challenges, if any, to the Afghan government's ability to perform and fund road maintenance.

USAID's Efforts to Support Land Reform in Afghanistan

After decades of conflict and displacement, land is often an Afghan citizen's sole form of wealth and a prime cause for dispute. Land ownership and registration in Afghanistan are governed by multiple Afghan ministries from the national to district level, and conflicts over land are resolved in both the formal and informal justice systems. The Independent Joint Anti-Corruption Monitoring and Evaluation Committee notes that continued widespread problems in Afghan land governance inhibit economic growth and enable corruption and the usurpation of land.

Since 2004, U.S. support for reforming Afghan land-tenure systems—the institutional structure that determines how access to land is secured and who can use it, as defined through statutory or customary law—has been conducted through two major USAID programs that focused on legal and technical assistance to Afghan ministries, such as improving legal frameworks, conducting land surveys and mapping, developing titling systems, and working to formalize large informal settlements in Mazar-e Sharif and Jalalabad. Other U.S. reconstruction efforts, including support for Afghanistan's mining law and economic development, agriculture, rule of law, women's rights, refugees and displaced persons, and counternarcotics, are deeply linked to land-reform issues. SIGAR has conducted work in all of these areas.

In September 2004, USAID awarded the Emerging Markets Group Limited a three-year contract, valued at \$29.2 million, to implement the Land Titling and Economic Restructuring Activity (LTERA). USAID extended the contract for an additional two years through October 2009, increasing the total contract value to \$56.3 million. LTERA's objectives focused on land titling and registration to help the Afghan government improve land tenure security in urban areas, and on privatizing state-owned enterprises.

Following LTERA, in January 2011, USAID awarded a contract to Tetra Tech ARD to implement the Land Reform in Afghanistan (LARA) program. The contract had a period of performance from January 2011 through January 2014 and was valued at \$42 million. LARA's stated objective was to



Officials and community members

identify land claims at a workshop in Jalalabad. SIGAR has initiated an audit of USAID's efforts to support land reform in Afghanistan. (USAID photo by Gary Hunter and Anna Soave)

develop a robust, enduring, and Afghan-owned and -managed land market framework that encourages investment and productivity growth, resolves or mitigates land-based conflict, and builds confidence in the government's legitimacy, thereby enhancing stability in Afghan society.

This audit will review USAID's efforts to support land reform in Afghanistan. Specifically, SIGAR plans to determine the extent to which (1) USAID's land-reform programs met their goals and objectives, and (2) the Afghan government can sustain any gains made through USAID's land-reform assistance.

U.S. Salary Supplements for Afghan Government Employees and Technical Advisors

Since 2002, the United States and other international donors have spent millions of dollars to pay or supplement the salaries of thousands of Afghan government employees and technical advisors. These payments are intended to support the Afghan government in attracting and retaining skilled Afghans to serve in or alongside the government, counteracting the impact of the Afghan government's revenue shortfalls and low civil service salaries relative to similar positions outside the government.

In October 2010, SIGAR issued an audit report examining U.S. salary-supplement programs (see SIGAR Audit 11-5, *Actions Needed to Mitigate Inconsistencies in and Lack of Safeguards over U.S. Salary Support to Afghan Government Employees and Technical Advisors*, October 29, 2010). The audit found, among other things, that:

- the full extent of U.S. and donor salary support was unknown,
- U.S. salary support was inconsistently applied across agencies,
- donor practices were undermining long-term sustainability and capacity development, and
- the Afghan government's human resources and payroll systems had key weaknesses.

As a result of the audit findings, SIGAR made 10 recommendations to the U.S. Ambassador to Afghanistan to improve accountability and consistency regarding United States salary supplements. In its response to a draft of the report, U.S. Embassy Kabul concurred with the report's findings and recommendations.

This audit will review salary supplements to Afghan government employees and technical advisors by U.S. agencies. Specifically, we plan to determine the extent to which U.S. agencies have, since 2010: (1) provided salary supplements to Afghan government employees and technical advisors; (2) implemented coordination and oversight mechanisms regarding salary supplements paid to Afghan government employees and technical advisors; and (3) assessed the impact of salary supplements on the long-term capacity and sustainability of the Afghan government.

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TABLE 2.1

SIGAR'S FINANCIAL AUDIT COVERAGE (\$ BILLIONS)	
53 Completed Audits	\$4.0
26 Ongoing Audits	2.7
Total	\$6.7

Note: 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 and Inspections Directorate.

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 11 financial audits of U.S.-funded contracts, grants, and cooperative agreements to rebuild Afghanistan. SIGAR's financial-audits program has completed a total of 53 financial audits with more than \$4 billion in auditable costs and has another 26 financial audits ongoing with nearly \$2.7 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 over \$279.5 million in **questioned costs** and \$289,880 in unremitted interest on advanced federal funds or other revenue amounts payable to the government. As of July 30, 2015, funding agencies had reached a management decision on 39 completed financial audits and are seeking recovery of nearly \$11.6 million in questioned amounts. It takes time for funding agencies to carefully consider audit findings and recommendations. As a result, agency management decisions remain to be made for several of SIGAR's issued financial audits. SIGAR's financial audits have also identified and communicated 192 compliance findings and 231 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.
- 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.

Questioned amounts: the sum of potentially unallowable questioned costs and unremitted interest on advanced federal funds or other revenue amounts payable to the government.

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).

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.

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- 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 and ongoing financial audits can be found in Appendix C of this quarterly report.

Financial Audits Published

This quarter, SIGAR completed 11 financial audits of U.S.-funded contracts, grants, and cooperative agreements to rebuild Afghanistan. These financial audits identified more than \$37.4 million in questioned costs as a result of internal-control deficiencies and noncompliance issues. These deficiencies and noncompliance issues included failure to follow competitive procurement procedures, business-class airfare purchased without acceptable justifications, disbursing 80% of payments to employees and vendors in cash instead of utilizing banking services or electronic payments, unauthorized overtime compensation, charging in excess of the 35% danger-pay allowance, failure to retain invoices and supporting documentation, incorrect exchange rates applied on conversion of U.S. dollars to local currency, failure to submit monitoring and evaluation reports, incorrect allocation rates applied to certain field-office costs, invoicing USAID for taxes to the Afghan government that are not eligible for reimbursement, overbilling for indirect costs, incomplete inventory records and equipment disposal documentation, and failure to obtain government approval on local procurements in excess of \$5 million.

Financial Audit 15-59-FA: Department of State's Mine Clearance, Explosive Ordnance Disposal, and Mine Awareness Activities in Afghanistan

Audit of Costs Incurred by the Organization for Mine Clearance and Afghan Rehabilitation

Between April 2010 and March 2014, the Department of State's Office of Weapons Removal and Abatement awarded nine grants totaling over \$15.6 million to the Organization for Mine Clearance and Afghan Rehabilitation (OMAR). The principal objectives of these grants were to provide safe living environments for inhabitants and returnees in rural and urban areas in Afghanistan, and to create improved circumstances for the return of displaced people. For example, one grant sought to clear a total of 2,316,217 square miles of mine-contaminated land in the provinces of Kabul, Nangarhar, and Herat, where 18 communities were affected by landmines and unexploded ordnance. SIGAR's financial audit, performed by

COMPLETED FINANCIAL AUDITS

- Financial Audit 15-59-FA: Department of State's Mine Clearance, Explosive Ordnance Disposal, and Mine Awareness Activities in Afghanistan: Audit of Costs Incurred by the Organization for Mine Clearance and Afghan Rehabilitation
- Financial Audit 15-61-FA: USAID's Increased Electoral Participation in Afghanistan Program: Audit of Costs Incurred by the Consortium for Elections and Political Process Strengthening
- Financial Audit 15-63-FA: Department of the Army's Afghan National Police and Afghan National Army Communications Equipment Training and Sustainment Projects: Audit of Costs Incurred by DRS Technical Services Inc.
- Financial Audit 15-64-FA: USAID's Afghanistan Media Development and Empowerment Project: Audit of Costs Incurred by Internews Network
- Financial Audit 15-66-FA: Department of the Army's Engineering Support: Audit of Costs Incurred by CACI Technologies Inc.
- Financial Audit 15-69-FA: Department of State's Afghanistan Justice Sector Support Program II: Audit of Costs Incurred by Pacific Architects and Engineers Inc.
- Financial Audit 15-71-FA: Department of State's Integrated Victim Assistance and Capacity Building Program in Afghanistan: Audit of Costs Incurred by Clear Path International
- Financial Audit 15-72-FA: Department of the Army's Ministry of Interior Program: Audit of Costs Incurred by L-3 Services Inc.
- Financial Audit 15-73-FA: USAID's Southern Regional Agricultural Development Program: Audit of Costs Incurred by International Relief and Development Inc.
- Financial Audit 15-75-FA: USAID's Stabilization in Key Areas West: Audit of Costs Incurred by AECOM International Development Inc.
- Financial Audit 15-76-FA: USAID's Stabilization in Key Areas East Program: Audit of Costs Incurred by AECOM International Development Inc.

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In the countryside southeast of Kabul, a deminer working for the demining organization OMAR in protective equipment. (Canadian Embassy in Afghanistan photo)

Unsupported costs: not supported with adequate documentation or that did not have the required prior approval

Ineligible costs: prohibited by agreement, applicable laws, or regulations

Source: SIGAR Audits and Inspections Directorate.

Davis and Associates Certified Public Accountants PLLC (Davis), reviewed \$15,668,124 in expenditures, of which \$15,666,000 was charged to the grants between April 1, 2010, and March 31, 2014. The remaining \$2,124 was not billed to the U.S. government.

Davis identified one material weakness in OMAR's internal controls and three instances of material noncompliance with laws, regulations, or the terms and conditions of the grants. OMAR did not comply with federal procurement policies. Specifically, Davis noted that OMAR did not provide support for a competitive procurement process for \$2,156,695 for vehicle rentals. Similarly, OMAR had not documented a competitive procurement process for the provision of security protection teams and could not provide quotes, the scope of work, or proof of a \$2,830 payment. Additionally, Davis reported that OMAR did not follow its own policies for minimizing the use of cash by establishing a maximum amount for a cash transaction, which increases the potential for theft and the misuse of funds. Finally, Davis noted that OMAR did not properly deduct withholding taxes from payments to local vendors and contractors.

As a result of the internal-control weakness and instances of material noncompliance, Davis identified \$2,159,525 in **unsupported costs**. Davis did not identify any **ineligible costs**.

Davis obtained and reviewed prior audit reports and other assessments that could have a material impact on the Special Purpose Financial Statement. Davis identified three prior audit findings and determined that OMAR had properly addressed two of the findings with respect to the project under audit. OMAR has not properly addressed a prior audit finding related to documenting the performance of a competitive bid process. A similar finding was identified in this audit.

Davis issued a modified opinion on OMAR's Special Purpose Financial Statement, noting that it did not exclude a material amount of unallowable costs, which totaled \$2,159,525, presented in the statement.

Based on the results of the audit, SIGAR recommends that the Department of State Grants Officer:

1. Determine the allowability of and recover, as appropriate, \$2,159,525 in questioned costs identified in the report.
2. Advise OMAR to address the report's one internal-control finding.
3. Advise OMAR to address the report's three noncompliance findings.

Financial Audit 15-61-FA: USAID's Increased Electoral Participation in Afghanistan Program Audit of Costs Incurred by the Consortium for Elections and Political Process Strengthening

On September 28, 2008, USAID signed a cooperative agreement, with an initial cost of \$40 million, with the Consortium for Elections and Political Process Strengthening (CEPPS) to support the Increased Electoral

SIGAR OVERSIGHT ACTIVITIES

Participation in Afghanistan program. The primary goals of the program were to (1) strengthen the ability of candidates and the electorates to participate in the upcoming elections, and (2) to increase public awareness and oversight of the electoral process. The program was expected to increase effective and informed participation in the 2009 and 2012 elections, as well as provide support to ensure transparency and broad-based participation in the electoral process. SIGAR's financial audit, performed by Davis, reviewed \$10,040,492 in expenditures charged to the agreement from October 1, 2012, to September 30, 2013.

