

2 SIGAR OVERSIGHT



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Discarded material awaits repurposing behind an Afghan health facility.
(Integrity Watch Afghanistan photo)

SIGAR OVERSIGHT ACTIVITIES

This quarter SIGAR issued 11 audits, inspections, alert letters, and other products. SIGAR work to date has saved the U.S. taxpayer over \$2 billion.

A performance audit reviewed 11 Task Force for Business and Stability Operations (TFBSO) projects and two of the U.S. Agency for International Development's (USAID) three programs intended to develop Afghanistan's extractive industries. The audit determined that these projects and programs had mixed success due to challenges in dealing with the Afghan government. Another performance audit this quarter found that despite U.S. training efforts, the Afghan National Army's (ANA) National Engineer Brigade (NEB) is incapable of operating independently.

SIGAR completed five financial audits this quarter of U.S.-funded contracts, grants, and cooperative agreements to rebuild Afghanistan. SIGAR also announced five new financial audits of USAID awards with combined incurred costs of more than \$122.5 million, bringing the total number of ongoing financial audits to 23 with more than \$2.7 billion in auditable costs.

This quarter, SIGAR's Office of Special Projects wrote to the Secretary of Defense to request information concerning TFBSO's decision to spend nearly 20% (\$150 million) of its budget on private housing and private security guards for its U.S. government employees in Afghanistan, rather than have the employees live on military bases.

Additionally, the Office of Special Projects wrote to USAID to provide the results of recent site inspections conducted by SIGAR to verify the accuracy of USAID locational data and operating conditions at 32 USAID-funded public-health facilities in Kabul.

During the reporting period, SIGAR investigations achieved significant results. A civil settlement agreement totaled \$1.45 million; cost savings to the U.S. government amounted to over \$100,000; and fines, forfeitures, and restitutions amounted to \$110,000. Additionally, there was one indictment, one conviction, and two sentencing. SIGAR initiated 17 new investigations and closed 14, bringing the total number of ongoing investigations to 309.

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 over \$946.2 million.

TESTIMONY GIVEN

- Testimony 16-14-TY: DOD Task Force for Business and Stability Operations in Afghanistan: Preliminary Results Show Serious Management and Oversight Problems

COMPLETED PERFORMANCE AUDITS

- Audit 16-11-AR: Afghanistan's Oil, Gas, and Minerals Industries
- Audit 16-15-AR: Afghan National Engineer Brigade

COMPLETED FINANCIAL AUDITS

- Financial Audit 16-6-FA: USAID's Improving Livelihoods and Governance through Natural Resource Management in Afghanistan Project
- Financial Audit 16-8-FA: USAID's Stability in Key Areas South Program
- Financial Audit 16-10-FA: USAID's Engineering, Quality Assurance, and Logistical Support Program
- Financial Audit 16-12-FA: DOD's Energy Support Services Program
- Financial Audit 16-13-FA: DOD's Strategic, Technical, and Analytical Support Services in Traditional and Alternative Energy Sectors

COMPLETED SPECIAL PROJECT PRODUCTS

- Inquiry Letter 16-05-SP: TFBSO Security
- Letter 16-06-SP: Acknowledgement of DOD Response to TFBSO Security Letter
- Review Letter 16-09-SP: USAID-Supported Health Facilities in Kabul

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.

This quarter, SIGAR's suspension and debarment program referred seven individuals and 10 companies for suspension or debarment based on evidence developed as part of investigations conducted by SIGAR in Afghanistan and the United States. Three individuals were referred for suspension based upon criminal charges being filed against them alleging 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 697, encompassing 368 individuals and 329 companies.

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 and five financial-audit reports. This quarter, SIGAR also began one new performance audit, bringing the total number of ongoing performance audits to 15.

One published performance-audit report examined the United States' \$488 million effort to develop Afghanistan's oil, gas, and minerals industries. A second report was conducted to assess U.S. efforts to increase the ANA's effectiveness through the creation of a National Engineer Brigade. The performance audits made two recommendations. The financial audits identified nearly \$1.8 million in questioned costs as a result of internal-control deficiencies and noncompliance issues.

Performance Audit Reports Published

This quarter SIGAR published two performance audit reports. One report examined the United States' \$488 million effort to develop Afghanistan's oil, gas, and minerals industries. A second report was conducted to assess U.S. efforts to increase the ANA's effectiveness through the creation of an NEB.

Audit 16-11-AR: Afghanistan's Oil, Gas, and Minerals Industries \$488 Million in U.S. Efforts Show Limited Progress Overall, and Challenges Prevent Further Investment and Growth

The U.S. government estimates Afghanistan has more than \$1 trillion in reserves of minerals, oil, and natural gas—collectively referred to as “extractives”—that could generate more than \$2 billion in annual revenues for the Afghan government. Since 2009, the Department of Defense's (DOD) TFBSO and USAID have obligated nearly \$488 million on efforts designed to develop the extractive industries in Afghanistan.

This is the second of two SIGAR reports focused on the U.S. efforts to develop Afghanistan's extractive industries. In SIGAR's April 2015 report, the agency found that TFBSO and USAID pursued divergent approaches

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to guide their projects; the U.S. Embassy in Kabul did little to coordinate interagency activities aimed at developing Afghanistan's extractive industries because embassy officials lacked policymaking authority; and TFBSO generally did not coordinate with other agencies beyond perfunctory efforts. We also reported that TFBSO, at the conclusion of TFBSO activities in Afghanistan in December 2014, transferred all remaining projects to the Afghan Ministry of Mines and Petroleum (MOMP), and no U.S. agency in Afghanistan had any plans to provide continued monitoring, evaluation, or support for TFBSO extractive projects.

Most TFBSO and USAID assistance to Afghanistan's extractive industries has been directed toward developing capacity at the MOMP and its component organizations, and toward making regulatory reforms to attract private sector investment. TFBSO pursued short-term projects seeking immediate results, while USAID pursued longer-term capacity development efforts. Both the efforts of TFBSO and USAID in this area produced mixed results.

Responding to SIGAR's April 2015 report on TFBSO, USAID assessed the projects TFBSO transferred to the MOMP and estimated the costs to continue them. USAID concluded that it does not have the funding to support those projects. Separately, SIGAR determined that USAID's own programs had mixed results because of the lack of MOMP commitment to reforms, and other challenges in Afghanistan's operating environment.

SIGAR evaluated the results of TFBSO's 11 projects, worth a total of \$215.4 million, to determine: (1) whether the programs achieved their stated programmatic objectives before the conclusion of TFBSO activities in Afghanistan, and (2) the extent to which these programs will be sustainable based on the observed capabilities of the Afghan government. SIGAR did not attempt a cost-benefit analysis. TFBSO's projects were intended to, among other things, develop extractive resources, enhance access to energy resources, and strengthen institutional and technical capacity at the MOMP. As noted above, TFBSO's 11 projects achieved mixed results, with three of those projects showing little to no appreciable results. For example, while TFBSO spent \$46.5 million towards building capacity for mineral tender support, not a single tender resulted in a signed contract, largely because of delays created by the Afghan central government.

