

2 SIGAR OVERSIGHT



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Inspector General John Sopko, joined by hosts Anthony Cordesman (right) and Seth Jones (left), discusses SIGAR's 2019 *High-Risk List* at a launch event at the Center for Strategic and International Studies, Washington, DC, on March 28, 2019.

(SIGAR photo by Kathleen Umphlett)

SIGAR OVERSIGHT ACTIVITIES

This quarter, SIGAR issued 17 products. SIGAR work to date has identified approximately \$2.6 billion in savings for the U.S. taxpayer.

On March 28, 2019, SIGAR released its 2019 *High-Risk List* for Congress, emphasizing the need to begin planning to address the risks to the United States' \$133 billion investment in Afghanistan's reconstruction that might persist or arise after any peace agreement is signed. The special report identified eight high-risk areas: widespread insecurity, underdeveloped policing capacity, endemic corruption, sluggish economic growth, the illicit narcotics trade, threats to women's rights, the reintegration of ex-combatants, and restricted oversight.

SIGAR issued one performance audit report this quarter, examining the \$775 million, 15-year effort by the U.S. Agency for International Development (USAID) and the Department of Defense (DOD) to increase electric power generation capacity at the Kajaki Dam in Helmand Province to 51.5 megawatts, provide short-term diesel-fueled power generation, and improve the delivery of power to customers in Helmand and Kandahar Provinces through the Southeast Power System (SEPS).

SIGAR completed seven financial audits of U.S.-funded contracts to rebuild Afghanistan. These financial audits covered a range of topics including USAID's Afghanistan University Support and Workforce Development Program, USAID's Women's Leadership Development Project, and the Department of the Army's Law Enforcement Professionals Program. These financial audits identified more than \$7 million in questioned costs as a result of internal-control deficiencies and noncompliance issues. To date, SIGAR's financial audits have identified more than \$425.6 million in questioned costs, interest, and other amounts payable to the U.S. government.

SIGAR also issued two inspection reports. These reports examined the construction, use and maintenance of USAID's \$56.7 million Power Transmission Expansion and Connectivity Project (PTEC) transmission line between Arghandi and Ghazni, and DOD's \$5.2 million Kang Border Patrol headquarters compound.

This quarter, SIGAR's Office of Special Projects issued six reports on topics including USAID-supported health facilities in Faryab and Bamyan Provinces, USAID-funded schools in Paktika and Bamyan Provinces, Commander's Emergency Response Program (CERP)-funded bridges in

COMPLETED PERFORMANCE AUDIT REPORTS

- Audit 19-37-AR: Afghanistan's Energy Sector: USAID and DOD Did Not Consistently Collect and Report Performance Data on Projects Related to Kajaki Dam, and Concerns Exist Regarding Sustainability

COMPLETED FINANCIAL AUDIT REPORTS

- Financial Audit 19-23-FA: Department of the Army's Law Enforcement Professionals Program: Audit of Costs Incurred by Engility Corporation
- Financial Audit 19-30-FA: USAID's Afghanistan University Support and Workforce Development Program: Audit of Costs Incurred by FHI 360
- Financial Audit 19-26-FA: USAID's Women's Leadership Development Project in Afghanistan: Audit of Costs Incurred by ARD Inc.
- Financial Audit 19-27-FA: USAID's Technical Assistance Provided to the Afghan Ministry of Public Works: Audit of Costs Incurred by Wood Environment & Infrastructure Solutions Inc.
- Financial Audit 19-19-FA: USAID's Afghanistan Agriculture Extension Project-II: Audit of Costs Incurred by University of California, Davis
- Financial Audit 19-28-FA: USAID's Helping Mothers and Children Thrive Program: Audit of Costs Incurred by Jhpiego Corporation
- Financial Audit 19-31-FA: Department of State's Afghan Civilian Advisor Support Program: Audit of Costs Incurred by DynCorp International LLC

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COMPLETED INSPECTION REPORTS

- Inspection Report 19-35-IP: USAID's Power Transmission Expansion and Connectivity Project: Arghandi-Ghazni Transmission Line Was Generally Built to Contract Requirements, but Four Deficiencies Create Safety Hazards and Could Disrupt Electrical Power
- Inspection Report 19-36-IP: Kang Border Patrol Headquarters: Construction Generally Met Contract Requirements, but Four Deficiencies Exist, and the \$5.2 million Project Has Not Been Used or Maintained

COMPLETED SPECIAL PROJECTS REPORTS

- Review 19-20-SP: USAID Supported Health Facilities in Faryab Province, Afghanistan: Observations from 17 Site Visits
- Review 19-21-SP: Schools in Paktika Province, Afghanistan: Observations from Site Visits at Six Schools
- Review 19-22-SP: Afghan National Defense and Security Forces Facilities: Action Needed to Address Confiscation of Contractor-Owned Property and Contractor Mistreatment
- Review 19-24-SP: Bridges in Ghazni Province, Afghanistan: All Eight Bridges SIGAR Visited Were In Good Condition
- Review 19-33-SP: Schools in Bamyan Province, Afghanistan: Observations from Site Visits at 16 Schools
- Review 19-34-SP: USAID Supported Health Facilities in Bamyan Province, Afghanistan: Observations from 44 Site Visits

Ghazni Province, and theft of contractor-owned property by the Afghan National Defense and Security Forces (ANDSF).

Additionally, DOD completed its cost-benefit analysis of the operational suitability and cost effectiveness of using a proprietary pattern for future purchases of uniforms for the ANDSF, as required by Section 344 of H.R. 2810, the FY 2018 National Defense Authorization Act. The analysis was directed by Congress as a result of SIGAR's June 2017 report, *Afghan National Army: DOD May Have Spent Up To \$28 million More Than Needed To Procure Camouflage Uniforms That May Be Inappropriate For The Afghan Environment* (SIGAR 17-48-SP), and validated its findings. The analysis concluded that the camouflage pattern selected was the most expensive of the seven patterns tested and the second-most detectable. SIGAR reported that the U.S. military spent \$28 million more than necessary to procure uniforms with a proprietary pattern for the Afghan National Army (ANA). SIGAR's review also found that CSTC-A recommended using a sole-source award to purchase the rights to the pattern, despite concerns from DOD's contracting office and without testing the pattern's effectiveness for use in Afghanistan.

During the reporting period, SIGAR investigations resulted in two guilty pleas, one sentencing, and \$1 million in criminal fines and forfeitures. In addition, the civil investigation of Hikmatullah Shadman, an Afghan national, resulted in a forfeiture of \$25 million to the United States. SIGAR initiated 14 new cases and closed 11, bringing the total number of ongoing investigations to 168. Further, on March 29, 2019, following a joint investigation by SIGAR and the USAID Office of the Inspector General, the heavily U.S.-funded American University of Afghanistan (AUAF) signed an agreement with USAID to deal with long-standing management and accountability issues identified by the oversight agencies.

This quarter, SIGAR's suspension and debarment program referred 15 individuals and 26 entities for suspension or debarment based on evidence developed as part of investigations conducted by SIGAR in Afghanistan and the United States. These referrals bring the total number of individuals and companies referred by SIGAR since 2008 to 969, encompassing 530 individuals and 439 companies.

AUDITS

SIGAR conducts performance and financial audits of programs and projects connected to the reconstruction effort in Afghanistan. Since its last report to Congress, SIGAR has issued one performance audit and seven financial audits. This quarter, SIGAR has nine ongoing performance audits and 36 ongoing financial audits.

Performance Audit Reports Issued

SIGAR issued one performance audit report this quarter. This audit examined the \$775 million, 15-year effort by USAID and DOD to increase electric power generation capacity at the Kajaki Dam in Helmand Province to 51.5 megawatts, provide short-term diesel-fueled power generation, and improve the delivery of power to customers in Helmand and Kandahar Provinces through the Southeast Power System. A list of completed and ongoing performance audits can be found in Appendix C of this quarterly report.