Davis identified two material weaknesses and two significant deficiencies in CEPPS's internal controls, and three instances of material noncompliance with the terms and conditions of the cooperative agreement. Specifically, CEPPS was not able to provide adequate support for a competitive procurement process for \$894,126 in subcontracts. As a result, CEPPS could not prove that these costs were reasonable, and the U.S. government may not have received the most competitive price. In addition, CEPPS could not provide supporting documentation to comply with applicable terms and conditions of the cooperative agreement for certain expenses, such as travel, currency exchanges, or local tax-payment obligations, which resulted in \$175,467 in ineligible costs.

As result of these internal-control deficiencies and instances of noncompliance, Davis identified \$1,070,576 in total questioned costs, consisting of \$895,109 in unsupported costs and \$175,467 in ineligible costs.

Davis obtained and reviewed prior audit reports and other assessments that could have a material impact on the Special Purpose Financial Statement. Davis identified two prior audit findings pertaining to an improper vetting process for contracts and a lack of proper controls over document retention. After reviewing and assessing documentation, Davis determined that CEPPS properly addressed the two audit findings, and no further action was required.

Davis issued a modified opinion on the Special Purpose Financial Statement due to a lack of adequate supporting documentation related to subcontracts, travel, and other direct costs, resulting in \$1,070,576 in questioned costs.

Based on the results of the audit, SIGAR recommends that the USAID Agreement Officer:

1. Determine the allowability of and recover, as appropriate, \$1,070,576 in questioned costs identified in the report.
2. Advise CEPPS to address the report's four internal-control findings.
3. Advise CEPPS to address the report's three noncompliance findings.

Financial Audit 15-63-FA: Department of the Army's Afghan National Police and Afghan National Army Communications Equipment Training and Sustainment Projects

Audit of Costs Incurred by DRS Technical Services Inc.

The Army Contracting Command (ACC) awarded two task orders to DRS Technical Services Inc. (DRS). On June 17, 2012, ACC issued task order 0004, with an initial amount of \$25 million, to provide communication devices and training support for the Afghan National Police. On September 7, 2012, ACC issued task order 0005, which provided \$18 million to train the Afghan National Army in radio maintenance, communications maintenance, and systems engineering. As of September 29, 2013, six modifications to task order 0004 and seven modifications to task order 0005 had increased the combined value to over \$86 million. SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe Horwath), reviewed \$45,402,656 in expenditures charged to the two task orders from June 17, 2012, to September 29, 2013.

Crowe Horwath identified one significant deficiency in internal controls and one instance of noncompliance with the terms and conditions of the task orders. Crowe found six instances in which a DRS project director billed the government for hours in excess of the authorized 72-hour work week without first obtaining approval from the contracting officer. DRS was unable to produce evidence of the government's approval for these exceptions to the authorized schedule.

As a result of this internal-control weakness and instance of noncompliance, Crowe Horwath identified \$1,408 in total questioned costs, all of it consisting of unsupported costs. Crowe Horwath did not identify any ineligible costs.

Crowe Horwath did not identify any prior audits, reviews, or assessments that pertained to DRS's implementation of the contract or were material to the Special Purpose Financial Statement.

Crowe Horwath issued an unmodified opinion on DRS's Special Purpose Financial Statement. Crowe Horwath noted that the statement presents fairly, in all material respects, revenues received, costs incurred, and the balance for the indicated period of audit.

Based on the results of the audit, SIGAR recommends that the responsible contracting officer at the Army Contracting Command:

1. Determine the allowability of and recover, as appropriate, \$1,408 in questioned costs identified in the report.
2. Advise DRS to address the report's internal-control finding.
3. Advise DRS to address the report's noncompliance finding.

Financial Audit 15-64-FA: USAID’s Afghanistan Media Development and Empowerment Project

Audit of Costs Incurred by Internews Network

On November 1, 2010, USAID signed a one-year cooperative agreement worth \$21.9 million with Internews Network (Internews) to implement the Afghanistan Media Development and Empowerment Project. The project was intended to develop Afghanistan’s media sector nationwide through supporting regional broadcast stations, building capacity for local media outlets, and increasing access to media technology. After 13 modifications, the total approved budget of the cooperative agreement increased to nearly \$32 million, and the period of performance was extended to December 31, 2013. SIGAR’s financial audit, performed by Crowe Horwath, reviewed \$32,697,186 in expenditures charged to the agreement from November 1, 2010, through December 31, 2013.

Crowe Horwath identified two material weaknesses and two significant deficiencies in Internews’s internal controls, and three instances of material noncompliance with the terms and conditions of the cooperative agreement. Combined, the internal-control deficiencies and instances of noncompliance resulted in four findings relating to cash management, reporting requirements for financial statements and monitoring and evaluation plans, reconciliation of program income, and the calculation of indirect costs. Internews’s calculations for indirect costs for “General and Administration” included payments to some subrecipients, even though its Negotiated Indirect Cost Rate Agreement and Office of Management and Budget guidance required excluding all subawards. Therefore, Internews may have overbilled USAID by \$194,446.

As a result of these internal-control deficiencies and instances of non-compliance, Crowe Horwath identified \$194,446 in questioned costs, all consisting of unsupported costs. The questioned costs did not include any ineligible costs.

In addition, Crowe Horwath found that Internews drew down more funds than required in order to meet immediate cash needs, resulting in a \$2,717 loss in interest to the U.S. government.

Crowe Horwath did not identify any prior reviews or assessments that pertained to Internews’s implementation of the Afghanistan Media Development and Empowerment Project or were material to the Special Purpose Financial Statement.

Crowe Horwath issued an unmodified opinion on Internews’s Special Purpose Financial Statement, noting that it presents fairly, in all material aspects, revenues received, costs incurred, and the balance for the indicated period audited.

Based on the results of the audit, SIGAR recommends that the USAID Agreement Officer:



Members of a women’s organization and other Herat citizens receive training in the use of a simple video camera at the new Herat Multimedia Center. (USAID photo)

SIGAR OVERSIGHT ACTIVITIES

1. Determine the allowability and recover, if appropriate, \$194,446 in questioned costs identified in the report.
2. Collect \$2,717 in interest from Internews.
3. Advise Internews to address the report's four internal-control findings.
4. Advise Internews to address the report's three noncompliance findings.

Financial Audit 15-66-FA: Department of the Army's Engineering Support

Audit of Costs Incurred by CACI Technologies Inc.

On March 2, 2006, the ACC awarded an indefinite-delivery/indefinite-quantity contract to CACI Technologies Inc. (CACI). ACC awarded two task orders (0096 and 0127) under this contract worth a combined total of \$429 million.

ACC issued task order 0096 on September 20, 2010, with a ceiling of \$198 million and a period of performance from September 20, 2010, through February 28, 2014. The task order's purpose included engineering and program management, logistics, and transportation under the System Engineering Technical Assistance program. For example, the task order called for refurbishing facilities for Afghanistan's Counternarcotics Police.

On September 16, 2011, ACC issued task order 0127, which was intended to provide engineering and logistical support to the U.S. Army. The ceiling amount for this task order was \$231 million, and the period of performance was from September 16, 2011, through September 15, 2014. SIGAR's financial audit, performed by Crowe Horwath, reviewed \$263,188,060 in expenditures charged to the task orders from September 20, 2010, through April 30, 2014.

Crowe Horwath identified five material weaknesses, two significant deficiencies, and four instances of noncompliance with the terms and conditions of the task orders. In assessing danger-pay allowance for employees, CACI overcharged the U.S. government for danger pay that exceeded the Department of State's maximum rate of 35% of basic compensation. In some instances, the danger-pay allowance exceeded 50% of basic compensation. CACI also did not obtain the Contracting Officer's prior approval for extended work weeks or overtime charges. As a result, the U.S. government may have funded labor costs that were unreasonable or unnecessary. Although the contracting officer stated that extended work weeks were expected under both task orders, there was no written requirement in either task order indicating that this was necessary for the entire period of performance. Task order 0096 was modified on August 8, 2011, and incorporated a revised performance work statement authorizing extended work weeks of 96 hours. However, task order 0127 was not modified similarly.

As a result of these internal-control deficiencies and instances of non-compliance, Crowe Horwath identified \$192,708 in total questioned costs, consisting of \$152,976 in unsupported costs and \$39,732 in ineligible costs.

Crowe Horwath did not identify any prior reviews or assessments that could have a material effect on the Special Purpose Financial Statement.

Crowe Horwath issued a disclaimer of opinion on CACI's Special Purpose Financial Statement because CACI did not provide a signed management-representation letter which attests to the accuracy of a company's financial statements. CACI did not sign a letter because they felt that there were no rules on how Special Purpose Financial Statements should be prepared and therefore were under no obligation to sign a management-representation letter. However, the letter is a required component of management's responsibilities under U.S. generally accepted government auditing standards and without it, Crowe Horwath was unable to issue an opinion.

Based on the results of the audit, SIGAR recommends that the responsible contracting officer at the Army Contracting Command:

1. Determine the allowability of and recover, as appropriate, \$192,708 in questioned costs identified in the report.
2. Advise CACI to address the report's seven internal-control findings.
3. Advise CACI to address the report's four noncompliance findings.

Financial Audit 15-69-FA: Department of State's Afghanistan Justice Sector Support Program II

Audit of Costs Incurred by Pacific Architects and Engineers Inc.

On May 31, 2010, the Department of State issued a one-year, \$24 million task order to Pacific Architects and Engineers Inc. (PAE) to implement the Afghanistan Justice Sector Support Program II (JSSP II). The program's purpose was to provide technical assistance and training to strengthen the capacity of justice institutions and professionals to deliver fair and effective justice services to the citizens of Afghanistan. After subsequent modifications, program funding increased to more than \$144 million, and the period of performance was extended to September 24, 2013. SIGAR's financial audit, performed by Crowe Horwath, reviewed \$139,538,326 in expenditures charged to the task order from May 31, 2010, through September 24, 2013.

Crowe Horwath identified one material weakness in internal controls and one instance of noncompliance with applicable regulations. Crowe Horwath found that PAE did not comply with federal procurement policies concerning property management. Specifically, PAE was unable to provide a complete inventory of government property related to the task order. Crowe Horwath also found discrepancies between inventories taken in August 2012 and September 2013, and determined that PAE did not perform a reconciliation to resolve the differences.

As a result of the internal-control deficiency and the instance of non-compliance, Crowe Horwath identified \$6,458 in total questioned costs, consisting entirely of unsupported costs. Crowe Horwath did not identify any ineligible costs.

Crowe Horwath did not identify any prior reviews or assessments that pertained to PAE's implementation of the Afghanistan Justice Sector Support Program or were material to the Special Purpose Financial Statement.

Crowe Horwath issued an unmodified opinion on PAE's Special Purpose Financial Statement, noting that it presents fairly, in all material respects, revenues received, costs incurred, and the balance for the period audited.

Based on the results of the audit, SIGAR recommends that the responsible contracting officer at the Department of State:

1. Determine the allowability of and recover, as appropriate, \$6,458 in questioned costs identified in the report.
2. Advise PAE to address the report's one internal-control finding.
3. Advise PAE to address the report's one noncompliance finding.

Financial Audit 15-71-FA: Department of State's Integrated Victim Assistance and Capacity Building Program in Afghanistan

Audit of Costs Incurred by Clear Path International

On March 9, 2010, the Department of State awarded a \$3,000,000 grant to Clear Path International (CPI) to support the Integrated Victim Assistance & Capacity-Building Program in Afghanistan (IVA-CBP). The program's intent was to expand the size and scope of U.S. assistance to victims of explosive remnants of war, such as land mines and unexploded ordnance. After three additional grants, program funding increased to \$12,988,530, and the period of performance was extended to March 31, 2014. SIGAR's financial audit, performed by Crowe Horwath, reviewed \$12,988,530 in expenditures charged to the grants from March 9, 2010, through March 31, 2014.