SIGAR reviewed two of USAID's three programs intended to develop Afghanistan's extractives industries—the USAID Office of Inspector General plans to review the third program—and determined that these programs had mixed success due to challenges in dealing with the Afghan government. Specifically, the Mining Investment and Development for Afghan Sustainability (MIDAS) program, which aimed to build institutional capacity to develop and regulate Afghanistan's extractive industries, fully met five, partially met two, and did not meet four of the 11 key performance indicators for fiscal year 2014. The Sheberghan Gas Generation Activity (SGGA), which was intended to provide training and technical assistance

COMPLETED PERFORMANCE AUDITS

- Audit 16-11-AR: Afghanistan's Oil, Gas, and Minerals Industries
- Audit 16-15-AR: Afghan National Engineer Brigade

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in support of Afghanistan's hydrocarbons industry, completed only seven of its 24 program objectives for fiscal year 2014, partially met or was still working on 11, and cancelled or abandoned six objectives. Although other factors also played a role in USAID not meeting its program objectives, SIGAR's review found that the MOMP's management lacks the commitment to make necessary reforms to absorb on-budget assistance—funding that is channeled through the Afghan government's core budget. For example, five of the 11 key performance indicators for MIDAS were either partially met or not met because of the delayed passage of the 2014 Minerals Law, staffing issues with the MOMP, and USAID's eventual decision not to release on-budget funding for the MIDAS program due to capacity issues. USAID has recognized the problems within the MOMP and responded by reducing, and then in December 2014, discontinuing on-budget assistance under MIDAS to the MOMP. Neither the MOMP nor its component organizations have demonstrated the capacity to responsibly manage on-budget funding or a seriousness in addressing transparency and anti-corruption concerns, as called for by USAID guidance.

Despite the issues highlighted above, U.S. government assistance to the MOMP has resulted in several positive developments. The Afghan government now has updated geological data for several dozen areas of interest, which it can use to attract investors. According to nongovernmental organizations monitoring the extractive industries in Afghanistan, the Minerals Law, while still deficient in several critical areas, has been amended to be more investor-friendly and conform better to internationally accepted best practices. Afghan government officials stated that the MOMP has begun to transition away from a centralized planning model for its extractive industries and towards a private sector-led model. Additionally, the MOMP and its component organizations have developed both greater capacity and greater confidence to market, negotiate, and regulate competitive contracts with some level of transparency. However, significant problems remain in the areas of corruption, infrastructure, security, and regulation.

Corruption has been a major obstacle for sustainable growth in Afghanistan's extractive industries. In particular, unregistered and illegal artisanal and small-scale mining operations continue to be a source of civil strife, unrealized government revenues, and lost economic output. One senior official in the Afghan government stated that many mines in Afghanistan operate illegally because of the inefficient and often corrupt registration process. Integrity Watch Afghanistan estimates that 1,400 mines operate illegally throughout Afghanistan, with 710 mines operating illegally in the Kabul area alone. By contrast, the Afghan government reports that only 200 mines are licensed to operate and paying taxes. Additionally, despite the 2014 Minerals Law's prohibition on granting mining licenses to employees of the Ministries of Defense and the Ministry of Interior Affairs, as well as senior members of the national government, many

mining operations are still controlled by political elites, warlords, military personnel, and the police. According to non-governmental organizations monitoring the growth of Afghanistan's extractive industries, if the rampant corruption and disregard for central government oversight in the artisanal mining sector continues, there is a risk that it will cause Afghanistan's security situation to further deteriorate, resulting in a resource conflict.

Afghanistan's road and rail networks remain generally inadequate to support the needs of its mining industry. The Afghan government notes that many roads are not easily passable by motor vehicles, and only half are serviceable throughout the year, making it difficult to move necessary equipment to often remote mining sites. Further, Afghanistan's rail network is almost nonexistent, and according to representatives from TFBSO, the few lines that do exist use gauges that are incompatible with each other. Low-value bulk commodities, like Afghanistan's iron and copper, generally require transport by rail to customer or port to be economically feasible. Further, although crude oil can be profitably transported by truck, representatives from the Department of State stated that this is not economically feasible given current global prices for crude. Even if prices were to rise, USAID subject matter experts say that Afghanistan lacks the infrastructure necessary to refine and load oil onto trucks. TFBSO and USAID officials agreed that transportation of Afghanistan's natural gas will require updates to and expansion of its existing pipeline infrastructure.

Afghanistan's poor security environment is another ongoing challenge for the extractive industries. According to both Afghan and U.S. government officials, mineral- and hydrocarbon-rich areas are often located in remote areas outside of government control, rendering them dangerous to explore and develop. Other areas are contaminated by landmines and unexploded ordinance that will need to be cleared before these areas are suitable for exploration. Security issues will likely constrain Afghan government personnel working in the extractive industries. For example, Afghan geologists and hydrologists may not be willing or able to conduct field studies, and government inspectors may not be willing or able to conduct investigations of mines and wells suspected of violating Afghan laws and regulations in insecure areas.

According to ECC Water & Power LLC, USAID's MIDAS implementing partner, there are several ways in which the 2014 Minerals Law needs to be improved. Specifically, the law's categorization of "rare earth elements" includes minerals that are not generally considered rare by the international scientific community, creating additional burdens for potential investors. Also, the Afghan Minerals Law requires that a tender process be used to award mining exploration licenses. However, according to MIDAS, most countries award licenses based on when applications are received because the tender process, except in very specific cases, is viewed as both cost and time prohibitive.

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SIGAR is making two recommendations to USAID. SIGAR recommends that the USAID administrator (1) using the results of the assessments done to date, develop a plan with the MOMP and its component organizations addressing the structural reforms needed at the ministry and establishing milestones for achieving them; and (2) condition any future on-budget assistance to the MOMP on the ministry achieving the milestones in the agreed-upon plan.



An ANA soldier gets acquainted with the controls of the bulldozer during training to provide soldiers with basic skills necessary to use the bulldozers for construction operations in eastern Afghanistan. (Photo by U.S. Army Sergeant Thomas Gerkhe)

Audit 16-15-AR: Afghan National Engineer Brigade

Despite U.S. Training Efforts, the Brigade is Incapable of Operating Independently

To improve the ANA's effectiveness, U.S. Forces-Afghanistan (USFOR-A) determined that the ANA should have an NEB equipped with engineering equipment and vehicles. As a result, the NEB was established in December 2013 and envisioned as the ANA's natural-disaster emergency-response unit with the capability to, among other things, build bridges and dig wells. As of November 2014, the NEB consisted of about 950 ANA soldiers.