Performance Audit 19-37-AR: Afghanistan's Energy Sector USAID and DOD Did Not Consistently Collect and Report Performance Data on Projects Related to Kajaki Dam, and Concerns Exist Regarding Sustainability

The United States has spent about \$775 million on 17 infrastructure projects since 2004 to increase electric power generation capacity at the Kajaki Dam in Helmand Province to 51.5 megawatts, provide short-term diesel-fueled power generation, and improve the delivery of power to customers in Helmand and Kandahar Provinces through the Southeast Power System (SEPS).

SIGAR found that USAID and DOD have not finished SEPS, which is needed to transmit power from the Kajaki Dam, and Afghans in southern Afghanistan have not yet received the intended benefits from these projects. As of December 2018, 12 of 17 infrastructure projects that USAID and DOD implemented to increase power generation and transmission from the Kajaki Dam were three to 40 months behind their original planned schedules due to a high level of nearby insurgent activity, as well as poor contractor performance, issues involving the Afghan government, and delays in delivering necessary equipment. As of December 2018, there were two projects left to complete SEPS.

SIGAR also found that USAID did not collect complete performance data on their infrastructure projects to increase power generation and transmission from the Kajaki Dam due to challenges with Afghanistan's unique and difficult operating environment, changes in USAID's internal policies over time, and frequent turnover in project staff. In addition, SIGAR found that DOD did not collect or report strategic-level performance data for its projects because it had no requirements to do so.

Finally, SIGAR found that although USAID and DOD complied with requirements to assess the capacity of Da Afghanistan Breshna Sherkat (DABS), Afghanistan's electric-power utility, challenges remain regarding DABS's ability to sustain U.S.-funded infrastructure projects. After completing an energy-sector assessment in July 2018, USAID determined that DABS was commercially unviable and a poorly functioning utility,

COMPLETED PERFORMANCE AUDITS

- Audit 19-37-AR: Afghanistan's Energy Sector: USAID and DOD Did Not Consistently Collect and Report Performance Data on Projects Related to Kajaki Dam, and Concerns Exist Regarding Sustainability

ATTESTATION ENGAGEMENT OF DABS ANNOUNCED

SIGAR discussed the need for greater transparency of Da Afghanistan Breshna Sherkat (DABS), Afghanistan's power utility, with President Ghani in February 2018. That discussion led to a memorandum of understanding with the Afghan government that allows SIGAR to review DABS's use and management of past and current donor funds in an attempt to improve internal controls to help ensure that donor funds are being properly managed, accounted for, and used as intended. At the request of President Ghani, SIGAR currently is conducting an attestation engagement of DABS. An attestation engagement is an arrangement with a client where an independent third party investigates and reports on subject matter created by a client.

SIGAR OVERSIGHT ACTIVITIES

citing concerns with DABS’s procurement abilities, commercial viability, integrity, and management and oversight of construction activities.

SIGAR made two recommendations to USAID and DOD: adhere to requirements to collect and report baselines, targets, and results for each strategic level performance indicator and evaluate the extent to which its projects are contributing to USAID’s strategic objectives for its energy projects in Afghanistan, and work with DABS to complete and begin implementing the capacity-development roadmap discussed in USAID’s July 2018 technical assessment by June 30, 2019.

TABLE 2.1

SIGAR’S FINANCIAL AUDIT COVERAGE (\$ BILLIONS)	
134 completed audits	\$7.43
36 ongoing audits	0.87
Total	\$8.30

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.

SIGAR has 36 ongoing financial audits with \$871 million in auditable costs, as shown in Table 2.1 A list of completed and ongoing financial audits can be found in Appendix C of this quarterly report.

This quarter, SIGAR completed seven financial audits of U.S.-funded contracts to rebuild Afghanistan. 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 more than \$425 million in **questioned costs** and \$364,907 in unremitted interest on advanced federal funds or other revenue amounts payable to the government. As of March 31, 2019, funding agencies had disallowed \$26.6 million in questioned amounts, which are subject to collection. It takes time for funding agencies to carefully consider audit findings and recommendations. As a result, final disallowed-cost determinations remain to be made for several of SIGAR’s issued financial audits. SIGAR’s financial audits have also identified and communicated 449 compliance findings and 476 internal-control findings to the auditees and funding agencies.

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 (1) ineligible costs (violation of a law, regulation, contract, grant, cooperative agreement, etc. or an unnecessary or unreasonable expenditure of funds), and (2) unsupported costs (those not supported by adequate documentation or proper approvals at the time of an audit).

Financial Audits Issued

This quarter, SIGAR completed seven financial audits of U.S.-funded contracts to rebuild Afghanistan. These audits identified more than \$7 million in questioned costs because of internal-control deficiencies and noncompliance issues, such as using incorrect foreign currency conversion rates and improperly supporting amounts invoiced.

Financial Audit 19-23-FA: Department of the Army's Law Enforcement Professionals Program

Audit of Costs Incurred by Engility Corporation

On March 27, 2013, the Army Contracting Command awarded a cost-plus-fixed-fee contract worth \$121,505,386 to Engility Corporation (Engility) to support the Law Enforcement Professionals (LEP) program. The objectives were to advise, assist, mentor, and train U.S. and Coalition forces, provide experienced law-enforcement personnel, and help the U.S. and Coalition forces identify and target criminal insurgent networks. After 28 modifications, the total funding decreased to \$94,301,244, and the period of performance was extended from June 30, 2014, to June 30, 2019.

SIGAR's financial audit, performed by Conrad LLP (Conrad), reviewed \$19,401,379 in costs charged to the contract from January 1, 2016, through June 30, 2018. Conrad identified one significant deficiency and one deficiency in Engility's internal controls, and two instances of noncompliance with the terms and conditions of the contract and applicable regulations. Because of these internal-control deficiencies and instances of noncompliance, Conrad identified \$6,054,235 in total questioned costs.

Financial Audit 19-30-FA: USAID's Afghanistan University Support and Workforce Development Program

Audit of Costs Incurred by FHI 360

On January 1, 2014, the U.S. Agency for International Development (USAID) awarded FHI 360 a five-year, \$91.9 million cooperative agreement to implement the Afghanistan University Support and Workforce Development Program. The program's objectives were to increase the skills and employability of Afghan men and women in the public and private sectors. USAID modified the agreement 12 times, extending the period of performance by nine months to September 30, 2019. The funding amount did not change.

SIGAR's financial audit, performed by Crowe LLP (Crowe), reviewed \$43,283,444 million charged to the cooperative agreement from October 1, 2015, through December 31, 2017. Crowe identified one material weakness and three significant deficiencies in FHI 360's internal controls, and two instances of noncompliance with the terms and conditions of the cooperative agreement. Because of the internal-control deficiencies and instances of noncompliance, Crowe identified \$656,218 in questioned costs.

COMPLETED FINANCIAL AUDITS

- Financial Audit 19-23-FA: Department of the Army's Law Enforcement Professionals Program: Audit of Costs Incurred by Engility Corporation
- Financial Audit 19-30-FA: USAID's Afghanistan University Support and Workforce Development Program: Audit of Costs Incurred by FHI 360
- Financial Audit 19-26-FA: USAID's Women's Leadership Development Project in Afghanistan: Audit of Costs Incurred by ARD Inc.
- Financial Audit 19-27-FA: USAID's Technical Assistance Provided to the Afghan Ministry of Public Works: Audit of Costs Incurred by Wood Environment & Infrastructure Solutions Inc.
- Financial Audit 19-19-FA: USAID's Afghanistan Agriculture Extension Project-II: Audit of Costs Incurred by University of California, Davis
- Financial Audit 19-28-FA: USAID's Helping Mothers and Children Thrive Program: Audit of Costs Incurred by Jhpiego Corporation
- Financial Audit 19-31-FA: Department of State's Afghan Civilian Advisor Support Program: Audit of Costs Incurred by DynCorp International LLC

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Financial Audit 19-26-FA: USAID’s Women’s Leadership Development Project in Afghanistan

Audit of Costs Incurred by ARD Inc.