Crowe Horwath identified five material weaknesses in CPI's internal controls, and five instances of noncompliance with the terms and conditions of the IVA-CBP grants. Specifically, Crowe Horwath could not determine if 11 invoices worth over \$4.8 million were incurred prior to reimbursement or if CPI's indirect costs were calculated properly. In addition, Crowe Horwath found that certain expenditure transactions did not have evidence of review, and supporting documentation could not be located. As a result, Crowe Horwath was unable to determine if these costs were allowable and allocable to the grants, thus generating significant compliance findings related to unsupported invoicing to the government. Crowe Horwath also noted many instances in which equipment was disposed of without Department of State (State) authorization. Crowe Horwath also found \$98,618 in questioned costs that resulted from a lack of supporting documentation for competitive bidding.

As a result of these internal-control deficiencies and instances of non-compliance, Crowe Horwath identified a total of \$5,390,804 in questioned costs, consisting entirely of unsupported costs. Crowe Horwath did not identify any ineligible costs.

Crowe Horwath reviewed prior audit reports related to CPI's work on IVA-CBP and determined that there were no prior findings that required follow up during this audit.

Crowe Horwath issued a disclaimer of opinion on CPI's Special Purpose Financial Statement because CPI did not provide a signed management-representation letter, which attests to the accuracy of a company's financial statements and must disclose any illegal acts that happen during the scope of the audit. The letter is a required component of management's responsibilities under government auditing standards. CPI's chief financial officer said he was not an employee of CPI when the bulk of this project took place. Therefore, he was uncomfortable signing the management-representation letter.

Based on the results of the audit, SIGAR recommends that the State Grant Officer:

1. Determine the allowability of and recover, as appropriate, \$5,390,804 in questioned costs identified in the report.
2. Advise CPI to address the report's five internal-control findings.
3. Advise CPI to address the report's five noncompliance findings.

Financial Audit 15-72-FA: Department of the Army's Ministry of Interior Program

Audit of Costs Incurred by L-3 Services Inc.

On April 30, 2010, the ACC awarded a one-year, \$32.2 million contract to L-3 Services Inc. (L-3)—rebranded in 2015 as Engility LLC (Engility)—to implement the Ministry of Interior Program. The purpose of the contract was to help develop the capabilities of the Afghan Ministry of Interior to independently plan, program, and manage the Afghan National Police. After subsequent modifications, program funding was decreased to \$24.5 million and the program completion date was set to April 30, 2011. SIGAR's financial audit, performed by Crowe Horwath, reviewed \$24,285,460 in expenses charged to the contract from May 10, 2010, through April 30, 2011.



The ACC awarded a contract to help develop the capabilities of the MOI, including ANP elements like these Afghan National Civil Order Police officers. (MOI photo by Obaidullah Bahram and Fawad Wahidy)

SIGAR OVERSIGHT ACTIVITIES

Crowe Horwath identified two significant deficiencies in internal control and one instance of noncompliance with the terms and conditions of the contract. Combined, the deficiencies in internal control and one instance of noncompliance resulted in two findings relating to cash-management procedures and financial reporting. Specifically, Crowe Horwath identified four invoices that did not receive proper review and approval by L-3's management before submission to the government for payment. Additionally, L-3 did not provide contract monitoring reports as required by the government.

Crowe Horwath did not identify any questioned costs, which would have included unsupported costs or ineligible costs.

Crowe Horwath did not identify any prior reviews or assessments that pertained to L-3's implementation of the Ministry of Interior Program or were material to the Special Purpose Financial Statement.

Crowe Horwath issued an unmodified opinion on L-3's Special Purpose Financial Statement, noting that it presents fairly, in all material aspects, revenues received, costs incurred, and the balance for the indicated period audited.

For the entire scope of this audit, L-3 was the contractor. L-3 was rebranded in 2015 as Engility. As a result, SIGAR's recommendations refer to Engility, which is now responsible and accountable for addressing any findings related to L-3's work. Based on the results of the audit, SIGAR recommends that the responsible contracting officer at the Army Contracting Command:

1. Advise Engility to address the report's two internal-control findings.
2. Advise Engility to address the report's one noncompliance finding.

Financial Audit 15-73-FA: USAID's Southern Regional Agricultural Development Program

Audit of Costs Incurred by International Relief and Development Inc.

On August 27, 2011, USAID issued a one-year cooperative agreement for nearly \$65 million to International Relief and Development Inc. (IRD) to implement the Southern Regional Agricultural Development (SRAD) program. The primary objectives of SRAD were to strengthen economic stabilization and promote long-term agricultural development in Kandahar and Helmand Provinces in southern Afghanistan. The cooperative agreement's initial period of performance ended on August 31, 2012. After six modifications, the period of performance was extended through October 15, 2012, and the program funding increased to nearly \$70 million. SIGAR's financial audit, performed by Crowe Horwath, reviewed \$69,834,921 in expenditures charged to the award from August 27, 2011, through October 15, 2012.

Crowe Horwath identified two material weaknesses and one significant deficiency in internal control, and four instances of material noncompliance with laws, regulations, or the terms and conditions of the cooperative agreement. Specifically, IRD used the highest value for donated goods rather than

using the fair market price as required by the Code of Federal Regulation. In addition, IRD's cooperative agreement required USAID to approve local procurements above \$5 million, which is consistent with the agency's standard regulations. However, IRD did not obtain approval for local procurements that exceeded the \$5 million threshold because IRD believed modification 1 to the cooperative agreement waived the requirement. However, as confirmed by USAID, the agency did not waive the requirement, and approvals were still required for local procurements above the \$5 million threshold.

As a result of these internal-control deficiencies and instances of non-compliance, Crowe Horwath identified \$28,417,356 in questioned costs, consisting entirely of unsupported costs. Crowe Horwath did not identify any ineligible costs.

Crowe Horwath reviewed two audit reports that included the SRAD program within their scopes. However, there were no findings pertinent to the program that required follow-up.

Crowe Horwath issued an unmodified opinion on IRD's Special Purpose Financial Statement, noting that it presents fairly, in all material aspects, revenues received, costs incurred, and the balance for the indicated period audited.

Based on the results of the audit, SIGAR recommends that the responsible agreement office at USAID:

1. Determine the allowability of and recover, as appropriate, \$28,417,356 in questioned costs identified in the report.
2. Advise IRD to address the report's three internal-control findings.
3. Advise IRD to address the report's four noncompliance findings.

Financial Audit 15-75-FA: USAID's Stabilization in Key Areas West Audit of Costs Incurred by AECOM International Development Inc.

On January 29, 2012, USAID awarded an 18-month, \$62,998,824 contract to AECOM International Development Inc. (AECOM) to support the Stabilization in Key Areas West program. The primary goal of the program was to promote stabilization in the western region of Afghanistan by increasing the provision of basic government services and implementing community-led initiatives in coordination with provincial governments. After eight modifications, program funding decreased to \$54 million, and the period of performance was extended through August 31, 2015. SIGAR's financial audit, performed by Williams Adley and Company-DC LLP (Williams Adley) reviewed \$34,412,722 in expenses charged to the contract from January 29, 2012, through August 31, 2014.

Williams Adley identified one deficiency in internal control and no instances of noncompliance. AECOM did not comply with federal procurement policies for records management and appropriately accounting for costs. Specifically, Williams Adley noted that supporting documentation for seven transactions totaling \$284 did not agree with AECOM's general ledger.

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A USAID-awarded contract supported SIKa West's program goals of providing basic government services and implementing community-led initiatives, including this clearing of drainage networks by Kharistan community members. (USAID photo)

Williams Adley found these questioned costs to be the result of AECOM using a different afghani-to-U.S.-dollar exchange rate for amounts invoiced than was retained in its records.

As a result of the internal-control deficiency, Williams Adley identified \$284 in total questioned costs, all of it consisting of unsupported costs. The questioned costs did not include any ineligible costs.

Williams Adley obtained and reviewed prior audit reports and other assessments that could have a material impact on the Special Purpose Financial Statement. Williams Adley identified five prior audit findings from a September 2014 SIGAR financial audit related to the scope of this audit (see SIGAR 14-94-FA, *USAID's Afghanistan Social Outreach Program: Audit of Costs Incurred by AECOM International Development Inc.*, 11/3/2014). Three of the five prior audit findings concerned document retention—an issue repeated in this audit. After reviewing and assessing documentation, Williams Adley determined that AECOM had taken adequate corrective actions on the recommendations that addressed these findings.

Williams Adley issued an unmodified opinion on AECOM's Special Purpose Financial Statement, noting that it presents fairly, in all material respects, revenues received, costs incurred, and the balance for the period audited.

Based on the results of the audit, SIGAR recommends that the responsible contracting officer at the USAID Mission for Afghanistan:

1. Determine the allowability of and recover, as appropriate, \$284 in questioned costs identified in the report.
2. Advise AECOM to address the report's one internal-control finding.

Financial Audit 15-76-FA: USAID's Stabilization in Key Areas East Program

Audit of Costs Incurred by AECOM International Development Inc.

On December 7, 2011, USAID awarded an 18-month \$177,054,663 contract to AECOM to support the Stabilization in Key Areas East program. The primary goal of the program was to promote stabilization in the eastern region of Afghanistan by increasing the provision of basic government services and by implementing community-led initiatives in coordination with provincial governments. After five modifications, the base period was extended to March 6, 2014, and an additional 18-month option year was exercised. SIGAR's financial audit, performed by Williams Adley, reviewed \$82,925,502 in expenses charged to the contract from December 7, 2011, through August 31, 2014.

Williams Adley identified one deficiency in internal control and no instances of material noncompliance. AECOM did not maintain contract documentation for an employee, leading Williams Adley to question \$6,807 in salary-related costs. Additionally, Williams Adley noted that supporting documentation for two transactions totaling \$121 did not agree with AECOM's general ledger. Williams Adley found these questioned costs to be the result of AECOM using a different afghani-to-U.S.-dollar exchange rate for amounts invoiced than was retained in its records.

As a result of the internal-control deficiency, Williams Adley identified \$6,928 in total questioned costs, all of it consisting of unsupported costs. The questioned costs did not include any ineligible costs.

Williams Adley obtained and reviewed prior audit reports and other assessments that could have a material impact on the Special Purpose Financial Statement. Williams Adley identified five prior audit findings from a September 2014 SIGAR financial audit related to the scope of this audit (see SIGAR 14-94-FA, *USAID's Afghanistan Social Outreach Program: Audit of Costs Incurred by AECOM International Development Inc.*, 11/3/2014). Three of the five prior audit findings concerned document retention—an issue repeated in this audit. After reviewing and assessing documentation, Williams Adley determined that AECOM had taken adequate corrective actions on the recommendations that addressed these findings.

Williams Adley issued an unmodified opinion on AECOM's Special Purpose Financial Statement, noting that it presents fairly, in all material respects, revenues received, costs incurred, and the balance for the period audited.

Based on the results of the audit, SIGAR recommends that the responsible contracting officer at the USAID mission for Afghanistan:

1. Determine the allowability of and recover, as appropriate, \$6,928 in questioned costs identified in the report.
2. Advise AECOM to address the report's internal-control finding.

COMPLETED INSPECTIONS

- Inspection 15-70-IP: Detention Center at the Counter Narcotics Judicial Center: Project Construction Mostly Met Contract Requirements, but Two Deficiencies Need to Be Addressed
- Inspection 15-74-IP: \$14.7 Million Warehouse Facility at Kandahar Airfield: Construction Delays Prevented the Facility from Being Used as Intended

INSPECTIONS

Inspection Reports Published

This quarter SIGAR published two inspection reports. One report found that project construction at the CNJC mostly met contract requirements, despite two construction deficiencies, and that the detention center was being used as intended. A second report found that the DLA warehouse facility at KAF was well built, despite minor deficiencies, but lengthy construction delays led to the facility's never being used as intended.

Inspection 15-70-IP: Detention Center at the Counter Narcotics Judicial Center

Project Construction Mostly Met Contract Requirements, but Two Deficiencies Need to Be Addressed

On April 12, 2012, State's Regional Procurement Support Office awarded a \$2 million firm-fixed-price contract to Zia Ahmadzai Construction Company (ZACC), an Afghan firm, to construct a new detention center to supplement an existing detention center at the Counter Narcotics Judicial Center (CNJC) in Kabul. State's Bureau of International Narcotics and Law Enforcement Affairs (INL) funded construction of the new detention center, which was built to hold about 300 detainees while they await trial. The CNJC compound consists of multiple buildings within a gated and guarded perimeter and is colocated within a larger, heavily guarded compound in central Kabul, just north of the international airport. This larger compound is home to other U.S. and Afghan agencies, such as the U.S. Drug Enforcement Administration and the Counter Narcotics Police of Afghanistan.