USFOR-A had responsibility for training the NEB, while the Combined Security Transition Command-Afghanistan (CSTC-A) had responsibility for ordering the brigade's equipment and vehicles. In addition, U.S. sub-commands, including Joint Task Force (JTF) Trailblazer, JTF Sapper, Naval Mobile Construction Battalion (NMCB) 25, and NMCB 28, trained the NEB in such areas as plumbing, electrical work, carpentry, masonry, and the operation of heavy equipment. Plans called for the NEB to receive at least \$29 million in engineering equipment and vehicles. USFOR-A's original goal was to establish a "fully capable" NEB for the ANA by October 1, 2014. However, in May 2014, USFOR-A lowered its goal to that of establishing only a "partially capable" NEB by December 31, 2014. USFOR-A was unable to achieve this goal, largely due to delays in basic soldier training and providing engineer equipment needed for training.

To track the training progress, USFOR-A rated the NEB's capability on a monthly basis. USFOR-A assessments for the period April 2014 through October 2014 showed that the NEB was rated overall as "developing," the second lowest of five possible ratings, in each of the monthly rating periods during that seven-month period. In its explanation for the October 2014 "developing" rating, USFOR-A noted that the NEB was "reactionary and unable to forecast requirements 72 hours before execution." The explanation also noted the NEB lacked initiative and only planned when USFOR-A advisors urged them to do so. Most significantly, the explanation noted that the NEB was not capable of carrying out its mission.

Although USFOR-A had developed a detailed training plan for the NEB, delays in basic training, which is required before soldiers are selected for the engineer school, delayed the start of engineer training by about 45 days. Many of the same issues that delayed basic training—army staff on leave for holidays, political events, low literacy levels, and security concerns—also

delayed NEB training. In addition, a Joint Task Force Trailblazer official told us that training was delayed by the fact that the ANA did not know who would be reporting for duty on any given day.

Delays in receiving engineering equipment also hindered training efforts. Much of the NEB's heavy engineering equipment was not available until August 2014. Adding to the problem, the NEB had only one of its authorized 30-ton cranes and none of its tractor trucks delivered by October 2014. Further, a Joint Task Force Trailblazer official told us that the Afghan Central Supply Depot could not account for all of the NEB's equipment and some of the equipment was assigned to other areas of the ANA.

In April 2015, SIGAR followed up with CSTC-A to determine what progress the NEB had made in developing its capabilities. In March and April 2015, the NEB participated in its first engineer mission using bulldozers to clear roadways in Helmand Province. However, due to missing equipment, the NEB still lacked the capability to provide natural-disaster relief. According to CSTC-A, the NEB had not been supplied with the required equipment—including hauling, heavy transport, and well drilling equipment—to increase its capabilities.

SIGAR is not making any recommendations.

New Performance Audits Announced This Quarter

This quarter SIGAR initiated one new performance audit. It will assess the administration, monitoring, and reporting of the Afghanistan Reconstruction Trust Fund (ARTF).

Administration, Monitoring, and Reporting of the Afghanistan Reconstruction Trust Fund

The ARTF, administered by the World Bank, is a partnership between the international community and the Afghan government that aims to improve the effectiveness of the reconstruction effort. Established in March 2002, the ARTF was to initially serve as a short-term source of on-budget funding for Afghanistan's non-security related operating budget until the Afghan government could raise enough revenues to cover its own operating costs. However, the life of the fund has been extended twice since its initial closing date of June 30, 2006, and now has a projected closing date of June 30, 2020. As of September 2015, international donors have pledged approximately \$9 billion to the ARTF. The United States, through USAID, has pledged approximately \$2.8 billion, or 31%, of this amount. According to a World Bank financial report, as of September 22, 2015, at least \$6.8 billion has been disbursed to 20 ARTF-identified development projects.

Although USAID does not independently oversee the use of U.S. contributions to the fund, per its grant agreement with the World Bank, the agency has limited rights to audit U.S. contributions to ensure the funds are used for their intended purposes.

NEW PERFORMANCE AUDITS

- Administration, Monitoring, and Reporting of the Afghanistan Reconstruction Trust Fund

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A previous SIGAR audit on the ARTF found limitations in the mechanisms the World Bank uses to administer, oversee, and report on the uses and results of donor funding. SIGAR also found that Afghan ministries had generally increased their ability to manage and account for government finances, including ARTF funds. SIGAR made two recommendations to the U.S. Ambassador to Afghanistan to urge the World Bank to take steps to ensure that site visits to the provinces are conducted, on a sample basis, to verify the eligibility of the Afghan government’s operating expenditures and enhance reporting to donors on ARTF-funded project results.

This follow up audit will assess the extent to which the World Bank and the Afghan government (1) monitor and account for U.S. contributions to the ARTF; (2) evaluate whether ARTF-funded projects have achieved their stated goals and objectives; and (3) utilize and enforce any conditionality on ARTF funding.

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 five financial audits of U.S.-funded contracts and cooperative agreements to rebuild Afghanistan. SIGAR also announced five new financial audits of DOD and State awards with combined incurred costs of more than \$122.5 million, bringing the total number of ongoing financial audits to 23 with more than \$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 nearly \$282.2 million in **questioned costs** and \$289,880 in unremitted interest on advanced federal funds or other revenue amounts payable to the government. As of January 30, 2016, funding agencies had reached a management decision on 51 completed financial audits and over \$16.7 million in questioned amounts are subject to collection. It takes time for funding agencies to carefully consider audit findings and recommendations. As a result,

TABLE 2.1

SIGAR’S FINANCIAL AUDIT COVERAGE (\$ BILLIONS)	
64 Completed Audits	\$4.3
23 Ongoing Audits	2.7
Total	\$7.0

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.

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).

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agency management decisions remain to be made for several of SIGAR's issued financial audits. SIGAR's financial audits have also identified and communicated 208 compliance findings and 245 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 controls related to the award; assess control risk; and identify and report on significant deficiencies including material internal-control weaknesses.
- Perform tests to determine whether the audited entity complied, in all material respects, with the award requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations.
- Determine and report on whether the audited entity has taken adequate corrective action to address findings and recommendations from previous engagements.

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

Financial Audits Published

This quarter, SIGAR completed five financial audits of U.S.-funded contracts and cooperative agreements to rebuild Afghanistan. These financial audits identified nearly \$1.8 million in questioned costs as a result of internal-control deficiencies and noncompliance issues. These deficiencies and noncompliance issues included assignment of employees to incorrect labor categories above requisite qualification levels, failure to submit timesheets for consultant labor charges, and incomplete and inadequately supported contractually mandated quarterly expenditure reports.