On September 23, 2014, USAID awarded a \$41,959,377 cost-plus-fixed-fee task order to ARD Inc. (ARD) to implement the Women’s Leadership Development (WLD) project under the Promoting Gender Equity in National Priority Programs. The intent of WLD is to enable Afghan women to apply advanced management and leadership skills in Afghanistan’s public, private, and civil-society sectors. The period of performance is from September 23, 2014, through September 22, 2019. USAID modified the task order eight times, but did not change its amount or period of performance.

SIGAR’s financial audit, performed by Crowe LLP, reviewed \$19,368,120 in expenditures and fixed fees charged to the task order from October 1, 2015, through September 30, 2017. Crowe identified one significant deficiency and one material weakness in ARD’s internal controls, and one instance of noncompliance with the terms and conditions of the task order and applicable laws and regulations. Because of these internal-control deficiencies and instance of noncompliance, Crowe identified a total of \$338,061 in questioned costs.

Financial Audit 19-27-FA: USAID’s Technical Assistance Provided to the Afghan Ministry of Public Works

Audit of Costs Incurred by Wood Environment & Infrastructure Solutions Inc.

On August 2, 2014, USAID awarded a \$21,366,222 cost-plus-fixed-fee contract to AMEC Foster Wheeler Environment & Infrastructure Inc. (AMEC) to give technical assistance to the Afghan Ministry of Public Works. The purpose of the contract was to improve the management, financing, and efficiency of the country’s roads. USAID modified the contract nine times, increasing the obligated amount to \$25,486,058. On April 16, 2018, AMEC changed its name to Wood Environment & Infrastructure Solutions Inc. (Wood).

SIGAR’s financial audit, performed by Crowe LLP, reviewed \$12,979,139 in costs and fixed fees that Wood reported from January 1, 2016, through August 2, 2017. Crowe identified one significant deficiency and two deficiencies in Wood’s internal controls, and three instances of noncompliance with the terms and conditions of the contract or applicable regulations. Because of the internal-control deficiencies and instances of noncompliance, Crowe identified \$11,718 in total questioned costs.

Financial Audit 19-19-FA: USAID’s Afghanistan Agriculture Extension Project–II

Audit of Costs Incurred by University of California, Davis

On November 13, 2014, USAID awarded the University of California, Davis (UC Davis) a three-year, \$19,814,702 cooperative agreement to support the

Afghanistan Agriculture Extension Project–II. The project’s objective was to increase the capacity of Afghanistan’s Ministry of Agriculture, Irrigation, and Livestock. UC Davis worked with four other universities on the project to direct and promote agricultural, environmental, and social sustainability through research, teaching, and public engagement. USAID modified the cooperative agreement 10 times, increasing the obligated amount for the project to \$20,229,770 and shortening the period of performance by two months from September 30, 2017, to July 31, 2017.

SIGAR’s financial audit, performed by Crowe LLP, reviewed \$16,608,074 in costs incurred on the cooperative agreement from July 1, 2015, through July 31, 2017. Crowe identified three material weaknesses and one significant deficiency in UC Davis’s internal controls, and three instances of noncompliance with the terms and conditions of the cooperative agreement. Because of the internal-control deficiencies and instances of noncompliance, Crowe identified \$8,590 in total questioned costs.

Financial Audit 19-28-FA: USAID’s Helping Mothers and Children Thrive Program

Audit of Costs Incurred by Jhpiego Corporation

On January 7, 2015, USAID awarded Jhpiego Corporation (Jhpiego) a \$60 million cooperative agreement to support the Family Planning, Maternal, Newborn, and Child Health program. The agreement’s objective was to increase the use of high-quality maternal and child health services by strengthening existing primary-care services provided through the private sector and the Afghan Ministry of Public Health. As of December 2017, USAID had modified the agreement nine times, with no change in the total funding or period of performance. On July 16, 2015, the program’s name was changed to Helping Mothers and Children Thrive.

SIGAR’s financial audit, performed by Crowe LLP, reviewed \$28,437,143 in costs charged to the cooperative agreement from July 1, 2015, through June 30, 2017. Crowe identified two deficiencies in Jhpiego’s internal controls, one of which was a significant deficiency, and two instances of noncompliance with the terms and conditions of the cooperative agreement and applicable regulations. Because of the significant deficiency and instance of noncompliance, Crowe identified \$3,301 in total questioned costs.

Financial Audit 19-31-FA: Department of State’s Afghan Civilian Advisor Support Program

Audit of Costs Incurred by DynCorp International LLC

On December 29, 2014, the Department of State’s Bureau of International Narcotics and Law Enforcement Affairs awarded a cost-plus-fixed-fee contract worth \$15,150,364 to DynCorp International LLC (DynCorp) to support the Afghan Civilian Advisor Support Program.

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The purpose of this contract was to increase the Afghan government's abilities to improve public security and support the rule of law. DynCorp was required to provide qualified personnel to support U.S. foreign-assistance programs to mentor and train the Afghan National Police and the Afghan Ministry of Interior. After seven modifications, the total funding increased to \$21,246,089, and the period of performance was extended from June 30, 2015, through February 29, 2016.

SIGAR's financial audit, performed by Davis Farr LLP (Davis Farr), reviewed \$18,401,542 in costs charged to the contract from December 29, 2014, through February 29, 2016. Davis Farr did not identify any material weaknesses or significant deficiencies in DynCorp's internal controls, or any instances of noncompliance with the terms and conditions of the contract. Accordingly, Davis Farr did not identify any questioned costs.

INSPECTIONS

Inspection Reports Issued

This quarter, SIGAR issued two inspection reports. These reports examined USAID's \$56.7 million Power Transmission Expansion and Connectivity Project (PTEC) transmission line between Arghandi and Ghazni, and DOD's \$5.2 million Kang Border Patrol headquarters compound. A list of completed and ongoing inspections can be found in Appendix C of this quarterly report.

Inspection Report 19-35-IP: USAID's Power Transmission Expansion and Connectivity Project

Arghandi-Ghazni Transmission Line Was Generally Built to Contract Requirements, but Four Deficiencies Create Safety Hazards and Could Disrupt Electrical Power

On December 5, 2012, USAID issued an implementation letter to fund the PTEC project in Afghanistan. Da Afghanistan Breshna Sherkat (DABS), the Afghan government's electrical utility, is responsible for implementing PTEC in collaboration with Afghanistan's Ministry of Finance. As part of the project, on March 26, 2014, DABS awarded KEC International Ltd. a \$56.7 million contract to design, supply, and construct a 76-mile-long, 220-kilovolt double-circuit transmission line between Arghandi and Ghazni. After four contract amendments, the component's completion date was extended from December 31, 2016, to August 31, 2017, and the contract's value increased to \$59.2 million. KEC International completed the project on August 31, 2017.