ZACC was required to build a T-shaped, two-story building with holding cells on both floors, a visitation area, an exercise yard, and fencing, as well as power, water, and sewage systems with connections to existing systems. ZACC was given 365 days from receipt of the Notice to Proceed on June 18, 2012, to construct the facility. Two contract modifications increased the contract price to \$2.1 million and extended the performance period to December 16, 2013. The facility was completed and officially transferred to the Afghan government on December 23, 2013.

The objectives of this inspection were to determine whether (1) work was completed in accordance with contract requirements and applicable construction standards, and (2) the new detention center was being used as intended and maintained.

SIGAR conducted two site inspections—September 14, 2014, and January 26, 2015—and found that project construction mostly met contract requirements and that the detention center was being used as intended. SIGAR also found two construction deficiencies—lack of lightning rods on the roof and some improper metal welds in the roof's support system—that

SIGAR OVERSIGHT ACTIVITIES

need to be addressed by INL. These deficiencies present possible life and safety issues requiring immediate attention.

SIGAR recommends that the Secretary of State direct INL to take immediate action to correct the two construction deficiencies: (1) a lack of lightning rods; and (2) improper metal welds in the roof-support system. INL should determine the number of improper welds, determine the impact on the roof's structural integrity, and develop a corrective action plan to ensure the safety of the roof-support system.

Inspection 15-74-IP: \$14.7 Million Warehouse Facility at Kandahar Airfield

Construction Delays Prevented the Facility from Being Used as Intended

In 2009, the U.S. Army developed contract requirements for the construction of a Defense Logistics Agency (DLA) warehouse facility at Kandahar Airfield (KAF). At the time, DLA did not have a distribution facility in Afghanistan. Instead, the agency was moving materials through distribution facilities located outside of the country. The planned facility was intended to be used as a distribution facility at Kandahar, which would allow for in-country receipt, storage, and issuance of DLA-owned material to customers throughout the Afghan theater of operations. The U.S. Army developed the requirement, the U.S. Army Corps of Engineers (USACE) was the contracting agency and project manager, and DLA was the intended customer.

On September 15, 2010, USACE awarded a \$13.5 million firm-fixed-price contract to YDA AFCON Joint Venture (YDA AFCON), a partnership between two Turkish construction companies, to design and build a DLA warehouse facility at KAF. The contract required construction of four shipping and receiving warehouses, an administration building, and supporting facilities. The scope of work required construction of a permanent, non-combustible, general-purpose warehouse facility with 173,428 square feet of floor space among the four warehouses. The warehouses were to be pre-engineered metal buildings with heating, ventilation, and air conditioning for the storage areas. The administration building was to be about 1,720 square feet. Supporting facilities included asphalt-paved roadways and aprons, crushed-stone truck-parking and staging areas, perimeter fencing with entry control points, area lighting, and connection to all utilities. The contract required construction to be completed by August 30, 2011, or within 300 days of the notice to proceed on November 3, 2010. On April 25, 2013, after months of construction delays, USACE issued a partial contract termination for default. The contract work items that were terminated and descope from the contract included incomplete work on electrical systems in the warehouses and administration building; plumbing work; the installation, testing, and commissioning of the fire-suppression and fire-alarm systems; installation of the communications system; and uncorrected deficiencies in the electrical work and construction of doors and handrails.



SIGAR's inspection of a warehouse at KAF found several minor construction deficiencies, including exterior siding torn away from the building. (SIGAR photo by Ronald Snyder)

SIGAR OVERSIGHT ACTIVITIES

On May 5, 2013, USACE awarded a second firm-fixed-price contract for \$844,526 to Arkel International LLC, a United States-based construction company, to complete the warehouse project. The scope of work required completion and testing of the facility's generator power system; design and construction of prime power connection from the KAF electrical distribution system; completion and testing of the fire-suppression and pump-house systems; construction of a communications system for the four warehouses and administration building; completion of the warehouses, including location and installation of replacements for missing, broken, or improperly designed components; and completion of the administration building, including connection of the water service to the existing water distribution system adjacent to the project site, and installation of the bathroom's plumbing fixtures. This contract had a 90-day period of performance and a planned completion date of August 26, 2013. However, after USACE modified the contract to provide clean-up services for the project site, make changes to the fire-suppression and fire-alarm systems, and hire additional personnel to test the fire-pump system and fire-pump controllers, the completion date was extended to November 10, 2013. DLA accepted the completed warehouse facility on February 3, 2014.

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.

SIGAR conducted site visits in November 2014 and February 2015. SIGAR found that the \$14.7 million warehouse facility was well built, but that several minor deficiencies existed. Furthermore, lengthy construction delays led to the facility's never being used as intended. Had the facility been completed on schedule, DLA would have been able to use it for more than two years before the agency's mission in Kandahar ended in 2014. SIGAR also found that the U.S. Army did not take action to prevent more than \$400,000 in modifications from being made to the project after the August 2013 decision was made to end DLA's mission in Kandahar.

SIGAR recommends that the commander, U.S. Central Command (CENTCOM), direct the commander, U.S. Forces-Afghanistan (USFOR-A) to determine and identify, and report back to SIGAR within 90 days, who made the decision, and why, to allow contract modifications to be made and additional funds to be spent on the warehouses after the decision in August 2013 to end DLA's mission in Kandahar.

NEW INSPECTIONS

- State/USAID-funded construction projects
- DOD-funded construction projects
- ANA Camp Commando Phases III and IV
- MOI Headquarters Complex
- MOD Headquarters Support and Security Brigade

New Inspections Announced

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

SIGAR OVERSIGHT ACTIVITIES

- State/USAID-funded construction projects
- DOD-funded construction projects
- ANA Camp Commando Phases III and IV
- MOI Headquarters Complex
- MOD Headquarters Support and Security Brigade

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 19 recommendations contained in eight audit and inspection reports. Five of the reports contained recommendations that resulted in the recovery of \$1,140,844 in ineligible or unsupported contract costs paid by the U.S. government.

From 2009 through June 2015, SIGAR published 184 audits, alert letters, and inspection reports and made 580 recommendations to recover funds, improve agency oversight, and increase program effectiveness. SIGAR has closed over 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 39 audit and five inspection reports. In this quarter, there were no recommendations over 12 months old where the agency had yet to produce a corrective-action plan that SIGAR believes would resolve the identified problem or otherwise respond to the recommendations. However, there are seven audit reports over 12 months old where SIGAR is waiting for the respective agencies to complete their agreed-upon corrective actions.

SPECIAL PROJECTS

SIGAR'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.

This quarter, SIGAR's Office of Special Projects issued a report on the 64,000-square-foot command and control facility at Camp Leatherneck in Helmand Province, Afghanistan (the "64K building"). The report is the

COMPLETED SPECIAL PROJECTS

- Report 15-57-SP: \$36 Million Command and Control Facility at Camp Leatherneck, Afghanistan: Unwanted, Unneeded, and Unused
- Inquiry Letter 15-60-SP: Downstream Gas Utilization Project
- Inquiry Letter 15-62-SP: Afghanistan Education Data
- Inquiry Letter 15-65-SP: Tarakhil Power Plant
- Inquiry Letter 15-67-SP: Geospatial Coordinates for PCH Health Facilities

SIGAR OVERSIGHT ACTIVITIES

culmination of nearly two years of SIGAR’s investigative work on the construction of the unwanted, unneeded, and unused facility.

The Office of Special Projects also wrote to DOD to request information about the \$43 million Downstream Gas Utilization project implemented by the Task Force for Business and Stability Operations (TFBSO). An inquiry letter sent to USAID requested information on the data used by the agency to oversee, fund, and assess its education programs in Afghanistan. Other letters to USAID raised concerns about the underutilization of the Tarakhil Power Plant and the accuracy of location information for health-care facilities funded by the PCH program.

Report 15-57-SP: \$36 Million Command and Control Facility at Camp Leatherneck, Afghanistan: Unwanted, Unneeded, and Unused

SIGAR published a special project report on May 20, 2015, presenting the results of the agency’s investigation of the construction of the “64K building” at Camp Leatherneck in Helmand Province, Afghanistan.

SIGAR found that DOD requested funds for this facility on the basis that it was necessary to address an immediate operational need associated with the 2010 military surge in Afghanistan. However, then-Major General Richard P. Mills, the general in charge of the surge in Helmand, requested that the facility not be built because it was not needed: existing resources at Camp Leatherneck were already well-suited to the mission. However, the request to cancel the building was rejected by then-Major General Peter M. Vangjel, who believed that it would not be “prudent” to cancel a project for which funds had already been appropriated by Congress. Ultimately, construction of the building was not completed until long after the surge was over and the building was never used.



The unused 64,000-square-foot command-and-control facility at Camp Leatherneck is the subject of a SIGAR special project report this quarter. (SIGAR photo)



Boxes sit unopened and chairs remain unused in the 64K building during a May 2013 site visit. (SIGAR photo)

The failure to follow General Mills's advice to cancel the 64K building resulted in the waste of about \$36 million.

Although most of the offices and individuals SIGAR contacted during this investigation were cooperative, some officials, in their own words, attempted to “slow roll” or otherwise frustrate SIGAR's investigation.

Inquiry Letter 15-60-SP: Downstream Gas Utilization Project

On May 18, 2015, as part of its ongoing review of TFBSO operations, SIGAR wrote to the Secretary of Defense to request information about the task force's \$43 million Downstream Gas Utilization project. To SIGAR, the project's objectives did not seem feasible for several reasons, including automobile-conversion costs and a lack of necessary infrastructure. On June 18, 2015, one month after SIGAR requested the information, the Principal Deputy Undersecretary of Defense responded to the SIGAR inquiry stating that, “the Office of the Secretary of Defense (OSD) no longer [possesses] the personnel expertise to address these questions or to assess properly the TFBSO information and documentation retained by WHS in the OSD Executive Archive.” SIGAR will soon publish its findings concerning this project.

Inquiry Letter 15-62-SP: Afghanistan Education Data

SIGAR wrote to USAID on June 11, 2015, to request information regarding the reliability of data used by USAID to oversee and fund its education programs in Afghanistan, and to measure the effectiveness of those programs. Recent allegations in reports by the news media suggest that education data provided to USAID by the Afghan government was falsified to obtain more funding.

U.S. and international donors have made significant investments in Afghanistan's education sector. The allegations of data falsification suggest that these donors may have paid for schools that students do not attend and for salaries of teachers who do not teach. The data USAID cites as clear indicators of progress come from the Afghan Ministry of Education's Education Management Information System, which USAID has said it cannot verify and which may include falsified or inaccurate data.

Although SIGAR has an ongoing audit of U.S. government efforts supporting primary and secondary education in Afghanistan, SIGAR believes the allegations about non-existent or non-operating schools, students, and teachers calls for immediate attention. USAID responded to the SIGAR inquiry on June 30, 2015, and stated in part, “the Afghan media reports ... are not accurate,” and “there is no specific evidence or allegation ... that U.S. assistance funds have been misappropriated, and we remain confident that education programs are among our most successful programs in Afghanistan.” SIGAR is following up to independently verify the status of

several schools throughout Afghanistan. SIGAR will issue multiple reports on its findings over the next several quarters.



USAID invested \$355 million on the Tarakhil Power Plant, which is the subject of a SIGAR inquiry letter this quarter. (USAID photo)

Inquiry Letter 15-65-SP: Tarakhil Power Plant

On June 19, 2015, SIGAR wrote to USAID to inquire about the use of Tarakhil Power Plant to supply back-up power to Kabul. USAID invested \$355 million in the Tarakhil Power Plant, which was intended to significantly bolster the power available on Afghanistan’s national grid. However, SIGAR is concerned that the Afghan government cannot afford or may be unable to fully operate the plant, even during emergency situations in response to critical, short-term needs, such as the avalanches in late February 2015 which destroyed key parts of the existing Northern Electrical Power System.