Financial Audit 16-6-FA: USAID's Improving Livelihoods and Governance through Natural Resource Management in Afghanistan Project

Audit of Costs Incurred by the Wildlife Conservation Society

On April 22, 2010, USAID issued a three-year, \$8 million cooperative agreement to the Wildlife Conservation Society (WCS) to support the Improving Livelihoods and Governance through Natural Resource Management in Afghanistan project. The project was intended to encourage community

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.

COMPLETED FINANCIAL AUDITS

- Financial Audit 16-6-FA: USAID's Improving Livelihoods and Governance through Natural Resource Management in Afghanistan Project
- Financial Audit 16-8-FA: USAID's Stability in Key Areas South Program
- Financial Audit 16-10-FA: USAID's Engineering, Quality Assurance, and Logistical Support Program
- Financial Audit 16-12-FA: DOD's Energy Support Services Program
- Financial Audit 16-13-FA: DOD's Strategic, Technical, and Analytical Support Services in Traditional and Alternative Energy Sectors



Band-e-Amir National Park: A contract to implement a USAID project to encourage community development by training Afghans in sustainable natural resource management, including at this park, was the subject of a SIGAR financial audit this quarter. (USAID photo by Lorene Flaming)

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.

development by training Afghans in sustainable natural resource management in Bamyan and Wakhan, and strengthening ties with provincial and national government departments. After eight modifications, the period of performance was extended from April 9, 2013, to December 30, 2014, and program funding was increased to \$14 million. SIGAR's financial audit, performed by Davis and Associates Certified Public Accountants, PLLC (Davis), reviewed \$4,641,256 in expenditures charged to the cooperative agreement between July 1, 2013, and December 30, 2014.

Davis identified one material weakness in WCS's internal controls and one instance of material noncompliance with the terms and conditions of the cooperative agreement. These two accounting deficiencies resulted from the same finding. Specifically, Davis identified that outside consultants were paid without being required to submit documentation to support the services provided. Additionally, WCS did not require these consultants to submit timesheets or other substantiating documentation to keep track of their work on the project. Therefore, Davis questioned the full amount of consultant labor charged to the project.

As a result of the internal-control deficiency and instance of noncompliance, Davis identified \$1,148,573 in total questioned costs, consisting entirely of **unsupported costs**. Davis did not identify any **ineligible costs**.

Davis identified one prior review pertinent to WCS's financial performance under the cooperative agreement. In July 2014, USAID Office of Inspector General issued an audit of WCS's incurred costs that had two findings related to the Special Purpose Financial Statement. Specifically, WCS did not keep accurate timesheets for all their employees working under the cooperative agreement. Additionally, WCS charged the salaries of some U.S.-based employees as direct labor costs instead of indirect costs. Davis followed up these findings and concluded that WCS had taken adequate corrective action to address them.

Davis issued a modified opinion on WCS's Special Purpose Financial Statement due to unsupported program costs.

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

1. Determine the allowability of and recover, as appropriate, \$1,148,573 in total questioned costs identified in the report.
2. Advise WCS to address the report's internal-control finding.
3. Advise WCS to address the report's noncompliance finding.

Financial Audit 16-8-FA: USAID's Stability in Key Areas South Program

Audit of Costs Incurred by AECOM International Development Inc.

In 2012 and 2013, USAID awarded two contracts to AECOM International Development Inc. (AECOM) to implement the Stability in Key Areas (SIKA) South program. The primary goal of the program was to promote

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As part of the SIKA South program, community forums were conducted for more than 3,000 members of the district development assembly and community development councils in 14 districts in the south. A USAID contract to implement the program was the subject of a SIGAR financial audit this quarter. (USAID photo)

stabilization in the southern region of Afghanistan by increasing the provision of basic services and implementing community-led initiatives in coordination with provincial governments. On April 10, 2012, USAID awarded an 18-month, \$58.7 million contract to AECOM. In May 2013, due to a bid protest, USAID terminated this contract for convenience, and AECOM's SIKA South program operations ceased on July 31, 2013. In total, \$15,936,927 in expenses were charged to the contract. USAID re-competed the contract and, on March 4, 2013, awarded a second 18-month contract for \$60.2 million to AECOM. After five modifications, the contract period was extended through March 3, 2015. SIGAR's financial audit, performed by Williams, Adley & Company-DC LLP (Williams Adley), reviewed all expenses charged to the first contract, and \$32,690,570 in expenses charged to the second contract from March 4, 2013, through September 3, 2014.

Williams Adley did not identify any material weaknesses or significant deficiencies in AECOM's internal controls, or instances of noncompliance with the terms and conditions of the SIKA South program contracts. As a result, Williams Adley did not identify any questioned costs, which would have included unsupported costs or ineligible costs.

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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 seven audit findings from three prior SIGAR financial audits related to the scope of this audit: (1) SIGAR, *USAID's Stabilization in Key Areas East Program: Audit of Costs Incurred by AECOM International Development Inc.*, Financial Audit 15-76-FA, July 20, 2015; (2) SIGAR, *USAID's Stabilization in Key Areas West Program: Audit of Costs Incurred by AECOM International Development Inc.*, Financial Audit 15-75-FA, July 20, 2015; and (3) SIGAR, *USAID's Afghanistan Social Outreach Program: Audit of Costs Incurred by AECOM International Development Inc.*, Financial Audit 14-94-FA, September 3, 2014. All seven findings from the prior audits concerned document retention. After reviewing and assessing documentation, Williams Adley determined that AECOM had taken adequate corrective actions 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 aspects, revenues received, costs incurred, and the balance for the period audited. Williams Adley did not report any findings related to the SIKA South program. Therefore, SIGAR is not making any recommendations.



IRD provided quality-assurance services for this new power substation in Kandahar. IRD's contract with USAID was the subject of a SIGAR financial audit this quarter. (USAID photo)

Financial Audit 16-10-FA: USAID's Engineering, Quality Assurance, and Logistical Support Program Audit of Costs Incurred by International Relief and Development Inc.

On April 20, 2011, USAID awarded a one-year, \$96.8 million contract to International Relief and Development Inc. (IRD) to support the Engineering, Quality Assurance, and Logistical Support (EQUALS) program. The program was intended to help ensure that USAID construction projects in Afghanistan met prescribed standards and contract specifications, and to provide capacity building support to key Afghan ministries involved in the energy, roads, and water sectors. After 17 modifications, the period of performance was extended from April 17, 2012, to April 17, 2016, and program funding was increased to \$126.3 million. SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe), reviewed \$63,144,114 in expenditures charged to the contract from January 1, 2013, through March 31, 2015.