SIGAR found that KEC International generally built the PTEC towers and transmission line between the Arghandi and Ghazni substations according to contract requirements and technical specifications. However, SIGAR found four deficiencies that have created safety hazards and could

COMPLETED INSPECTION REPORTS

- Inspection Report 19-35-IP: USAID's Power Transmission Expansion and Connectivity Project: Arghandi-Ghazni Transmission Line Was Generally Built to Contract Requirements, but Four Deficiencies Create Safety Hazards and Could Disrupt Electrical Power
- Inspection Report 19-36-IP: Kang Border Patrol Headquarters: Construction Generally Met Contract Requirements, but SIGAR Identified Five Deficiencies, and the \$5.2 million Project Has Not Been Used or Maintained

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disrupt the flow of electricity through the national transmission grid. First, KEC International did not clear all trees close to the transmission line as required. Second, the foundations of two of the 18 towers SIGAR inspected were experiencing soil settlement. Based on SIGAR's observations, it is not certain that KEC International backfilled the foundations of these two towers to eight inches as the contract required. Third, the foundations of five of the 18 towers were vulnerable to soil erosion because KEC International did not provide backfill or riprap—a pile of broken stones used as a foundation or to stabilize an easily eroded bank or slope. Finally, KEC International added a layer of concrete on top of the originally placed concrete to the foundations of four of the 18 towers inspected, resulting in a honeycomb finish that could allow water to enter the concrete foundation.

The four deficiencies were added to an updated punch list of items for KEC International to address before the final warranty inspection occurs. However, KEC International has not yet corrected the punch-list items due to security concerns along the transmission-line route.

SIGAR found that the transmission line between Arghandi and Ghazni is used and maintained. Although the line has the capacity to transmit the energy associated with 300 megawatts of power, it transmits only about three megawatts' worth of energy to approximately 12,000 customers in Ghazni and Wardak Provinces because there is insufficient electric generation in Afghanistan.

SIGAR recommends that the USAID Mission Director for Afghanistan work with Afghan Ministry of Finance and DABS officials to have KEC International check all transmission tower locations and, where necessary, correct the deficiencies SIGAR identified.

Inspection Report 19-36-IP: Kang Border Patrol Headquarters Construction Generally Met Contract Requirements, but Four Deficiencies Exist, and the \$5.2 million Project Has Not Been Used or Maintained

In August 2011, the U.S. Air Force's 772nd Enterprise Sourcing Squadron, in support of the Air Force Center for Engineering and the Environment, now the Air Force Civil Engineer Center (AFCEC), awarded a \$26.9 million cost-plus-fixed-fee task order to United Research Services Group Inc. (URS) to design and construct four compounds for the Afghan Border Police, one of which was the Kang Border Patrol headquarters. On February 28, 2013, the Combined Security Transition Command-Afghanistan transferred the completed Kang Border Patrol headquarters compound, which cost \$5.2 million to construct, to the Afghan Ministry of Interior (MOI), which oversees the border police.

SIGAR found that URS built the buildings, facilities, and utility systems required by the task order, but SIGAR could access only 18 of the 29 buildings and support facilities, plus the three utility systems, to assess their construction. For these 21 buildings, facilities, and systems, SIGAR



Transmission towers along the 76-mile-long Arghandi-Ghazni transmission line funded by USAID. (SIGAR photo)

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identified four instances where URS did not comply with the contract requirements. Specifically, URS did not place native crushed stone around the Kang Border Patrol headquarters buildings; apply finishing coats of paint to the entry gates, guard towers, and fuel storage tank canopy; install trenches for the storm-water system; or install safety components on the fuel-storage tanks. Additional deficiencies might exist in the 11 buildings and facilities that could not be accessed.

In addition, SIGAR could not fully assess the extent of AFCEC's project oversight because neither it nor its contractors maintained contract documents. Moreover, Henningson Durham Richardson Environment Operations and Construction Inc. (HDR), the contractor responsible for oversight, acknowledged that it did not effectively oversee the project because of security concerns near the Kang headquarters compound. Since its completion in February 2013, the newly constructed Kang Border Patrol headquarters compound has never been used, and the MOI currently has no plans to use it in the future, which could result in a waste of \$5.2 million in U.S. taxpayers' money. Further, the new construction at the Kang headquarters compound is starting to deteriorate due to the lack of maintenance.

Because the Afghan government is now responsible for operating and maintaining the Kang headquarters compound, SIGAR did not make any recommendations in this report.

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 43 recommendations contained in 18 audits, inspections, and financial reports. These reports contained recommendations that resulted in the recovery of \$132,924 in ineligible or unsupported contract costs paid by the U.S. government.

From 2009 through March 2019, SIGAR issued 333 audits, alert letters, and inspection reports, and made 952 recommendations to recover funds, improve agency oversight, and increase program effectiveness.

SIGAR has closed 823 of these recommendations, about 86%. Closing a recommendation generally indicates SIGAR's assessment that the audited agency has either implemented the recommendation or has otherwise appropriately addressed the issue. In some cases where the agency has failed to act, SIGAR will close the recommendation as "Not Implemented"; this quarter SIGAR closed seven recommendations in this manner. In some cases, these recommendations will be the subject of follow-up audit or inspection work.

SIGAR is also required to report on any significant recommendations from prior reports on which corrective action has not been completed. This quarter, SIGAR continued to monitor agency actions on 129 open

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recommendations. Sixty-four of these recommendations have been open more than 12 months; these remain open because the agency involved has not yet produced a corrective-action plan that SIGAR believes would resolve the identified problem, or has otherwise failed to appropriately respond to the recommendation(s).

For a complete list of open recommendations see www.sigar.mil.

SPECIAL PROJECTS

This quarter, SIGAR's Office of Special Projects issued six reports with four recommendations on topics including USAID-supported health facilities in Faryab and Bamyan Provinces, USAID-funded schools in Paktika and Bamyan Provinces, CERP-funded bridges in Ghazni Province, and theft of contractor-owned property by the Afghan National Defense and Security Forces (ANDSF). A list of completed and ongoing Special Projects can be found in Appendix C of this quarterly report.

Review 19-20-SP: USAID Supported Health Facilities in Faryab Province, Afghanistan

Observations from 17 Site Visits

This report is the ninth in a series that discusses findings from site visits at health facilities supported by USAID across Afghanistan. The facilities reviewed were supported by USAID through the World Bank-administered System Enhancement for Health Action in Transition (SEHAT) program. SIGAR found that all 17 facilities were open and operational, however, several facilities had minor structural issues such as cracked walls and leaking roofs; five facilities did not have access to reliable electricity.

SIGAR also found that the geospatial coordinates USAID provided for the facilities were generally accurate. Specifically, nine facilities were located less than one kilometer away from the coordinates USAID provided; seven facilities were between one and five kilometers from the coordinates USAID provided; and one facility was more than 10 kilometers (approximately 13 kilometers) from the USAID-provided location.

Review 19-21-SP Schools in Paktika Province, Afghanistan

Observations from Site Visits at Six Schools

This report is the ninth in a series that discusses findings from site visits at schools across Afghanistan that were either built or rehabilitated by USAID. SIGAR found that four of the six schools were open and in generally usable condition, and that two of the schools were closed and not in a condition suitable for use. One school was never completed and one was destroyed by the Taliban. SIGAR also found that the schools that were open had structural deficiencies, including some deficiencies that potentially put the safety of students and teachers at risk. Specifically, SIGAR found two schools with

COMPLETED SPECIAL PROJECTS REPORTS

- Review 19-20-SP: USAID Supported Health Facilities in Faryab Province, Afghanistan: Observations from 17 Site Visits
- Review 19-21-SP: Schools in Paktika Province, Afghanistan: Observations from Site Visits at Six Schools
- Review 19-22-SP: Afghan National Defense and Security Forces Facilities: Action Needed to Address Confiscation of Contractor-Owned Property and Contractor Mistreatment
- Review 19-24-SP: Bridges in Ghazni Province, Afghanistan: All Eight Bridges SIGAR Visited Were In Good Condition
- Review 19-33-SP: Schools in Bamyan Province, Afghanistan: Observations from Site Visits at 16 Schools
- Review 19-34-SP: USAID Supported Health Facilities in Bamyan Province, Afghanistan: Observations from 44 Site Visits

DOD Cost Benefit Analysis Validates SIGAR Report

In 2018, as a result of SIGAR's review of ANA proprietary camouflaged uniforms (SIGAR 17-48-SP), Congress included Section 344 in H.R. 2810, the FY 2018 National Defense Authorization Act (NDAA), which required the Secretary of Defense to determine whether there is a more effective alternative uniform specification for the Afghan National Army, the efficacy of the existing pattern compared to other alternatives, and the costs and feasibility of transitioning the uniforms of the Afghan military to a pattern owned by the United States. The study conducted by DOD found that the current ANA camouflage pattern being procured is both the most expensive and the second-most detectable of the seven patterns tested.