A June 2014 USAID OIG review of the Tarakhil Power Plant found the plant to be severely underused, operating at just 2.2% of installed capacity, which USAID OIG attributed in part to the plant’s high operating cost—particularly the high cost of diesel fuel. In response to the OIG report and the accompanying recommendations, USAID stated that it had either already initiated, or would initiate, remedial measures to help the Afghan government and DABS (the national power utility) operate the plant on a more regular basis. USAID stated that all corrective measures would be implemented no later than December 31, 2014, approximately two months before the avalanches.

Despite USAID’s commitment to take corrective action, SIGAR remains concerned about the Afghan government’s ability to operate the Tarakhil Power Plant, given the blackouts and lack of power in Kabul as a result of the February 2015 avalanches. USAID responded to the SIGAR inquiry on June 26, 2015, and stated in part that the agency has, “no indication that the Afghan power utility, Da Afghanistan Breshna Sherkat (DABS), failed to operate Tarakhil as was alleged in your letter.” SIGAR is analyzing USAID’s response and will follow up with further analysis of the plant’s operation.

Inquiry Letter 15-67-SP: Geospatial Coordinates for PCH Health Facilities

SIGAR wrote to USAID on June 25, 2015, to request information about the PCH program, which USAID funds through on-budget assistance to the Afghan Ministry of Public Health (MOPH). USAID has disbursed over \$210 million as of March 2015 for the PCH program to support the MOPH’s efforts to deliver basic health services throughout Afghanistan.

SIGAR’s initial analysis of USAID data and geospatial imagery has led it to question whether USAID has accurate location information for 510, or 80%, of the 641 health-care facilities funded by the PCH program. To provide meaningful oversight, both USAID and MOPH need to know the location of these facilities. USAID responded to the SIGAR inquiry on July 1, 2015, and stated in part that the agency “regrets that the data and information SIGAR utilized for the basis of this inquiry was not verified sooner, given this

particular set is something MoPH is continually updating and refining,” and, “the lack of precise geospatial data in most cases does not interfere with our ability to effectively monitor PCH.” As an enclosure to its response, USAID also provided an updated list of PCH facilities and associated locations. SIGAR is analyzing the new geospatial coordinates and exploring options to independently verify their accuracy.

USAID’s response to SIGAR’s letter then raised another issue of concern. USAID admitted it was aware of “precision issues” in the coordinates it gave SIGAR in May 2014. Also troubling was USAID’s subsequent admission that it was aware of “precision issues” in the coordinates it gave SIGAR. Evidently, USAID provided the coordinates for a SIGAR criminal investigation without any appropriate caveats on their use, even though it had little or no confidence in the information.

LESSONS LEARNED

SIGAR created the Lessons Learned Program (LLP) to conduct a comprehensive analysis of the reconstruction effort in Afghanistan from 2001 onwards to identify best practices and lessons to help address systemic issues facing U.S. reconstruction efforts there. The LLP has three ongoing projects which are examining interagency coordination on strategy and planning, U.S. coordination with external partners in administering aid to Afghanistan, and the efficacy of counternarcotics interventions. A Lessons Learned project announced this quarter will review how U.S. agencies perceived and responded to corruption in Afghanistan, how they tried to combat corruption, and the efficacy of those anticorruption efforts.

New Lessons Learned Project

This quarter the LLP announced a project that will review the perceptions and responses of U.S. agencies to corruption in Afghanistan.

Corruption in Afghanistan: Perceptions and Responses of the U.S. Government

From the beginning of the United States’ post-9/11 engagement in Afghanistan, the U.S. government has acknowledged the risks of corruption. President Bush’s 2002 National Security Strategy stated, “poverty, weak institutions, and corruption can make weak states vulnerable to terrorist networks and drug cartels within their borders.” While corruption existed before the U.S. intervention in Afghanistan, its corrosive effect has worsened over the past 14 years, as acknowledged by senior U.S. officials. General John Allen, commander of the International Security Assistance Force (ISAF) from 2011 to 2013, testified in 2014 before a Senate Foreign Relations Subcommittee that “The existential threat to the long-term viability of modern Afghanistan is corruption.”

NEW LESSONS LEARNED PROJECT

- Corruption in Afghanistan: Perceptions and Responses of the U.S. Government

SIGAR OVERSIGHT ACTIVITIES

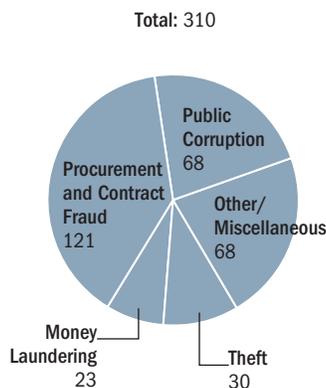
Corruption is widely cited as undermining popular support for the Afghan state, which could have the effect of generating sympathy for the insurgency. Corruption also imposes severe economic costs, and can prevent the state from functioning: it distorts key sectors of the Afghan economy; discourages foreign direct investment; diverts official receipts from the national treasury, thus damaging the government's fiscal sustainability; and adds a financial burden onto the backs of ordinary Afghans. Widespread corruption creates an environment where the rule of law is questionable at best.

The problem of corruption thus cuts across all aspects of the U.S. reconstruction effort in Afghanistan, and increases the costs of our assistance while negatively affecting core foreign policy goals. To date, there has been no systematic analysis of how the U.S. government perceived and responded to corruption from 2001 to 2014.

This project will examine U.S. reconstruction efforts in Afghanistan and available indicators of corruption in the country from 2001 to 2014 to: (1) establish a broad timeline of the corruption problem in Afghanistan since 2001; (2) analyze how the U.S. government understood the threat of corruption and how this perception changed over time, and identify the U.S. response in terms of policies, programs, and resources devoted to address the corruption problem; (3) evaluate the adequacy of the U.S. response (policies, programs, and resources) relative to U.S. strategic goals, interests, and risks, and identify where U.S. policies or actions mitigated and/or contributed to corruption; (4) compare U.S. perceptions of and responses to corruption to those of the international community; and (5) identify lessons learned from the U.S. experience with corruption and anticorruption in Afghanistan, and make actionable recommendations aimed at policy-makers and practitioners as to how best to mitigate corruption or the risk thereof in future U.S. reconstruction efforts in Afghanistan and elsewhere.

FIGURE 2.1

SIGAR INVESTIGATIONS: NUMBER OF OPEN INVESTIGATIONS, AS OF JUNE 30, 2015



Source: SIGAR Investigations Directorate, 7/10/2015.

INVESTIGATIONS

During the reporting period, SIGAR investigations achieved significant results. Cost savings to the U.S. government amounted to approximately \$214.7 million, civil-settlement recoveries totaled more than \$6.9 million, and fines, forfeitures, and restitutions totaled over \$675,000. Additionally, there were four arrests, eight criminal charges, six convictions, and five sentencing. In Afghanistan, 17 individuals were barred from U.S. military installations. SIGAR initiated 27 new investigations and closed 40, bringing the total number of ongoing investigations to 310, see Figure 2.1.

The accomplishments of the quarter bring the cumulative total in criminal fines, restitutions, forfeitures, civil settlement recoveries, and U.S. government cost savings from SIGAR's ongoing investigations to \$794 million. Investigative outcomes include 101 arrests, 130 criminal charges, 93 convictions, and 69 sentencing.



Deputy Inspector General Inspects Aircraft

Gene Aloise, Deputy Inspector General for Afghanistan Reconstruction, conducts a site inspection and meets with U.S. Air Force (USAF) officials at Ramstein Air Base in Germany. DIG Aloise received a personal briefing regarding an acquisition program originally destined for the Afghanistan Air Force. SIGAR and the USAF are involved in a joint review of this program.

(SIGAR photo by John DeDonna)

Civil Investigation Yields Nearly \$7 Million Recovery for the U.S. Government

On May 28, 2015, SIGAR received notice from the United States Transportation Command (USTRANSCOM) Judge Advocate that the in-house counsel for Maersk Line Limited (MLL) confirmed the refund of \$6,016,984 for containers improperly transported from the United States through Riga, Latvia, to Afghanistan. In connection to the same civil investigation, on April 17, 2015, USTRANSCOM and American President Lines Ltd. (APL) entered into an agreement whereby APL will pay USTRANSCOM \$466,273; and on June 1, 2015, USTRANSCOM and Hapag-Lloyd (HL) entered into an agreement whereby HL will pay USTRANSCOM \$444,052.

USTRANSCOM awarded a series of contracts, collectively referred to as the “USC-06” contracts, to three global transportation and logistics companies MLL, APL, and HL. Under various USC-06 contracts, MLL, APL, and HL transported food and cargo destined for U.S. troops in Afghanistan from the U.S. to Latvia or other intermediate ports in Europe. At that point, MLL, APL, and HL then arranged with various logistics vendors, one of which was Supreme Logistics FZE (Supreme), to carry the cargo the rest of the way to Afghanistan.

An investigation was initiated after MLL, APL, and HL provided a self-disclosure to the United States that they had overbilled USTRANSCOM, because of their shared common subcontractor, Supreme. According to the self-disclosure, Supreme falsely billed for higher-priced refrigerated trucks when it actually used lower-priced non-refrigerated trucks to transport the cargo, as well as transporting certain cargo containers to areas within Afghanistan with a lower USC-06 inland rate than the destination and inland rate booked and invoiced to the prime companies. MLL, APL, and HL had relied on those false invoices and passed them along to USTRANSCOM for payment.

SIGAR and various members of the International Contract Corruption Task Force (ICCTF) conducted the investigation, interviewing more than

25 key personnel, and analyzing more than 10,000 contract and audit documents. The results of the investigation mark a significant recovery for the U.S. government.

Civilian Contracting Officer Charged and U.S. Military Officer Pleads Guilty

An investigation was initiated on August 15, 2013, upon receipt of a SIGAR hotline complaint from an individual who requested confidentiality. The investigation concerned an illicit relationship between the Non-Standard Rotary Wing Aircraft (NSRWA) Program office at Redstone Arsenal and two contractors: Avia Baltika (AVB) and MD Helicopters Inc. (MDHI).

In late 2011 and 2012, the Department of Defense Office of Inspector General (DOD IG) audited contracts involving the overhaul of Russian-made Mi-17 helicopters and the purchase of spare parts amounting to over \$8 million. The purpose for the audit was to determine whether the U.S. Army paid reasonable prices for the parts, whether the parts were necessary, and whether proper contracting procedures were followed.

Teresa Mayberry, a contracting officer at NSRWA, approved the parts contract on behalf of the U.S. government and had a key role in its implementation. Throughout the course of the audit, DOD IG made several requests to Mayberry for contracting documents used to justify the decisions made in purchasing the spare parts. On June 2, 2015, in the Northern District of Alabama, a criminal information was filed against Mayberry charging obstruction of a federal audit for conduct arising from her efforts to obstruct an audit by the DOD IG into the overhaul and purchase of Mi-17 helicopters for the Afghan Air Force. Mayberry prepared, and directed her subordinates to prepare, a variety of false and backdated documents, which she then provided to DOD IG in response to its requests.

In connection with this same investigation, on April 7, 2015, in the Northern District of Alabama, a criminal information was filed against U.S. Army Colonel Norbert Vergez. The information cited felony counts for conflict of interest, false statements to DOD IG and false statements on his personal financial disclosure form stemming from conduct during Vergez's tenure as project manager for NSRWA, which included Mi-17 and other Afghanistan related helicopter contracts.

Vergez admitted he engaged in a criminal conflict of interest by taking official acts as a government official to assist MDHI in negotiating a "foreign military sale" and adjusting a contract so that the company received payment faster than originally agreed upon, at a time when Vergez was negotiating future employment with that company. Vergez also admitted that he obstructed DOD IG in the conduct of audits concerning AVB contracts and evidence revealed he accepted a gratuity from AVB in the form of a Rolex wristwatch for his wife. Additionally, Vergez admitted to making false statements in his "confidential financial disclosure report," a

government ethics form, by not disclosing that he received a wristwatch from AVB, that he had accepted an offer of employment with MDHI and that he had received a \$30,000 check from MDHI.

As a result of the criminal information, on April 20, 2015, Vergez pled guilty to all three felony counts: conflict of interest, false statements to DOD IG, and false statements on his personal financial-disclosure form.