Crowe identified two material weaknesses and one significant deficiency in IRD's internal controls, and four instances of noncompliance with the terms and conditions of the contract. Specifically, Crowe found that IRD may have overcharged the government by \$614,676 by billing employees under categories for which they may not have been qualified. For example, Crowe found that two of 25 tested employees were assigned to incorrect labor categories, resulting in \$72,635 in possible overcharges. Crowe also noted that IRD reports submitted to USAID were incomplete and did not show

evidence of supervisory review. Finally, Crowe found that IRD overcharged the government \$3,610 as a result of currency conversion errors.

As a result of the internal-control weaknesses and instances of noncompliance, Crowe identified \$618,286 in total questioned costs, consisting entirely of ineligible costs. Crowe did not identify any unsupported costs.

Crowe obtained and reviewed 13 prior audit reports and other assessments that could have a material impact on the Special Purpose Financial Statement. In these reports, Crowe identified and followed up on nine audit findings related to the scope of this audit. After reviewing and assessing documentation, Crowe determined that IRD had not taken adequate corrective actions on four findings related to inventory reconciliation, insufficient supporting documentation, and overcharges. Crowe noted similar findings concerning supporting documentation and overcharges in this audit. For example, two prior audits found that IRD did not support exchange rates with adequate documentation and incorrectly identified transaction dates for certain conversions, resulting in overcharges to the government. Although IRD modified its foreign currency conversion procedures and issued a standard operating procedure to document the process, Crowe found similar errors in currency conversions in the Engineering, Quality Assurance, and Logistical Support program.

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

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

1. Determine the allowability of and recover, as appropriate, \$618,286 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 16-12-FA: DOD's Energy Support Services Program

Audit of Costs Incurred by Zantech IT Services Inc.

On December 14, 2010, the Department of the Interior, on behalf of the Department of Defense, awarded a 1-year, \$4 million contract to Zantech IT Services Inc. (Zantech) to support TFBSO's Energy Support Services program. The program was intended to support TFBSO's energy programs by creating efficient, low-cost, and economically viable energy development opportunities for Afghanistan. After 19 modifications, the total cost of the contract was increased to \$17.8 million, and the period of performance was extended to September 27, 2012. SIGAR's financial audit, performed by Williams Adley, reviewed \$17,793,003 in expenditures charged to the contract from December 14, 2010, through September 27, 2012.

Williams Adley did not identify any material weaknesses or significant deficiencies in Zantech's internal controls or instances of noncompliance with the terms and conditions of the Energy Support Services program contract. As a result, Williams Adley did not identify any questioned costs, which would have included unsupported costs—costs not supported with adequate documentation or that did not have required prior approval—or ineligible costs—costs prohibited by the contract, applicable laws, or regulations.

Williams Adley obtained and reviewed prior audit reports, assessments, and reviews of Zantech that were applicable to the scope of the audit. Williams Adley found no prior findings or recommendations that could have a material impact on the Special Purpose Financial Statement.

Williams Adley issued an unmodified opinion on Zantech'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.

Financial Audit 16-13-FA: DOD's Strategic, Technical, and Analytical Support Services in Traditional and Alternative Energy Sectors

Audit of Costs Incurred by Zantech IT Services Inc.

On September 12, 2012, the Department of the Interior, on behalf of the Department of Defense, awarded a 1-year, \$14.8 million contract to Zantech IT Services Inc. (Zantech) to support the TFBSO Strategic, Technical, and Analytical Support Services in Traditional and Alternative Energy Sectors program. The program was intended to support TFBSO's energy programs by creating efficient, low-cost, and economically viable energy development opportunities for Afghanistan. After 14 modifications, the total cost of the contract was increased to \$31.2 million, and the period of performance was extended to March 27, 2015. SIGAR's financial audit, performed by Williams Adley, reviewed \$12,083,931 in expenditures charged to the contract from September 28, 2012, through September 27, 2013.

Williams Adley did not identify any material weaknesses or significant deficiencies in Zantech's internal controls or instances of noncompliance with the terms and conditions of the Strategic, Technical, and Analytical Support Services in Traditional and Alternative Energy Sectors program contract. As a result, Williams Adley did not identify any questioned costs, which would have included unsupported costs—costs not supported with adequate documentation or that did not have required prior approval—or ineligible costs—costs prohibited by the contract, applicable laws, or regulations.

Williams Adley obtained and reviewed prior audit reports, assessments, and reviews of Zantech that were applicable to the scope of the audit. Williams Adley found no prior findings or recommendations that could have a material impact on the Special Purpose Financial Statement.

SIGAR OVERSIGHT ACTIVITIES

Williams Adley issued an unmodified opinion on Zantech'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.

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 12 recommendations contained in seven audit and inspection reports. Five of the reports contained recommendations that resulted in the recovery of \$107,810 in ineligible or unsupported contract costs paid by the U.S. government.

From 2009 through December 2015, SIGAR published 208 audits, alert letters, and inspection reports and made 619 recommendations to recover funds, improve agency oversight, and increase program effectiveness. SIGAR has closed over 83% 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, for all recommendations over 12 months old, the agencies have produced a corrective-action plan that SIGAR believes would resolve the identified problem or have otherwise responded to the recommendations. However, there are 13 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 wrote to the Secretary of Defense to request information concerning TFBSO's decision to spend nearly 20% (\$150 million) of its budget on private housing and private security guards for its U.S. government employees in Afghanistan, rather than have the employees live on military bases.

COMPLETED SPECIAL PROJECTS

- Inquiry Letter 16-05-SP: TFBSO Security
- Letter 16-06-SP: Acknowledgement of DOD Response to TFBSO Security Letter
- Review Letter 16-09-SP: USAID-Supported Health Facilities in Kabul

SIGAR OVERSIGHT ACTIVITIES

Additionally, the Office of Special Projects wrote to USAID to provide the results of recent site inspections conducted by SIGAR to verify the accuracy of USAID locational data and operating conditions at 32 USAID-funded public-health facilities in Kabul.

Inquiry Letter 16-05-SP: TFBSO Security

On November 25, 2015, SIGAR wrote to the Secretary of Defense to request information concerning TFBSO's decision to spend nearly \$150 million, or nearly 20% of its budget, on private housing and private security guards for its U.S. government employees in Afghanistan, rather than having those employees live on U.S. military bases. It is unclear what benefit the United States received as the result of TFBSO's decision to rent private housing and hire private security contractors, or if TFBSO conducted any cost-benefit analysis of the decision.

Letter 16-06-SP: Acknowledgement of DOD Response to TFBSO Security Letter

SIGAR wrote to DOD on December 8, 2015, to acknowledge DOD's response to SIGAR's TFBSO Security Letter (16-05-SP).