SIGAR OVERSIGHT ACTIVITIES



Livestock cross a CERP-funded bridge in Ghazni Province. (SIGAR photo)

roofs that appeared structurally unsound and leaked, and two schools with broken windows. Finally, SIGAR found that the four schools that were open lacked electricity.

SIGAR made one recommendation to USAID to share the results of this review with the Ministry of Education so that structural and other deficiencies can be remedied.

Review 19-22-SP: Afghan National Defense and Security Forces Facilities

Action Needed to Address Confiscation of Contractor-Owned Property and Contractor Mistreatment

This report is a follow-up to a previously issued SIGAR report, *Allegations Related to USACE Operations and Maintenance Contract for Afghan Security Forces' Facilities* (SIGAR 18-12-SP). During the course of that review, SIGAR was made aware of concerns by U.S. Army Corps of Engineers (USACE) staff who were overseeing three operations and maintenance (O&M) contracts valued at over \$1 billion serving Afghan National Defense and Security Forces (ANDSF) facilities in Afghanistan, regarding the theft of contractor-owned property and abuses to contract staff.

SIGAR found that ANDSF personnel confiscated contractor-owned property totaling about \$780,000. USACE has paid over \$325,000 to compensate the contractor of the two completed contracts for confiscated property that it could not recover at six sites. USACE reported that it is reviewing documentation to support payment to the current O&M contractor for 17 sites in which USACE was unable to reclaim the contractor's property in the amount of \$454,900.

SIGAR also found that the ANDSF mistreated or abused contractor staff, and had reportedly detained staff against their will and threatened

or intimidated them into completing work that was outside the scope of the O&M contract requirements. Between August 2011 and November 2013, USACE identified 296 serious-incident reports (SIRs) reported across approximately 500 supported ANDSF sites that the O&M contractor filed with USACE. Of this total, 71 regarded abuses, threats, intimidation, and confiscated property. According to USACE officials, USACE takes steps to address these SIRs and prevent contractor mistreatment and theft. However, USACE reported that it does not have an official system in place to record actions it has taken to resolve incidents reported by contractor staff.

According to USACE personnel, they routinely work with the Combined Security Transition Command-Afghanistan (CSTC-A) to address these issues. CSTC-A has several mechanisms for holding the ANDSF accountable, including engaging on-site advisors for assistance and using financial penalties to ensure that the Afghan government understands the terms and conditions for proper utilization of CSTC-A funds (including purpose, time, and amount) and the possible consequences of improper use of funds. However, CSTC-A has not assessed any financial penalties against the ANDSF for confiscated property or the mistreatment of contractor personnel.

SIGAR made one recommendation to USACE to develop a process to track actions taken to resolve SIRs and coordinate with CSTC-A to ensure all resolutions to SIRs are captured.

Review 19-24-SP: Bridges in Ghazni Province, Afghanistan

All Eight Bridges SIGAR Visited Were In Good Condition

This report discusses the results of SIGAR's review of eight DOD-funded bridges in Ghazni Province, Afghanistan that were constructed using Commander's Emergency Response Program (CERP)-funds between 2009 and 2012. SIGAR found that the location information maintained in DOD systems was accurate, with all the bridges within one kilometer of their recorded coordinates. All the bridges were in good condition and local community members regard them as very useful to their communities.

Review 19-33-SP: Schools in Bamyan Province, Afghanistan

Observations from Site Visits at 16 Schools

This report is the tenth and final in a series that discusses findings from site visits at schools across Afghanistan that were either built or rehabilitated by USAID. SIGAR found that all 16 schools were open and that 14 schools were in generally usable condition. Two of the schools that remained open, however, had major structural issues that could pose risks to the school's students and staff.

In addition, SIGAR found that all schools have structural deficiencies (e.g. cracked or crumbling walls or broken windows) that could potentially

SIGAR OVERSIGHT ACTIVITIES



Broken windows and doors at a USAID-funded girls' high school in Bamyan Province. (SIGAR photo)

impact safety and the delivery of education. Specifically, SIGAR found two schools with deteriorated foundations, three schools with roofs that appeared structurally unsound, and nine schools with roofs that leaked. All 16 schools had damaged walls, eight schools had damaged doors, and five schools had broken windows. In addition, SIGAR found that 12 of the 16 schools visited did not have access to electricity in the classrooms or offices, and six schools did not have access to water.

SIGAR made one recommendation to USAID to share the results of this review with the MOE so that structural and other deficiencies can be remedied.

Review 19-34-SP: USAID-Supported Health Facilities in Bamyan Province, Afghanistan

Observations from 44 Site Visits

This report is the tenth and final in a series that discusses SIGAR's findings from site visits at health facilities supported by USAID across Afghanistan. The facilities reviewed were supported by USAID through the World Bank-administered System Enhancement for Health Action in Transition (SEHAT) program. SIGAR found that all of the facilities were operational and perceived as beneficial by community members, and most were in good condition. However, SIGAR inspectors did observe health and safety concerns at some facilities that may warrant closer attention; further, some facilities lacked access to electricity or clean drinking water. Specifically, 40 facilities had electricity, but 28 noted that they had only intermittent electricity or wiring issues. Thirty-seven facilities reported having access to clean drinking water on site; the remaining seven reported well

SIGAR OVERSIGHT ACTIVITIES

malfunctions, or needing to bring water in from other sources including nearby rivers and streams.

SIGAR also found that the geospatial coordinates USAID provided for the facilities were not accurate. However, geospatial coordinates provided by the Ministry of Public Health (MOPH) were generally accurate.

SIGAR made one recommendation to USAID to update its geospatial coordinates and share this review with the MOPH so the structural and other deficiencies identified can be brought to the attention of those responsible for addressing them.

LESSONS LEARNED

SIGAR's Lessons Learned Program was created to identify lessons and make recommendations to Congress and executive agencies on ways to improve current and future reconstruction efforts. To date, the program has issued five reports. Four projects are currently in development: U.S. and coalition responsibilities for security-sector assistance; U.S. government support to elections; monitoring and evaluation of reconstruction contracting; and reintegration of ex-combatants.

The issued lessons-learned reports and their companion interactive versions are posted on SIGAR's website, www.sigar.mil.

INVESTIGATIONS

SIGAR's Investigations Directorate produced significant outcomes during the reporting period. Criminal investigations resulted in two guilty pleas, one sentencing, and \$1 million in criminal fines and forfeitures. In addition, a civil investigation resulted in a forfeiture of \$25 million. SIGAR initiated 14 new cases and closed 11, bringing the total number of ongoing investigations to 168.

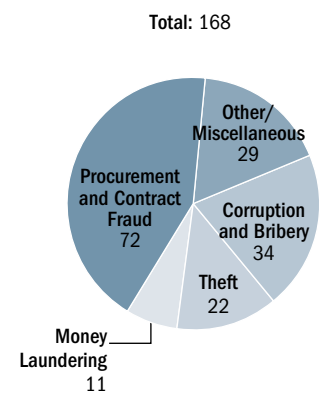
To date, SIGAR investigations have resulted in a cumulative total of 135 criminal convictions. Criminal fines, restitutions, forfeitures, civil settlements, and U.S. government cost savings and recoveries total over \$1.5 billion.