The investigation into these matters was complex, involving more than 150 interviews, 137 federal grand jury subpoenas, the execution of four email search warrants, e-discovery utilization, and the review of at least 500,000 documents. The investigation is being conducted by SIGAR, the Federal Bureau of Investigation (FBI), the Defense Criminal Investigative Service (DCIS), and the U.S. Army Criminal Investigative Command (USACID).

Bribery Investigation Results in Criminal Charges and Guilty Plea

On June 4, 2015, in the Northern District of New York, U.S. Army Staff Sergeant Matthew Louis Bailly pled guilty to a one-count criminal information charging him with conspiracy to receive and accept illegal bribes by a public official.

On June 1, 2015, a criminal information was filed in the Western District of Kentucky, charging U.S. Army Sergeant First Class Ramiro Pena with conspiracy to receive and accept illegal bribes by a public official.

Both individuals were subjects of a bribery investigation focusing on Afghan contractors paying bribes to U.S. military personnel in return for government contracts associated with the Humanitarian Aid Yard (HA Yard) at Bagram Airfield (BAF), Afghanistan. The HA Yard functions as a storage facility for large quantities of clothing, food, school supplies, and other items available to military units in support of humanitarian aid for the Afghan people. The HA Yard, through the Commander's Emergency Response Program, enables U.S. military commanders to respond to urgent humanitarian relief needs.

Bailly, in his position as a project purchasing officer at the HA Yard, accepted approximately \$12,000 in illegal bribes from Afghan vendors to ensure successful approval and processing of replenishment contracts to restock supplies.

Pena was a project purchasing officer at HA Yard and accepted approximately \$100,000 in illegal bribes. According to the criminal information, Pena allegedly sent approximately \$22,000 of the bribe money home in greeting cards addressed to his wife, who resided at Fort Campbell. He would send three to four bills totaling \$300 to \$400 in each card at a time so as to not bring attention to the envelope at the post office. Further, Pena used bribe money to purchase a Harley-Davidson motorcycle and to pay his and his family's personal expenses.

SIGAR AND NATIONAL PROCUREMENT AUTHORITY TEAM UP AGAINST CORRUPTION

The national-unity government established the National Procurement Authority (NPA) to help foster transparency within the public procurement system of Afghanistan. To realize this objective, the NPA is working with SIGAR as well as other national and international oversight organizations. In February 2015, the SIGAR Investigations Directorate briefed President Ghani regarding its findings of corruption in the award of the nearly \$1 billion MOD fuel contract; subsequently, President Ghani cancelled the contract and suspended those MOD officials purportedly involved in the corruption.

Each week, a SIGAR Investigations Directorate representative attends the meetings of the National Procurement Commission (NPC), chaired by President Ghani, at which time the NPA presents to the NPC various ministries' contracts previously submitted to the NPA for review and action. The NPA reviews the contracts and then submits them to the NPC for approval, disapproval, or additional action.

SIGAR partners with Major General Todd Semonite, commanding general of CSTC-A, or his representatives, to attend the NPC meetings. Major General Semonite, or his representatives, are closely involved in the discussion of those contracts involving the Ministries of Defense and Interior. Generally, the only U.S. representatives at the NPC meetings are CSTC-A and SIGAR.

To further assist the NPA in its efforts to curb corruption, SIGAR's Investigations Directorate is putting together fraud-awareness briefings for NPA procurement specialists. The briefings will help them detect procurement-fraud indicators and know what actions to take when such indicators are found.

SIGAR's suspension and debarment program is also engaging with the NPA. On June 22, 2015, representatives from SIGAR met with Dr. Murtaza Noori,



SIGAR and NPA officials meet in Kabul on June 22, 2015. (SIGAR photo)

procurement policy director, and Yama Yari, director general of the National Procurement Authority, at the presidential palace to discuss the recent enactment of debarment regulations within Afghanistan's Public Procurement Law. During this meeting Noori and Yari described how the new regulations strengthened the Afghan government's ability to oversee contractors through the debarment process, the mechanisms by which it intended to implement its debarment program, and ideas about how conflicts in procurements could be resolved.

In addition, SIGAR provided an overview of how it has addressed suspension and debarment issues in Afghanistan, the need for reviewing the present responsibility of the owners and affiliates of contractors accused of fraud and poor performance, and the use of online databases such as the General Services Administration's System for Award Management to provide publicly available information about debarment decisions.



NPA Director General Yama Yari and Special Inspector General Sopko walk on the grounds of the presidential palace following an NPC meeting chaired by President Ghani. (SIGAR photo by Tom Niblock)

The efforts by the NPA to implement a debarment program are complementary to the efforts by SIGAR and other agencies conducting oversight over contracting in Afghanistan. For some time, SIGAR has sought out partners in the Afghan Attorney General's Office and other entities within the Afghan government to pursue criminal matters related to reconstruction and other procurement contracts. However, until now, the Afghan government did not have the means to use debarment to prevent the further award of contracts to individuals and companies because it was not codified within the Afghan public-procurement law.

In April 2015, the NPA implemented debarment regulations which allow for the exclusion of contractors for one to five years for fraud and poor performance based on the determination of an independent, five-person debarment committee appointed by the NPA. The process also requires provision of written notice to the contractor and an opportunity to provide written and in-person responses to the evidence submitted



President Ghani and SIGAR Special Agent Lindy Savelle shake hands at the conclusion of an NPC meeting. (GIROA photo by Ahmad Mukhtar Ghanizai)

to the debarment committee. Once a decision is reached regarding debarment, the director general of the National Procurement Authority is responsible for reviewing it to ensure its compliance with Afghan law and procedures for debarment. As part of this process, the NPA is developing an online database to provide transparency regarding its debarment decisions and to give notice to the contracting community about its decisions. As of June 2015, the NPA's debarment committee had taken action to debar nine contractors with an additional 21 under consideration by the committee.

SIGAR intends to continue to work closely with our colleagues at the National Procurement Authority as it develops its debarment program by sharing best practices and experience in addressing reconstruction-contract fraud and poor performance to ensure that contractors are held accountable.

The partnership and cooperation between SIGAR, the NPC, and the NPA is helping to fight corruption in Afghanistan.

Conspiracy Results in Guilty Plea and Sentencing

On May 21, 2015, in the Middle District of Georgia, U.S. Army Sergeant First Class James E. Norris was sentenced to 51 months' incarceration, three years' supervised probation, and court-ordered restitution payment of \$176,000. On February 11, 2015, Norris pled guilty to one count of conspiracy to commit bribery.

On June 9, 2015, subsequent to the receipt of a criminal indictment in the U.S. District Court, Middle District of Georgia, former U.S. Army Specialist Anthony D. Tran pled guilty to one count of bribery of a public official in the Northern District of California.

Based on reports of missing fuel at Forward Operating Base (FOB) Gardez, SIGAR initiated the investigation of coconspirators Norris, Tran, U.S. Army Sergeant Seneca D. Hampton, and one other individual. The investigation confirmed a total loss of 59,000 gallons of fuel valued at \$600,000, and the four individuals were identified as having been involved in a bribery scheme in connection with the fuel loss.

Norris and Hampton subsequently admitted to accepting approximately \$2,000 per day from local Afghan drivers in exchange for permitting the drivers to take thousands of gallons of fuel from the base. Both individuals shipped the bribery proceeds to the United States by concealing them in their personal effects.

Norris admitted he was personally paid a total of \$100,000 over the course of the conspiracy. He also admitted to purchasing a Cadillac Escalade and a custom-built Hardcore Choppers motorcycle with the cash derived from the bribery scheme.

Tran admitted to accepting approximately \$20,000 in illegal bribes from an Afghan driver in exchange for permitting him to steal approximately 12,000 gallons of fuel from the base. Tran admitted shipping the bribery proceeds concealed in personal effects that he sent to the United States, and using the currency to purchase a Dodge Challenger vehicle. In addition, Tran admitted receiving cash from Hampton in exchange for not reporting the criminal activities to authorities.

Hampton is scheduled to be sentenced in July 2015.

U.S. Army Staff Sergeant Arrested and Indicted

Following an indictment returned on May 20, 2015, in the District of Hawaii, U.S. Army Sergeant First Class Marvin L. Ware was arrested on charges of conspiracy, bribery, money laundering, and theft. The indictment is the result of Ware's alleged involvement in a fuel-theft scheme at FOB Fenty, near Jalalabad, Afghanistan. SIGAR conducted the investigation with other members of the ICCTF.

During 2011 and 2012, the U.S. military stockpiled jet fuel at FOB Fenty for use on the base and for transport to other forward operating bases and contingency operating bases in Afghanistan. Fuel deliveries were made using a local Afghan contractor, transporting the fuel in 3,000-gallon tanker

trucks, termed “jingle trucks.” Ware and his coconspirators, U.S. Army Sergeant Regionald Dixon and U.S. Army Specialist Larry Emmons, and employees of the Afghan trucking contractor developed a scheme whereby fraudulent transportation movement requests (TMRs) were created, authorizing the movement of fuel from the FOB Fenty to another location. In clandestine locations and at the times of day least likely to arouse suspicion, the coconspirators illicitly filled jingle trucks with fuel and gave fraudulent TMRs to the drivers of the jingle trucks, who presented them at the FOB Fenty checkpoint to justify their departure from the base.

In return for facilitating the theft, employees of the Afghan trucking company paid Ware, Dixon, and Emmons approximately \$6,000 for each 3,000-gallon jingle truck of stolen fuel. The U.S. government estimates the three individuals facilitated the theft of at least 135,000 gallons of jet fuel.

Emmons and Dixon pled guilty on June 8, 2012.

U.S. Contractor Sentenced for Bribery

On April 30, 2015, in the Eastern District of New York, Akbar Ahmed Sherzai was sentenced to 48 months’ incarceration, three years’ supervised probation, and forfeiture of \$54,000. Special agents from SIGAR and the Department of Homeland Security’s Immigration and Customs Enforcement’s Homeland Security Investigations arrested Sherzai in 2013, and in February 2014, he pled guilty to a criminal information charging him with bribery of a public official.

Sherzai was an independent contractor for a trucking company operating in Afghanistan and responsible for delivering fuel to U.S. military installations. In April 2013, Sherzai approached a U.S. service member to discuss fuel delivery missions Sherzai’s company had not fulfilled and that had been classified by the U.S. Army as “no-shows,” meaning the fuel was never delivered. Sherzai offered the service member a bribe to falsify the TMRs to reflect successful deliveries so that Sherzai’s company would receive payment as well as avoid the \$75,000 penalty incurred for each failed delivery.

The service member, under the supervision of SIGAR special agents, continued to meet with Sherzai to discuss payment for falsification of records. Subsequently, on two separate occasions, Sherzai paid cash bribes to the service member directly. On another occasion, Sherzai arranged for the bribe money to be transferred to the United States through a *hawala*, an informal money transfer system. Sherzai paid the service member a total of \$54,000 to falsify nine TMRs.

Two Contractor Employees Sentenced for Conspiracy

On May 19, 2015, in the Middle District of Florida, Alan Simmons was sentenced to one year and one day of incarceration, three years’ supervised release, and ordered to pay \$189,000 restitution for conspiracy to defraud the U.S. government.

\$214 MILLION SAVINGS FROM CANCELED AFGHAN MINISTRY OF DEFENSE CONTRACT

In August 2014, SIGAR initiated an investigation based on a complaint that contractors bidding on a nearly \$1 billion Afghan Ministry of Defense (MOD) fuel contract colluded to rig their bids and inflate prices for the fuel. The contract was funded by the Combined Security Transition Command-Afghanistan (CSTC-A) through direct assistance to the MOD. Initial allegations detailed how competitors prevented two companies on a list of six short-listed fuel supply contractors from submitting their bids on time for the MOD five-year fuel contract to supply fuel throughout Afghanistan to the ANA.

One company was detained by police for a bogus traffic violation en route to the bid-solicitation drop-off point, while the second company's vehicle was struck by a truck, also en route to deliver its bid package. Because the two companies were late for the bid opening, they were disqualified for competition and their bids were not accepted. Allegations indicated the four contractors who arrived at the bid opening on time had previously met in Dubai, United Arab Emirates, to rig their bids and fix their elevated contract prices so that all four companies would make more money than they were making on fuel contracts with other ministries and departments.