Review Letter 16-09-SP: USAID-Supported Health Facilities in Kabul

On January 5, 2016, SIGAR wrote to the USAID administrator to inform her of the results of recent site inspections conducted by SIGAR to verify the locations and operating conditions at 32 (of 42 total) USAID-funded public-health facilities in Kabul Province. This is the second in a series of health-facility inspections SIGAR is conducting in provinces throughout Afghanistan.

In the Kabul site inspections, SIGAR found substantial inaccuracies in the geospatial coordinates USAID provided for many of the 32 facilities, and observed that not all facilities had access to electricity and running water. All 32 facilities were funded by USAID's \$259.6 million Partnership Contracts for Health (PCH) program that began in July 2008 and ended in June 2015. A key component of the PCH program was the use of detailed geospatial location information to ensure health facilities were in the appropriate locations and providing the local population with needed health services. Since 2014, SIGAR has expressed concern regarding the oversight of facilities supported by PCH, including the accuracy of the geospatial coordinates.

At each of the 32 site visits, SIGAR took a minimum of 34 time, date, and location-stamped photographs where possible; SIGAR also completed an overall assessment of the facility; recorded, among other things, geospatial coordinates of the facility, whether the facility appeared to be open and operational, and whether the facility had



SIGAR's site inspections of health facilities in Kabul revealed basic structural concerns at most facilities, such as cracked walls. (SIGAR photo)

SIGAR OVERSIGHT ACTIVITIES

reliable access to electricity and water and an on-site pharmacy; and conducted interviews with a facility staff member and a member of the community served by the health facility.

The site inspections revealed that the geospatial coordinates for 22 of the 32 facilities were within one kilometer of the actual facility location, three were within one to five kilometers, and seven were more than five kilometers away. All 32 health facilities were open and operational, and, of the 31 community members interviewed, 28 perceived the facilities to be in good working order. The site inspections noted some basic structural concerns at most facilities, including cracked walls, leaking roofs, broken doors, and broken windows. Additionally, 16 facilities disposed of medical waste in open-air kilns (some of which were publicly accessible), five did not have running water, three appeared not to have electricity, and eight may not have had adequate or consistent power required for proper lighting and refrigeration for pharmaceuticals and vaccines. This raises concerns that USAID is paying for services that the implementing partners are not providing.

Also of concern is the documentation provided by USAID to identify the location and existence of the remaining 10 facilities (inaccessible to SIGAR due to security conditions). The files provided by USAID as evidence of the location and basic operations of the health facilities include only two to four photos for each facility; none included any embedded geospatial data. None of the USAID files included any site visit reports or other supporting documentation.

LESSONS LEARNED

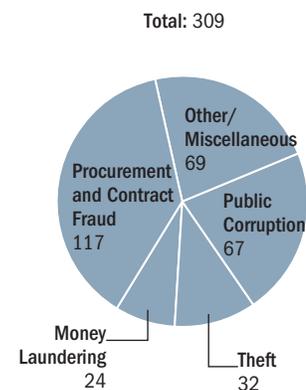
SIGAR created the Lessons Learned Program (LLP) to identify comprehensive lessons and best practices from Afghanistan reconstruction efforts from 2001 to the present. The LLP currently has five projects underway: interagency strategy and planning, coordination of international donor aid, U.S. perceptions of and responses to corruption, counternarcotics interventions, and private-sector development and economic growth.

INVESTIGATIONS

During the reporting period, SIGAR investigations achieved significant results. Cost savings to the U.S. government amounted to over \$100,000; a civil settlement agreement totaled \$1.45 million; and fines, forfeitures, and restitutions amounted to \$110,000. Additionally, there was one indictment, one conviction, and two sentencing. SIGAR initiated 17 new investigations and closed 14, bringing the total number of ongoing investigations to 309, see Figure 2.1.

FIGURE 2.1

SIGAR INVESTIGATIONS: NUMBER OF OPEN INVESTIGATIONS, AS OF JANUARY 12, 2016



Source: SIGAR Investigations Directorate, 1/17/2016.

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 over \$946.2 million. Investigative outcomes include 103 arrests, 137 criminal charges, 102 convictions, and 80 sentencing.

Two U.S. Military Members Sentenced for Bribery Scheme

On December 10, 2015, in the Western District of Kentucky, U.S. Army Sergeant First Class Ramiro Pena was sentenced to 24 months' incarceration, followed by 12 months' supervised release and a special assessment of \$100. In addition, Pena entered an agreement to forfeit a Harley-Davidson motorcycle, a Rolex watch, and \$100,000. On July 2, 2015, Pena pled guilty to a one-count **criminal information** charging him with conspiracy to receive and accept illegal bribes by a public official.

On October 1, 2015, in the Northern District of New York, U.S. Army Staff Sergeant Matthew Louis Bailly was sentenced to 12 months and one day incarceration, followed by one year's supervised release and ordered to forfeit \$10,000. On June 4, 2015, Bailly pled guilty to a one-count criminal information charging him with conspiracy to receive and accept illegal bribes by a public official.

Both individuals were the 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) in 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.

Pena was project purchasing officer at the HA Yard and accepted approximately \$100,000 in illegal bribes and a Rolex watch worth approximately \$25,000 from Afghan vendors. Pena 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 call 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.

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.

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

Source: *Black's Law Dictionary*.

SIGAR OVERSIGHT ACTIVITIES

Investigation Results in Civil Settlement of \$1.45 Million Associated with a Contract Bid-Rigging Scheme

PAE Government Services Inc. (PAE) and RM Asia Limited (RM Asia) agreed to pay the United States \$1.45 million to resolve allegations that they engaged in a bid-rigging scheme that resulted in false claims for payment under a U.S. Army contract in Afghanistan. PAE provides integrated global mission services and RM Asia provides motor vehicle parts and supplies.

In 2007, the U.S. Army awarded PAE a contract to provide vehicle maintenance capabilities and training services for the Afghanistan National Army at multiple sites across Afghanistan. PAE partnered with RM Asia to supply and warehouse vehicle parts. The government alleged that former managers of PAE and RM Asia funneled subcontracts paid for by the U.S. government to companies owned by the former managers and their relatives by using confidential bid information to ensure that their companies would beat out other, honest competitors.

In a related SIGAR criminal investigation, former PAE program manager Keith Johnson; Johnson's wife, Angela Gregory Johnson; RM Asia's former project manager, John Eisner; and deputy project manager Jerry Kieffer have been sentenced for their roles in the scheme.

Additionally, Keith and Angela Johnson and two of their companies were debarred in February 2014 for a period of eight years. Kieffer was debarred in February 2014 for a period of six years and, in March 2014, Eisner and his company were debarred for a period of six years.