Investigation Results in \$25 Million Civil Forfeiture and Guilty Plea of Afghan Corporation

On March 5, 2019, in the U.S. District Court for the District of Columbia, a settlement was reached in a SIGAR-led civil forfeiture case against assets owned by Hikmatullah Shadman, an Afghan national. Shadman illegally acquired these assets while a subcontractor in Afghanistan. Approximately \$25 million will be forfeited to the United States under the settlement terms. The civil forfeiture is part of a global settlement involving the resolution of a criminal case and False Claims Act allegations.

FIGURE 2.1

SIGAR INVESTIGATIONS: NUMBER OF OPEN INVESTIGATIONS, AS OF APRIL 4, 2019



Source: SIGAR Investigations Directorate, 4/4/2019.

SIGAR OVERSIGHT ACTIVITIES

In rem civil forfeiture: a civil judicial forfeiture in which the action brought in court is against the property (“in rem” is Latin for “against the thing”). The property is the defendant and no criminal charge against the owner is necessary.

Qui tam lawsuit: a suit filed by an individual on behalf of the government, as permitted by the False Claims Act (FCA), 31 U.S.C. § 3729 - 3733. (“Qui tam” is part of a Latin expression for one who brings a claim for the state as well as one’s self.) The person bringing the action is referred to as a “relator.”

Source: DOJ, “Types of Federal Forfeiture,” 2/1/2017, <https://www.justice.gov/afp/types-federal-forfeiture>, accessed 4/7/2019; False Claims Act (FCA), 31 U.S.C. § 3729-3733.

On November 20, 2012, an **in rem civil forfeiture** action against approximately \$57 million in Shadman’s assets was filed in U.S. District Court, District of Columbia. The complaint alleged that these assets are the proceeds of a conspiracy to commit wire fraud.

Hikmatullah Shadman was formerly an interpreter for U.S. Army Special Forces units serving in and near his native Kandahar. Largely through the tutelage of some U.S. soldiers, Shadman founded several companies, including Hikmat Shadman Logistics Services Company (HSLSC), also known as the Hikmat Shadman Supply and Construction Company (HSCC). HSLSC subcontracted with the U.S. government for the delivery of food, water, and other supplies to U.S. military members at various locations in Afghanistan. From November 2010 to March 2012, Shadman charged the United States more than \$77 million for his services.

The forfeiture was the result of Shadman’s fraudulent receipt of a disproportionate number of subcontracts and the inflated prices he charged the United States. The investigation uncovered thousands of falsified documents submitted by Shadman’s companies for payment for work never performed and for work other than that described in the documentation submitted. For example, between May 2011 and August 2011, HSLSC submitted documentation which reflected that 114 fuel trucks were used to deliver fuel to U.S. military units. The U.S. government paid HSLSC approximately \$1.1 million for the deliveries when, in fact, the fuel was never delivered to any military units and was instead sold on Kandahar’s black market. The incident resulted in the convictions of several U.S. soldiers in the Eastern District Court of North Carolina for their involvement in the fuel theft scheme.

Shadman’s companies also charged rates which exceeded the average rate of competing subcontractors. The investigation revealed that Shadman overcharged the United States millions of dollars.

As part of the global settlement, several Shadman-owned companies, including HSLSC, entered into a separate agreement with the United States to resolve False Claims Act allegations declared in a **qui tam lawsuit** pertaining to kickbacks the companies paid from November 2010 to May 2012 to two U.S. military members to secure the subcontract awards. According to the terms of the agreement, \$1.5 million of the forfeited funds will be paid to the U.S. government.

Apart from the civil and False Claims Act actions pursued in this investigation, HSLSC was criminally prosecuted in the Eastern District of North Carolina. On January 3, 2019, HSLSC pleaded guilty to a criminal information charging two counts of paying bribes to two U.S. military members, and one count of conspiracy for the purpose of influencing the awarding of subcontracts to HSLSC and ensuring favorable treatment in the contracting process. HSLSC was sentenced to pay \$810,000 in criminal fines, a forfeiture of \$190,000, and \$1,200 in special assessments. In addition, HSLSC was

ordered to serve a five-year probation with special conditions agreed upon: HSLSC is not to seek to engage in business with the U.S. government; not to contest debarment; and its corporate officers are not to seek or apply for visas with the United States.

On February 26, 2019, five corporate officers and eight corporate entities associated with the fraud identified in the investigation were debarred from doing business with the U.S. government until February 26, 2039.

SIGAR led the investigation, with assistance from the FBI, DCIS, the U.S. Army Major Procurement Fraud Unit, and the U.S. Air Force Office of Special Investigations.

Investigation Influences Policy Changes to Reduce Fuel Theft at Resolute Support

A SIGAR investigation resulted in the implementation of new policies at NATO's Resolute Support (RS) mission to minimize the occurrence of fuel theft.

A former Nordic Camp Supply (NCS) employee informed SIGAR that NCS employees were stealing fuel from RS by dispensing only partial fuel loads and billing for full loads. Upon review of the internal management controls of the transfer of fuel and subsequent invoicing, SIGAR agents identified a number of vulnerabilities and informed the NATO Support and Procurement Agency's senior representative of RS of how the theft was occurring.

RS officials were advised of the issues SIGAR had identified and ultimately implemented solutions to address the problem. New procedural requirements were put in place, including installing fuel gauges in storage tanks, providing fuel cards for each vehicle, and improving oversight policy for fuel delivery and consumption. Such measures will significantly reduce the potential for fuel theft and fraud.

Suspensions and Debarments

This quarter, SIGAR's suspension and debarment program referred 15 individuals and 26 entities for suspension or debarment based on evidence developed as part of investigations conducted by SIGAR in Afghanistan and the United States. These referrals bring the total number of individuals and companies referred by SIGAR since 2008 to 969, encompassing 530 individuals and 439 companies to date.

As of the end of March 2019, SIGAR's efforts to utilize suspension and debarment to address fraud, corruption and poor performance in Afghanistan have resulted in a total of 141 suspensions and 555 finalized debarments/special entity designations of individuals and companies engaged in U.S.-funded reconstruction projects. An additional 24 individuals and companies have entered into administrative compliance agreements with the U.S. government in lieu of exclusion from contracting since the

initiation of the program. During the second quarter of FY 2019, SIGAR's referrals resulted in 13 finalized debarments and on administrative compliance agreement. One additional company is currently in proposed debarment status, awaiting final adjudication of a debarment decision.

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 conducts or 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 defend 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.

Debarment of Hikmatullah Shadman, Hikmat Shadman Logistics Services Company and Eleven Affiliated Companies and Individuals

On February 26, 2019, the Department of the Army debarred Hikmatullah Shadman, Hikmat Shadman Logistics Services Company, Hikmat Shadman Construction and Supply Company, Hekmat Shadman General Trading LLC, Hekmat Shadman Ltd., Hikmat Himmat Logistics Services Company, Saif Hikmat Construction Logistic Services and Supply Company, Faizy Elham Brothers Ltd, Everest Faizy Logistics Services, Yaser Elham, Rohullah Faizy, Henry Omonobi-Newton, and Paul Hele based on the entry of a guilty plea by Hikmat Shadman Logistics Services Company in the U.S. District Court for the Eastern District of North Carolina on January 3, 2019.

The basis for this plea was the indictment of Shadman on August 11, 2016, and a subsequent filing of criminal information against Hikmat Shadman Logistics Services Company on December 4, 2018, on one count

SIGAR OVERSIGHT ACTIVITIES

of conspiracy, in violation of 18 U.S.C. § 371, and two counts of payment of gratuities to a public official, in violation of 18 U.S.C. § 201(c). In exchange for an agreement not to further prosecute Shadman and Hikmat Shadman Logistics Services Company, the company agreed to pay a forfeiture of \$190,000 and a criminal fine of \$810,000, submit to five years' probation, and accept any debarment decision made to exclude it from contracting with the U.S. government. In addition, Shadman agreed to not apply for a visa to enter the United States.