The investigation determined that the four colluding companies had fixed their prices and rigged their contract bids. An analysis of contract documents disclosed identically matching fuel prices for diesel and petrol, despite the fact the companies maintained they were purchasing the fuel from four different locations and calculating their costs using four completely different mathematical methodologies. Fuel and contracting experts stated that the chances of matching fuel prices to the fourth decimal point were 1 in 1,000,000,000,000, and that in all their years of working fuel they had never once encountered this. The experts opined the contract bids were collusive and the prices were fixed in a manner to better position the companies to maximize

their profits beyond what would be reasonable and sustainable. The value of the contract award was nearly \$1 billion (\$999,456,936). The investigation revealed that, had the other two short-listed bidders not been detained by police or held up from being struck by a vehicle, the MOD would have received at least one, if not two, lower bids, thereby saving the government over \$200 million (\$214,691,617). One of the lower bids was for \$784,765,319.

In addition to the bid rigging and price fixing, the investigation disclosed the four colluding contractors paid bribes to certain MOD military members, contracting officials, and financial advisors/authorities to ensure the contract was awarded to the colluding contractors exclusively. Prior to the bid opening date, additional bribes were offered to the competing contractors for agreeing not to submit their bids. The competitors refused to accept the bribe and fully intended to submit their bids, but were ultimately precluded from doing so. After the bid opening date, one of the detained contractors filed a complaint and was subsequently offered another bribe to drop the complaint and remain silent. The solicited contractor again refused to accept the bribe. The complaint was denied and allegations surfaced, but were never proven, that the complaint department received a bribe to deny the claim.

On February 1, 2015, SIGAR briefed the case to the Afghan President Ashraf Ghani, who immediately cancelled the MOD contract. Interim and bridge contracts were put in place to provide enough fuel to the ANA to meet their mission needs. All colluding contractors were excluded from competition. As funding for the contract was provided by the U.S. Army, the cancellation of the MOD contract represents a savings to the U.S. government in excess of \$200 million. In addition to the contract cancellation, President Ghani removed from office five high-ranking military members and one civilian advisor at the MOD.

On June 18, 2015, in the District of Massachusetts, Dimitry Jean-Noel was sentenced to one year and one day of incarceration and ordered to pay a forfeiture of \$157,000 for conspiracy to defraud the U.S. government.

Simmons and Jean-Noel were coconspirators employed by PAE in Afghanistan. PAE was under contract with the U.S. Department of State (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. Jean-Noel was the logistics/procurement supervisor.

Simmons, Jean-Noel, and several others created a company, Aminzian Logistics Services (Aminzian) to provide uniforms to PAE as a subcontractor. Aminzian would then submit false and fraudulent invoices to PAE seeking payment for goods that were never provided. After Aminzian was paid, Simmons and Jean-Noel and their coconspirators split the proceeds.

SIGAR and State conducted this investigation.

U.S. Contractor Employee Pleads Guilty to Theft of U.S. Government Property

On May 21, 2015, in the Northern District of Illinois, Timothy Maurer, a former Raytheon employee, was sentenced to one year and one day of incarceration and a two-year supervised release, and was ordered to pay \$152,697 restitution.

The investigation was initiated following reports of systemic theft of U.S. government-owned computer equipment at Shindand Air Base during 2013 and 2014. Evidence revealed that Maurer shipped 11 packages containing stolen computer equipment to vendors in the United States for resale. Personnel at Shindand Air Base responsible for equipment inventory valued the stolen equipment at \$332,702.

SIGAR Recognizes U.S. Military Member for Identifying Theft of \$2.5 Million

SIGAR Special Agent William Huba presented an award to U.S. Army Sergeant First Class Justin Tempel on May 28, 2015, for his contributions in identifying and reporting fuel theft at BAF. Through the work of Tempel and Huba, the theft of at least \$2.5 million dollars was identified and millions of dollars in future losses to the U.S. government have been prevented. The investigation resulted in 12 Afghanistan Operations Coordination Group (AOCG) personnel being barred from access to the BAF military installation, including one brigadier general, two colonels, two lieutenant colonels, one captain, and two sergeants from the Afghan National Army (ANA); two lieutenant colonels from the Afghan National Police (ANP); one lieutenant from the National Directorate of Security (NDS); and a staff member from the Afghan Attorney General's Office.

SIGAR OVERSIGHT ACTIVITIES



SIGAR Special Agent Huba (center) presents SFC Tempel (left) with an award for his contributions in identifying and reporting fuel theft at BAF as Lieutenant Colonel Philip York (right) looks on. (SIGAR photo)

Afghan personnel assigned to the AOCG enjoy lodging and dining facility privileges on BAF, are allowed to drive both their official and personally owned vehicles onto the base, and can travel unescorted. Senior Afghan members of the AOCG who hold a “blue badge” are permitted to enter and leave BAF without their persons or vehicles being searched. Through this assignment, these Afghan personnel also enjoy unrestricted access to the BAF retail fuel point, using it to fuel their personal and official vehicles.

Tempel discovered these vehicles were fueling two and three times a day, often taking well in excess of the vehicle fuel tanks’ ostensible capacity or any possible legitimate consumption. Tempel estimated 19,000 gallons of fuel were pumped in just three weeks by only 28 vehicles. A physical inspection of all the available Afghan AOCG vehicles by Tempel and Huba discovered at least half had modified fuel tanks, dual fuel tanks, and drain plugs or other contrivances expressly installed to drain fuel from the fuel tank, all of which bore signs of recent use.

Interviews of AOCG support staff disclosed accounts of rampant theft of fuel, food, bottled water, and building materials by the majority of Afghan AOCG staff. Interviews of Afghan AOCG personnel were largely unproductive. None could account for the inordinate amount of fuel taken and all denied participating in other means of theft.

Results of the interviews were provided to command staff at Camp Alpha, one of two BAF Special Forces camps, so that the Afghan AOCG staff would be held accountable for their actions. Tempel provided supporting documentation identifying the vehicles and drivers responsible for the specific gallons pumped on a given day. The Camp Alpha commander ordered a comprehensive internal investigation and requested that Tempel perform a one-year review of Afghan AOCG fuel consumption. The review revealed that in 15 months, Afghan AOCG personnel consumed in excess of \$3.5 million of fuel, of which approximately \$1 million appeared to be legitimate.

Suspensions and Debarments

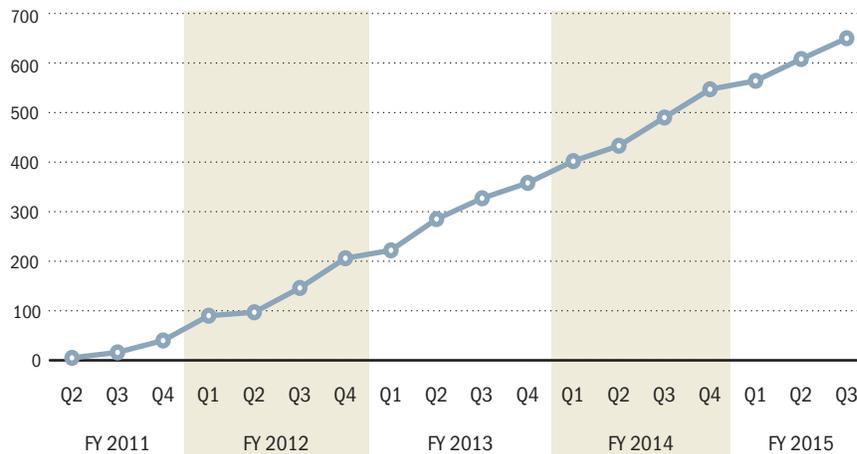
This quarter, SIGAR’s suspension and debarment program referred 17 individuals and 25 companies for suspension or debarment based on evidence developed as part of investigations conducted by SIGAR in Afghanistan and the United States. Eight of these individuals were referred for suspension based upon criminal charges being filed against them involving misconduct related to or affecting reconstruction contracting in Afghanistan. As shown in Figure 2.2, these referrals bring the total number of individuals and companies referred by SIGAR since 2008 to 650, encompassing 343 individuals and 307 companies to date.

As of the end of June 2015, the efforts of SIGAR to utilize suspension and debarment to address fraud, corruption, and poor performance in Afghanistan have resulted in a total of 105 suspensions, 343 finalized debarments, and 28 **special entity designations** of individuals and companies

SIGAR OVERSIGHT ACTIVITIES

FIGURE 2.2

SIGAR INVESTIGATIONS: CUMULATIVE REFERRALS FOR SUSPENSION AND DEBARMENT, Q2 FY 2011–Q3 FY 2015



Source: SIGAR Investigations Directorate, 7/10/2015.

engaged in U.S.-funded reconstruction projects. Since the initiation of the program, an additional 14 individuals and companies have entered into **administrative compliance agreements** with the government in lieu of exclusion from contracting. During the third quarter of 2015, SIGAR’s referrals resulted in three suspensions and seven finalized debarments of individuals and entities by agency suspension and debarment officials.

Suspensions and debarments are an important tool for ensuring that agencies award contracts only to responsible entities. SIGAR’s program addresses three challenges posed by U.S. policy and the contingency contracting environment in Afghanistan: the need to act quickly, the limited U.S. jurisdiction over Afghan nationals and Afghan companies, and the vetting challenges inherent in the use of multiple tiers of subcontractors. SIGAR continues to look for ways to enhance the government’s responses to these challenges through the innovative use of information resources and investigative assets both in Afghanistan and the United States. SIGAR makes referrals for suspensions and debarments—actions taken by U.S. agencies to exclude companies or individuals from receiving federal contracts or assistance because of misconduct—based on completed investigations that SIGAR participates in.

In most cases, SIGAR’s referrals occur in the absence of acceptance of an allegation for criminal prosecution or remedial action by a contracting office and are therefore the primary remedy to address contractor

Special entity designations: exclusions in the General Services Administration’s System for Award Management based upon identifications by the CENTCOM commander of individuals and entities that are or have the potential to engage in contracting and have provided material support to insurgent or terrorist groups in accordance with Section 841 of the 2015 National Defense Authorization Act. Special entity designations are for an indefinite period and act as notice that contracts and subcontracts awarded to individuals and entities identified by the CENTCOM commander may be restricted, terminated or voided as a matter of public policy.

Administrative compliance agreements: entered into in lieu of debarment as the result of negotiations between suspension and debarment officials and contractors.

Source: SIGAR Suspensions and Debarments.

misconduct. In making referrals to agencies, SIGAR provides the basis for a suspension or debarment decision by the agency as well as all of the supporting documentation needed for an agency to support that decision should it be challenged by the contractor at issue. Based on the evolving nature of the contracting environment in Afghanistan and the available evidence of contractor misconduct and/or poor performance, on occasion SIGAR has found it necessary to refer individuals or companies on multiple occasions for consideration by agency suspension and debarment officials.

SIGAR's emphasis on suspension and debarment is exemplified by the fact that of the 650 referrals for suspension and debarment that have been made by the agency to date, 623 have been made since the second quarter of 2011. During the 12-month period prior to July 1, 2015, referrals by SIGAR's suspension and debarment program resulted in the exclusion of 165 individuals and companies from contracting with the 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 approximately \$800.3 million.

Suspension of Two Individuals and 15 Companies for Bribery in the Award of \$28.8 million in Department of Defense Contracts

On May 4, 2015, as a result of an investigation conducted by SIGAR, DCIS, and other agencies participating in the ICCTF, SIGAR referred James Addas, Omar Jamil, and 15 companies owned by Jamil to the Army suspension and debarment official for suspension based upon allegations of conspiracy to commit bribery and the filing of fraudulent income tax returns. Specifically, Addas, a retired Army officer and civilian contractor at Joint Contracting Command Iraq/Afghanistan (JCC-I/A), used his position to facilitate the award of at least 15 prime contracts valued at approximately \$28.8 million to Jamil's companies between April 2004 and March 2006.