Investigation Results in \$103,614 Savings to the U.S. Government

A savings of \$103,614 for the U.S. government was realized after an investigation confirmed a duplicate payment had been made under the National Afghan Trucking contract.

On July 25, 2015, SIGAR received information alleging a duplicate payment had been made to Aria Target Logistics (ATL). Special agents conducted a comparative analysis of the documentation and identified approximately 18 fuel missions for which ATL had submitted two separate invoices on two separate occasions to two different U.S. Army contracting entities. As a result, ATL received duplicate payments for the same 18 fuel missions.

On July 27, 2015, SIGAR contacted members of the Regional Contracting Office at BAF and provided the same documentation to contracting officials. On November 2, 2015, SIGAR provided officials at BAF with a letter detailing some of the investigative findings with respect to the duplicate payment.

Subsequently, contracting officials verified that in fact the U.S. Army had made a duplicate payment to ATL in the amount of \$103,614. On November 4, 2015, SIGAR received notice from the contracting officer that a demand letter had been sent to ATL demanding payment of \$103,614.



In November 2015, SIGAR Special Agent Doug Wethington provided fraud-awareness training to members of the Afghan National Procurement Authority. (SIGAR photo by Steve Mocsary)

U.S. Army Captain Pleads Guilty

On November 5, 2015, in the Eastern District of North Carolina, U.S. Army Captain David A. Kline, pled guilty to one count of solicitation and receipt of a gratuity, and aiding and abetting the same. A criminal information was filed on September 9, 2015.

Kline, while serving as a first lieutenant in the U.S. Army and stationed at Kandahar Airfield, sought and accepted \$50,000 in gratuities from a contractor doing business with the U.S. military. Specifically, from January 2008 to April 2009, then-Lieutenant Kline was deployed as a member of the 189th Combat Sustainment Support Battalion, and served as the officer-in-charge of the Movement Control Team.

As the officer-in-charge, Kline oversaw the handling of transportation movement requests, which are the means by which a military unit in the field submits a request for the transport of military items, to include fuel and equipment, food, and other supplies, from one location to another across Afghanistan.

Although contracting procedures technically did not permit the authorizing officer to specify the particular Afghan trucking company that would perform the transportation, in practice, Kline and others were able to designate the Afghan company of their choice. Kline admitted he sought and accepted \$50,000 in U.S. currency from an Afghan national who owned a trucking company doing business on government contracts at Kandahar Airfield, in return for Kline's facilitation of the award and payment of numerous transportation contracts.

The case was investigated by SIGAR, the Defense Criminal Investigation Service, Army Criminal Investigation Command, and the Federal Bureau of Investigation.

Suspensions and Debarments

This quarter, SIGAR's suspension and debarment program referred seven individuals and 10 companies for suspension or debarment based on evidence developed as part of investigations conducted by SIGAR in Afghanistan and the United States. Three of these individuals were referred for suspension based upon criminal charges being filed against them alleging 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 697, encompassing 368 individuals and 329 companies, see Figure 2.2.

As of the end of December 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 129 suspensions, 374 finalized debarments, and 28 **special entity designations** of individuals and companies engaged in U.S. funded reconstruction projects. An additional 14 individuals and companies have entered into **administrative compliance agreements**

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.

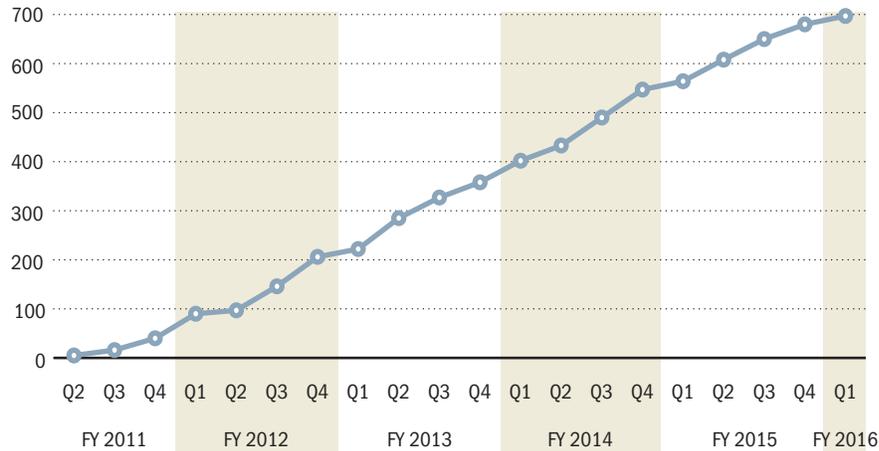
Administrative compliance agreements: entered into in lieu of debarment as the result of negotiations between suspension and debarment officials and contractors.

Source: SIGAR Suspensions and Debarments.

SIGAR OVERSIGHT ACTIVITIES

FIGURE 2.2

SIGAR INVESTIGATIONS: CUMULATIVE REFERRALS FOR SUSPENSION AND DEBARMENT, Q2 FY 2011–Q1 FY 2016



Source: SIGAR Investigations Directorate, 1/14/2016.

with the government in lieu of exclusion from contracting since the initiation of the program. During the first quarter of 2016, SIGAR’s referrals resulted in two suspensions and eight 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 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

SIGAR OVERSIGHT ACTIVITIES

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 697 referrals for suspension and debarment that have been made by the agency to date, 670 have been made since the second quarter of 2011. During the 12 month period prior to January 1, 2016, referrals by SIGAR's suspension and debarment program resulted in the exclusion of 88 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 \$599.9 million.

Debarment of Three Individuals for Attempted Theft of a Fire Truck and an Armored Truck from Bagram Airfield

On November 12, 2015, the Army suspension and debarment official debarred Krishan Kumar, Janak Raj, and Roop Singh from contracting with the government based on their attempted theft of a fire truck and an armored truck from the Defense Logistics Agency's Disposition Services Office at BAF. Specifically, Kumar, Raj and Singh while employed by ECOLOG International worked at the Maintenance and Repair Yard on BAF, a location used to store surplus military items, including vehicles, generators and other equipment gathered from various locations on the airfield as part of the retrograde of units from Afghanistan. During August 2014, all three approached informants working for SIGAR with offers to sell up-armored vehicles, heavy machinery, septic tanks, generators, copper wire, and other electrical equipment, as well as to provide the paperwork necessary to move these items off BAF so that they could be sold to third parties. As a result of an undercover operation involving SIGAR and the U.S. Army Criminal Investigation Command, Major Procurement Fraud Unit, all three were arrested following their attempt to sell a fire truck and an armored truck to investigators in exchange for a cash payment of \$30,000. Following their arrest, all three individuals were barred from BAF by order of the installation commander, resulting in their departure from Afghanistan to their home country, India. Based on their actions, the Army suspension and debarment official debarred each of them for a period of five years, ending on May 14, 2020.