Previously, on October 30, 2013, (based upon the November 20, 2012, filing of a complaint in the U.S. District Court for the District of Columbia for forfeiture *in rem* by the Department of Justice, Money Laundering and Asset Forfeiture and Recovery Section) the Army suspended Hikmatullah Shadman, Hikmat Shadman Logistics Services Company, six affiliated companies, and two business partners of Shadman, Yaser Elham, and Rohullah Faizy, from contacting with the government. The forfeiture complaint, based on a SIGAR investigation, alleged that Shadman and his coconspirators paid kickbacks to facilitate the award of transportation subcontracts valued at \$77,920,605 to Hikmat Shadman Logistics Services Company and also submitted inflated invoices to the U.S. government with the assistance of Henry Omonobi-Newton and Paul Hele, employees of TOIFOR, the prime contractor for the transportation of military cargo within Afghanistan.

The civil-forfeiture complaint that was the basis for the suspension resulted in the seizure of approximately \$57.3 million in correspondent accounts held by companies owned by Shadman, Elham, and Faizy by the Department of Justice in May 2013. This seizure was subsequently contested by Shadman, Elham, and Faizy in a civil proceeding in the U.S. District Court for the District of Columbia. As part of the plea agreement with Shadman unsealed on January 3, 2019, and a subsequent settlement agreement regarding the asset-forfeiture complaint entered into on March 5, 2019, this civil proceeding was terminated, resulting in the forfeiture of \$24.5 million to the U.S. Treasury and \$1.5 million distributed to the Department of Justice Civil Division as payment of its fees associated with the civil action.

Based on the findings of fact, conclusions, and the aggravating factors in the administrative record, the Army suspension and debarment official determined that all parties would be debarred for a period of 20 years, ending on February 26, 2039.

NEW RULES FOR AMERICAN UNIVERSITY OF AFGHANISTAN

A joint investigation by SIGAR and the U.S. Agency for International Development's Office of Inspector General (USAID OIG) has led the heavily U.S.-funded American University of Afghanistan (AUAF) to sign an agreement with USAID to deal with long-standing management and accountability issues identified by the oversight agencies.

The 19-page "Administrative Agreement" executed on March 29, 2019, gives the university an opportunity to demonstrate that it can be entrusted with additional U.S. government funding.⁶⁷ Since its chartering in 2004 through July 2018, the AUAF had received some \$132 million in U.S. funding, largely through USAID, but also from the State Department, the Task Force for Business and Stability Operations formerly operated by the Department of Defense, and grants to U.S. universities that provided support to the AUAF.⁶⁸

USAID support for the AUAF has so far exceeded \$100 million. USAID's first cooperative agreement with the AUAF, running from August 2008 through July 2013, provided \$42.1 million for expanding academic programs and facilities, and for recruiting faculty and administrators to help the university become a self-sustaining institution.⁶⁹ The second cooperative agreement began in August 2013; USAID had disbursed another \$59.6 million for the AUAF per that agreement as of January 12, 2019.⁷⁰

The American University of Afghanistan occupies a unique position. It is, according to the AUAF website, "Afghanistan's only nationally accredited, private, not-for-profit, non-partisan and co-educational university." Since admitting an initial 50 students in 2006, it now enrolls more than 1,700 full- and part-time students.⁷¹ Former First Lady Laura Bush and then U.S. Ambassador to Afghanistan Zalmay Khalilzad were early supporters. In its short existence, AUAF has endured several tragedies, including the kidnapping of two of its professors, an American and an Australian, and a 2016 attack on the university that left more than a dozen people dead.

Despite the substantial U.S. assistance, AUAF records obtained by SIGAR and USAID OIG investigators indicated that the university was not sustainable: it had lost more than \$63 million since 2012, it depended on U.S. aid for 86% of its funding, and as of February 2018 it had money for only another month's expenses.⁷² To avoid a failure of the university, USAID extended the 2013 cooperative agreement and raised its total value to \$72.8 million, enough to keep the AUAF open through at least May 2019.⁷³

WHAT WENT WRONG?

SIGAR Investigations and USAID OIG opened their joint investigation of the AUAF in November 2016 after receiving allegations that the university was unable to provide accurate information on its use of U.S. funds and could not properly account for its required contributions to total costs.⁷⁴

The joint investigators' work was reinforced by several other performance assessments. In particular, The Asia Foundation, a nonprofit international-development organization working under contract with USAID, produced a September 2017 report on the AUAF that cited internal-control

QUARTERLY HIGHLIGHT



Afghan women graduating from the American University of Afghanistan. (U.S. Embassy Kabul photo)

weaknesses; widespread deficiencies in financial, procurement, and compliance procedures, and policies; missing documents in personnel and student files; continued noncompliance with terms of the USAID cooperative agreement; failure to address violations promptly; and a culture of resistance to change by management and the board of trustees.⁷⁵

The investigation resulted in the issuance of a SIGAR Inspector General subpoena to AUAF and its fundraising arm, the Friends of the American University of Afghanistan, related to accounting records, cost-sharing contributions, staff timesheets and compensation, expenditure of USAID funds, procurements, student enrollment figures, and agreements between the AUAF and the Friends on construction of a women's economic-development center and development of a business-innovation hub.

At the same time, USAID's Afghanistan Mission issued a corrective-action letter to AUAF requiring that the university address the results of these performance assessments and provide revised budget, program description, and cost-share documentation. AUAF resistance to these requirements led USAID to notify the university in February 2017 that it would suspend funding unless the university cooperated. The additional documents handed over following USAID's notice raised additional questions regarding AUAF's financial responsibility and managerial capabilities.

In March 2018 SIGAR's Suspension and Debarment Program, supported by SIGAR's Investigations Directorate and USAID OIG Investigations began preparing a referral of AUAF to the USAID Suspension and Debarment Official. The joint SIGAR/USAID OIG referral was based on the information contained in 28 financial statements, external audits and assessments, and internal audits, spanning eight years, 2010 to 2018. The documents had common themes:⁷⁶

- The AUAF had a history of mismanagement, lack of controls, and financial instability.
- The university consistently failed to adopt recommendations for improvement or reform per USAID regulations.

- AUAF was failing to adhere to its obligations to safeguard U.S. government funds.
- The university was not sustainable in its present form, financially or programmatically, due to poor governance and management.
- The AUAF board of trustees was not properly overseeing the university and had a significant conflict of interest problem with its fundraising partner, the Friends of the American University of Afghanistan.

The diagnostic work on AUAF performance has not stopped. SIGAR's Audits and Inspections Directorate is conducting a performance audit of the university that is expected to be issued late this year or early in 2020.⁷⁷

HOW ARE PROBLEMS BEING ADDRESSED?

Management deficiencies at AUAF were so compelling that SIGAR Inspector General John Sopko and USAID Inspector General Ann Calvaresi Barr brought them to the attention of USAID Administrator Mark Green in a meeting on July 23, 2018. SIGAR and USAID OIG formally submitted to USAID the joint referral reflecting that AUAF posed a clear and present risk to taxpayer funds.

Since then, SIGAR and USAID OIG have continued to monitor the work done by USAID to address the problems identified at AUAF. Under the oversight of the USAID Mission in Afghanistan and the USAID Office of Afghanistan and Pakistan Affairs, AUAF has begun addressing several of its issues. USAID modified the August 2013 cooperative agreement with AUAF to add additional funding conditions as well as sections enhancing reporting requirements and provisions regarding cost share, allowable costs, and other areas of concern.