As the result of a lengthy, multi-agency investigation, it was determined that soon after Addas awarded the first contract to Jamil, Jamil provided him with a cash payment of \$50,000. Subsequently, Addas continued to solicit payments from Jamil after the end of his employment at JCC-I/A, receiving approximately \$455,828 in wire transfers and \$72,000 in goods and services from Jamil and his associates between April 2010 and July 2013. Among the multiple payments and gifts, Jamil paid Addas over \$40,000 in adoption fees for his children, money for the purchase of expensive collectible knives, and money for both an addition to his home and for the purchase of trees and landscaping. In return, Addas provided multiple recommendations to prime contractors in an effort to persuade them to hire Jamil and his companies as a subcontractor.

On February 20, 2015, a criminal information was filed in the U.S. District Court for the Eastern District of Virginia charging Addas with one count of bribery and one count of making and subscribing a false tax return.

Subsequently, on April 23, 2015, a criminal indictment was filed in the U.S. District Court for the Eastern District of Virginia charging Jamil with one count of conspiracy and one count of bribery. Based upon SIGAR's referral, the Army suspended Addas, Jamil, and Jamil's companies from contracting with the government on July 9, 2015.

Debarment of Shams Group International, Two Individuals, and Five Affiliated Companies Due to the Fraudulent Award of \$1.6 Million for Fences and Demining at FOB Rocco

As a result of a referral by SIGAR the Army suspension and debarment official, on March 28, 2015, Robert Bertolini, Harron Shams Khan, Shams Group International, and five affiliated companies were debarred for a period of approximately 54 months based upon a SIGAR referral.

The debarment was based upon findings that Bertolini, an employee of Lakeshore Engineering Services Inc., received kickbacks from Khan in exchange for authorizing Shams Group to provide additional perimeter security and demining on a \$1.6 million contract for the construction of facilities for the ANA at FOB Rocco in Surobi, Afghanistan. Without his employer's knowledge or approval, Bertolini approved \$980,000 in contract modifications for the installation of a security fence and an additional \$680,000 for demining work. In exchange for these modification approvals, Khan wired approximately \$60,000 to Bertolini utilizing bank accounts in the name of Bertolini's son, to whom Khan extended a sham offer of employment. This indirect payment was utilized by Khan in an attempt to conceal it under the guise of advance salary payments for the employment of Bertolini's son at a future date.

On July 30, 2014, a criminal information was filed against Bertolini in the U.S. District Court for the District of Arizona, charging him with one count of conspiracy to commit wire fraud and engage in unlawful kickback transactions. Following the entry of a guilty plea by Bertolini and a final criminal judgment on December 16, 2014, he was sentenced to three months' confinement, seven months' home detention, and forfeiture of \$59,975.

OTHER SIGAR OVERSIGHT ACTIVITIES

Special Inspector General Testifies Before the Committee on Oversight and Government Reform, House Subcommittee on National Security

On April 29, 2015, Special Inspector General John F. Sopko testified before the House Committee on Oversight and Government Reform, Subcommittee on National Security. Sopko's testimony discussed the importance of accurate ANDSF personnel numbers, the pitfalls of inaccurate and unreliable data, and the risks of limited oversight of on-budget assistance.

TESTIMONY GIVEN

- Testimony 15-56-TY: Why ANSF Numbers Matter: Inaccurate and Unreliable Data, and Limited Oversight of On-Budget Assistance Put Millions of U.S. Taxpayer Dollars at Risk

SIGAR OVERSIGHT ACTIVITIES

Sopko pointed out that, as the U.S. presence throughout Afghanistan is reduced, decision makers and implementing agencies, such as DOD, State, and USAID, are becoming more and more reliant on data on the reconstruction effort produced by the Afghan government and other international partners. This includes basic information on the number of ANDSF personnel.

However, SIGAR's recent audits on ANA and ANP personnel and payroll data highlight concerns that neither the United States nor its Afghan allies truly know how many Afghan soldiers and police are available for duty, or, by extension, the true nature of their operational capabilities. Such basic information is especially critical in the 2015 fighting season, with the Afghans fully responsible for their own security.

In addition, Sopko explained in his testimony, this data forms the basis for all U.S. assistance to the ANDSF. As the United States continues to shift its funding for ANDSF salaries and other needs to on-budget assistance, it is extremely important that this assistance be based on accurate and reliable data, and that the Afghan government is able to manage and account for such funds.

Sopko testified that, as other audit and investigative agencies draw-down their personnel, SIGAR will continue to monitor the U.S. and Afghan governments' progress in implementing better controls over ANDSF personnel and payroll processes, enhancing procedures for verifying this data, and improving oversight of U.S. on-budget assistance for ANDSF salaries and other needs. With nearly \$15 billion appropriated but unspent as of March 31, 2015, and a U.S. commitment to spending billions more in the years to come, properly overseeing these funds is essential to ensuring that this vast investment in Afghanistan since 2001 does not go to waste.



In June 2015, Deputy Inspector General Gene Aloise (second from left) met with INTOSAI officials based in Oslo, Norway. (SIGAR photo)

SIGAR Collaborates with INTOSAI on Afghan Training

In February 2015, Special Inspector General Sopko met with Afghanistan's President Ashraf Ghani to discuss, among other things, SIGAR's efforts to prevent and detect waste, fraud, and abuse in programs and operations for the reconstruction of Afghanistan. During the course of the meeting, President Ghani requested SIGAR's assistance to help train Afghanistan's auditors. In response, SIGAR determined that the International Organization of Supreme Audit Institutions (INTOSAI) was best suited to provide such training. INTOSAI is an autonomous worldwide affiliation of national audit organizations—referred to as Supreme Audit Institutions (SAIs)—and currently has 192 members, including Afghanistan's national audit organization, the Supreme Audit Office. INTOSAI's mission is to promote development and transfer of knowledge, improve government auditing worldwide, and enhance professional capacities, standing, and influence of members in their respective countries.

In June 2015, Deputy Inspector General Gene Aloise and Senior Program Analyst Glen Levis met with INTOSAI officials based in Oslo, Norway, who

are responsible for enhancing the development of SAIs worldwide, including Afghanistan's Supreme Audit Office. These officials said the Supreme Audit Office faces many challenges, as do national audit organizations in other developing countries. For example, these organizations all need to implement international audit standards, and strengthen both technical and organizational capacities. Although Afghanistan's Supreme Audit Organization may have a cadre of competent and enthusiastic professionals, it faces some substantial institutional impediments. To be effective, Afghanistan's Supreme Audit Organization needs to have the full support of, yet be independent of, parliament and receive the necessary assurances that parliament takes its findings seriously. A strong legal framework and a supportive environment combined with professional auditors could enable Afghanistan's Supreme Audit Organization to provide real value.

INTOSAI has recently embarked on limited bilateral support to SAIs in "fragile" states, including Afghanistan, to help promote capacity improvements. Specifically, Afghanistan's Supreme Audit Office plans to perform a self-assessment of its current performance and capacity with technical support from INTOSAI and peer SAIs. Norway's development agency will fund the project. The self-assessment is designed to measure performance against international audit standards and will cover several areas, including mandate and independence, organizational capabilities, quality of the audit performed, as well as coverage and timeliness of audit work. Afghanistan's Supreme Audit Office is currently assembling a team to conduct the self-assessment. Officials from INTOSAI and peer SAIs will meet with Afghanistan representatives in September 2015 to provide training. INTOSAI officials are hopeful that a report will be completed by March 2016.

According to INTOSAI officials, the self-assessment is expected to inform the development of an action plan to guide future assistance and training efforts. It will provide the Supreme Audit Office with an overview of its current strengths and weaknesses and help identify opportunities for improvement. The assessment is expected to provide a strong basis for dialogue with donors and partners about potential additional support for capacity development.

Deputy Inspector General Speaks at Harvard's John F. Kennedy School of Government

On May 1, 2015, Deputy Inspector General Aloise spoke at Harvard's John F. Kennedy School of Government. Aloise addressed a group from the senior-executive fellows program, discussing the importance and relevance of oversight in Afghanistan and in the federal government. The deputy inspector general also described how, although the stakes are historically high in Afghanistan, the problems with contract management there are no different than those in the United States. In the speech, Aloise provided background

on how SIGAR works to uncover and address fraud, waste, and abuse of taxpayer funds.

Special Inspector General Speaks at Weill Cornell Medical College

On May 5, 2015, Special Inspector General Sopko spoke at Weill Cornell Medical College about the challenges of determining fact versus fiction in the Afghanistan reconstruction effort. Sopko highlighted several areas of reconstruction where data is questionable or inconsistent, including statistics and numbers on Afghan life expectancy, the Afghan school system, and Afghan security personnel. In his speech, Sopko also provided a brief history of the massive reconstruction effort and an overview of SIGAR and its work.

Special Inspector General Speaks at the Center for Strategic and International Studies (CSIS)

Special Inspector General Sopko spoke at CSIS on May 13, 2015, about taking stock of the Afghan security forces. Sopko pointed out that he is encouraged by the leadership of Afghan President Ashraf Ghani and Chief Executive Officer Abdullah Abdullah, as well as by U.S. military leaders in Afghanistan. The IG's speech also highlighted SIGAR's work, specifically related to concerns with ANDSF capability, the number of ANDSF personnel, and the prospect for long-term ANDSF sustainability.

Deputy Inspector General Speaks at the International Lessons Learned Conference at the Baltic Defense College

On June 2, 2015, Deputy Inspector General Aloise spoke at the International Lessons Learned Conference at the Baltic Defense College. Aloise provided background on SIGAR, and spoke specifically on SIGAR's work examining U.S. efforts to support Afghan women. The deputy inspector general discussed two of SIGAR's published audit reports, as well as the agency's plans to continue monitoring USAID's implementation and oversight of a program to empower Afghan women. The program could cost from \$216 million to \$416 million.

Deputy Inspector General Speaks at NATO's 2015 Building Integrity Annual Discipline Conference

Deputy Inspector General Aloise spoke on June 10, 2015, at NATO's 2015 Building Integrity Annual Discipline Conference. Aloise provided background on SIGAR for the conference participants, including details on the agency's work to combat waste, fraud, and abuse. The deputy inspector general described how pervasive and problematic corruption is in Afghanistan reconstruction efforts, and pointed out that Afghanistan's new unity government shows signs of progress in combating it. Aloise concluded his speech by emphasizing the importance of NATO members' applying high

SIGAR OVERSIGHT ACTIVITIES

standards of integrity to their own military organizations in order to set an example for Afghan partners.

Deputy Inspector General Speaks to Naval Postgraduate School Program

Deputy Inspector General Aloise gave a talk on civilian-military relations in complex operations to the Naval Postgraduate School's Joint Foreign Area Officers Program on July 16, 2015. Aloise said the U.S. government, military and civilian, is going to have to do far better than it has in the past at working together than it has if it is to succeed in complex operations. Aloise said SIGAR's work supported the findings of others that the failure to coordinate among civilian and military agencies has been a major impediment to mission success in Afghanistan.

SIGAR BUDGET

SIGAR received a budget of \$56.9 million for FY 2015 in the Consolidated and Further Continuing Appropriations Act from Congress. The budget supports SIGAR's oversight activities and products by funding SIGAR's (1) Audits and Inspections, (2) Investigations, (3) Management and Support, and (4) Research and Analysis Directorates, as well as the Special Projects Team and the Lessons Learned Program.

SIGAR STAFF

SIGAR's staff count remained steady since the last report to Congress, with 194 employees on board at the end of the quarter. At the end of the quarter, there were 29 employees at the U.S. Embassy Kabul and four other employees at Bagram Airfield. The SIGAR location in Kandahar was shut down during the quarter. SIGAR employed seven local Afghans in its Kabul office to support the Investigations and Audits directorates. In addition, SIGAR supplements its resident staff with personnel assigned to short-term temporary duty in Afghanistan. This quarter, SIGAR had 16 employees on temporary duty in Afghanistan for a total of 256 days.



Special Agent Lindy Savelle and Major Generals Dan Hughes, left, and Todd Semonite attended the July 5 Afghan National Procurement Commission meeting conducted by President Ghani at the Presidential Palace. (SIGAR photo)

“The Afghan people are hopeful that the negotiations continue with good intentions and determination. We are hopeful that the negotiations result in ensuring dignified peace and permanent stability in the country.”

—*Afghan President Ashraf Ghani*