OTHER SIGAR OVERSIGHT ACTIVITIES THIS QUARTER

SIGAR Testifies on TFBSO Before Senate Armed Services Subcommittee

On January 20, Special Inspector General John F. Sopko testified before the Senate Armed Services Subcommittee on Readiness and Management Support about SIGAR's completed and ongoing work examining DOD's TFBSO in Afghanistan. The nearly \$800 million task force was DOD's principal vehicle for stimulating private-sector growth and investment in Afghanistan's war-torn economy. Unfortunately, SIGAR's cumulative work to date has shown that TFBSO's investment in Afghanistan has generally not delivered on its stated goals.

Over the past two years, SIGAR has received more complaints of waste, fraud, and abuse relating to TFBSO activities than for any other organization operating in Afghanistan. Since SIGAR began investigating TFBSO activities, the agency has conducted more than 50 interviews with former TFBSO officials and contractors, and several dozen more with other U.S. and Afghan government officials with knowledge of TFBSO activities. In addition, SIGAR obtained documents and records related to TFBSO activities, in part, through subpoenas. As a result of this work, SIGAR has issued several reports and initiated a number of active criminal investigations.

One of SIGAR's most recent TFBSO reviews examined a TFBSO-funded compressed natural gas (CNG) filling station in the city of Sheberghan, Afghanistan. The reported cost of \$43 million for this project far exceeded the cost of building CNG filling stations elsewhere. Moreover, it appears that TFBSO never examined the feasibility of the filling station prior to committing millions of dollars to its construction. This project is a glaring example of TFBSO projects SIGAR has examined that were ill-conceived, poorly planned, or left unfinished.

Further, Sopko told the subcommittee, it appears that TFBSO's activities in Afghanistan were stymied by a lack of strategy, leadership, and coordination. For example, SIGAR found that there was no overarching, government-wide strategy for the development of Afghanistan's extractive industries—even though developing this sector constituted 36% of TFBSO's total contract obligations and had been identified as vital to Afghanistan's long-term economic development and viability. SIGAR's April 2015 report examining TFBSO investments in Afghanistan's extractives industries also found that senior TFBSO officials claimed uncertainty around TFBSO's annual budget and high turnover among its leadership led to frequent shifts in TFBSO's organizational direction. TFBSO and its counterparts, including State and USAID, also failed to coordinate their activities in several critical sectors, including extractives. As a result, nearly all of TFBSO's large extractive projects remained incomplete when TFBSO concluded activities

TESTIMONY GIVEN

- Testimony 16-14-TY: DOD Task Force for Business and Stability Operations in Afghanistan: Preliminary Results Show Serious Management and Oversight Problems

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in Afghanistan on December 31, 2014, and not one TFBSO initiative in the extractives sector was transferred to State or USAID.

Since April 2015, DOD has stated that since Congress ended funding for TFBSO, the department does not have the expertise, authority, or funding to respond to investigations related to TFBSO activities in Afghanistan. DOD's inability to respond to SIGAR's inquiries raises some questions, as it appears that several former TFBSO officials, including the most recent director of the task force, Dr. Joseph Catalino, still work for the department and other former TFBSO employees remain in the military and under the general purview of DOD. SIGAR is concerned that DOD has yet to provide any evidence that TFBSO reduced violence or increased stability despite its expenditure of nearly \$800 million.

SIGAR's ongoing review of TFBSO activities in Afghanistan raises several key questions that remain unanswered and should be considered by Congress and any administration contemplating such TFBSO-like programs in the future. For example:

- Should DOD be leading these types of economic-development activities in future contingency operations?
- What impediments inhibited TFBSO, State, and USAID coordination and ultimately led to duplicative and sometimes competing activities, and how can they be addressed in the future?
- How much private-sector direct investment did TFBSO's \$760 million obligation yield and how does that compare to traditional reconstruction models using USAID and State?
- What impact did TFBSO projects and programs have on stabilizing Afghanistan, even at the local level, and can any of its successes be sustained?
- Were there systemic problems with DOD's management and oversight of TFBSO activities that need to be addressed?

Members of Congress Ask SIGAR to Investigate Sexual Abuse

A bipartisan, bicameral group led by Senator Patrick Leahy (D-VT) and Representative Thomas J. Rooney (R-FL) and 91 additional Members of Congress in December asked SIGAR to conduct an inquiry into the U.S. government's experience with allegations of sexual abuse of children committed by members of the Afghan security forces. The inquiry will also look into the manner in which the Leahy amendment prohibiting DOD and the State Department from providing assistance to the units of foreign security forces that have committed gross violations of human rights is implemented in Afghanistan. SIGAR's inquiry will complement a review initiated in October by the DOD Inspector General of the issue of child sex abuse by members of the ANDSF. The congressional request came in the wake of articles in the *New York Times* that sexual abuse of children by members of Afghan military and police forces has been rampant and that U.S. soldiers and Marines had been instructed not to intervene.

Deputy Inspector General Speaks at NATO Lessons Learned Conference

On November 11, 2015, Deputy Inspector General Gene Aloise spoke at the NATO Lessons Learned Conference in Lisbon. Aloise provided a brief history of inspectors general in the United States and highlighted some of SIGAR's work in Afghanistan. The presentation also discussed SIGAR's newly established Lessons Learned Program and articulated the seven key questions SIGAR created to better guide policy makers in current and future reconstruction efforts.

Special Inspector General Speaks at Watson Institute for International Studies

Special Inspector General Sopko spoke on November 18, 2015, at the Watson Institute for International Studies in Providence, Rhode Island, about the importance of learning from, and improving upon, the 14-year reconstruction effort in Afghanistan. Sopko explained the unique characteristics of SIGAR, highlighted the breadth of the agency's work, and articulated specific, persistent challenges that are detrimental to the reconstruction mission. The special inspector general concluded with an overview of lessons learned, and reiterated the importance of noting the challenges faced in Afghanistan.

SIGAR BUDGET

SIGAR is funded through the Consolidated Appropriations Act, 2016. The funding level of \$56.9 million is the same as fiscal year 2015. 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 193 employees on board at the end of the quarter. At the end of the quarter, 29 SIGAR employees were at the U.S. Embassy Kabul and two others were at BAF. 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 four employees on temporary duty in Afghanistan for a total of 40 days.



Special Inspector General Sopko shows the Kandahar deputy provincial governor SIGAR's October 2015 *Quarterly Report to the United States Congress*, which featured an interview with Afghan President Ashraf Ghani. (SIGAR photo by Steve Mocsary)

“Ordinary Afghans feel the pressure of a weakening economy acutely. This year 29.7% of respondents say their household financial situation has grown worse, the highest percentage since the survey began.”

—*The Asia Foundation*