On March 28, 2019, the USAID Suspension and Debarment Official entered into a three-year Administrative Agreement with AUAF. The agreement incorporates many of the concerns raised with Administrator Green by SIGAR and USAID OIG, and contains an admission by AUAF that it “accepts and acknowledges the need to continue to make improvements in the areas identified by SIGAR and USAID OIG.” Requirements include AUAF’s full compliance with any U.S. government investigative or audit requests; that conflict-of-interest policies be applied to trustees; that reviews be conducted to determine the requisite experience or skills of Board members for overseeing a university and managing U.S. funds; that an integrity and compliance program be established; and that a remediation plan be drafted to address concerns over AUAF’s ethics, compliance, and fraud prevention programs, and reforms to its financial and management controls.

WHY IT MATTERS

The new Administrative Agreement signed between USAID and the AUAF is intended to solve two important problems.

First, corrective action by the AUAF and effective oversight by USAID, USAID OIG, and SIGAR are needed to address conditions that invite the waste, fraud, and abuse of U.S. taxpayers’ money.

Second, if the agreement succeeds in putting the university on a path to sustainability, AUAF can help remedy the lack of higher educational facilities that SIGAR, the World Bank, the International Monetary Fund, and other observers have long noted is a serious barrier to Afghanistan’s development.

OTHER SIGAR OVERSIGHT ACTIVITIES

Launch of *High-Risk List* at the Center for Strategic and International Studies

On March 28, 2019, Inspector General John F. Sopko unveiled SIGAR's 2019 *High-Risk List* for Congress at the Center for Strategic and International Studies (CSIS) in Washington, DC. In his remarks, IG Sopko acknowledged the ongoing peace process and emphasized the need to begin planning to address the risks to the United States' \$133 billion investment in Afghanistan's reconstruction that might persist or arise after any peace agreement is signed. In particular, he highlighted the Afghan government's dependence on foreign financial assistance; the potential need to reintegrate former Taliban fighters; the possible risks to the gains in the area of women's rights in Afghanistan that have been made since the fall of the Taliban regime; and the risks of increasing the amount of U.S. assistance that is provided directly to the Afghan government or through multilateral trust funds. Following his remarks, he joined in a question-and-answer session with Anthony Cordesman, the Arleigh A. Burke Chair in Strategy, and Seth Jones, the Harold Brown Chair and Director of the Transnational Threats Program at CSIS.

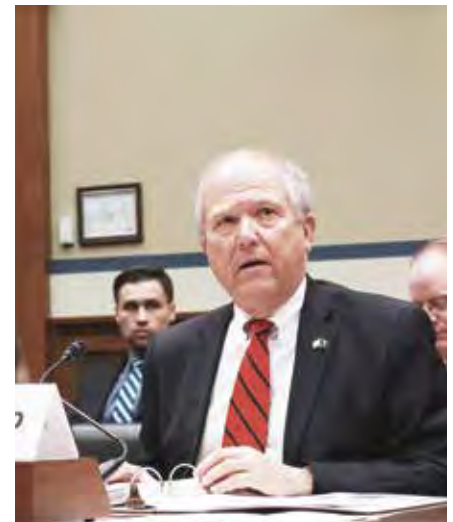
Inspector General Sopko Testifies Before Congress

On April 3, 2019, Inspector General Sopko testified before the National Security Subcommittee of the House Oversight and Reform Committee at a hearing entitled "Special Inspector General for Afghanistan Reconstruction's 2019 High-Risk List." IG Sopko spoke of the need to plan for the "day after" any potential peace agreement to end the war in Afghanistan is reached, highlighting eight areas that will likely require continued U.S. government attention and support. He also emphasized the need for Congress to think not only about how much money is appropriated for Afghanistan, but how that money is administered and monitored.

The subcommittee, led by Chairman Stephen Lynch (D-MA), and Ranking Member Jody Hice (R-GA), inquired about a number of issues, including the amount of waste, fraud, and abuse of U.S. taxpayer dollars in Afghanistan; SIGAR's UH-60 Black Hawk helicopter audit findings; the current security situation; SIGAR's past work looking at Afghan soldiers who go absent without leave after entering the United States for military training; and camouflage patterns purchased by the U.S. government for the Afghan military that were inappropriate for the combat environment there.

OTHER SIGAR OVERSIGHT ACTIVITIES

- Launch of *High-Risk List* at the Center for Strategic and International Studies
- Inspector General Sopko Testifies Before Congress
- Inspector General Sopko Submits Testimony to Senate Appropriations Committee
- Inspector General Sopko Speaks at Munich Security Conference
- Inspector General Sopko Presents at Association of Certified Fraud Examiners, Middle East Conference
- Deputy IG Aloise Speaks at Naval Post-Graduate School



Inspector General John F. Sopko testifies before Congress on the findings of SIGAR's 2019 *High-Risk List*. (SIGAR photo)

Inspector General Sopko Submits Testimony to Senate Appropriations Committee

On April 8, 2019, Inspector General Sopko submitted written testimony entitled “Challenges to Effective Oversight of Afghanistan Reconstruction Grow as High-Risk Areas Persist,” requested by the Subcommittee on the Department of State, Foreign Operations, and Related Programs of the Senate Appropriations Committee.

The statement explains SIGAR’s fiscal year 2020 budget request, as well as SIGAR’s successes, challenges to accomplishing its mission, and the steps the agency has taken to overcome or mitigate those challenges. Additionally, the statement described key management and program challenges facing the Department of State, U.S. Agency for International Development, and the Department of Defense in the Afghanistan reconstruction effort. The testimony also lists the eight risk areas to the reconstruction effort identified in SIGAR’s 2019 *High-Risk List*, and recommends that Congress be mindful of those risks as developments unfold in Afghanistan.

Inspector General Sopko Speaks at the Munich Security Conference

On February 16, 2019, Inspector General Sopko spoke on a panel entitled “Stabilizing States and Combating Corruption—Consequences from Afghanistan, Iraq, and Mali,” hosted by Transparency International at the Munich Security Conference. IG Sopko discussed how corruption had impaired the effectiveness of the Afghan National Defense and Security Forces, and fueled the illicit narcotics trade in Afghanistan, and how corrupt activity by Afghan civilian and military government officials undermined domestic confidence in both the Afghan government and in the international donor nations from which the government receives much of its funding. He was joined on the panel by H.E. Falih Al-Fayyadh, National Security Advisor to the Prime Minister of Iraq; H.E. Martin Jäger, State Secretary in the German Ministry of Economic Cooperation and Development; and Ambassador Hadiza Mustapha, Adviser on Peace, Security, and Governance to the Chairperson of the African Union.

Association of Certified Fraud Examiners, Middle East Conference

On February 24 and 25, 2019, Inspector General Sopko presented at the Middle East Conference of the Association of Certified Fraud Examiners in Abu Dhabi, United Arab Emirates. His presentation, entitled “Oversight in Conflict: Detecting Fraud in Challenging Environments,” focused on innovative techniques used by SIGAR investigators to combat waste, fraud, and abuse in the midst of an active insurgency. IG Sopko highlighted how SIGAR had adjusted its techniques following the reduction in U.S. forces

SIGAR OVERSIGHT ACTIVITIES

and managed to maintain visibility and cultivate sources in spite of security restrictions that limit the ability of SIGAR's investigators to move around the country as freely as they once did. He also discussed best practices that the attendees might consider using to combat fraud in nonpermissive environments like Afghanistan.

Deputy IG Aloise Speaks at Naval Postgraduate School

On April 3, 2019, Deputy Inspector General Gene Aloise spoke at the Defense Resource Management Institute at the Naval Postgraduate School in Monterey, California. Deputy IG Aloise's remarks focused on the scale of the reconstruction effort in Afghanistan, the challenges the United States and Coalition partners had faced in rebuilding the Afghan National Defense and Security Forces, the dangers of corruption and how U.S. and Coalition funding had contributed to Afghanistan's corruption problem, and egregious cases of waste, fraud, and abuse that SIGAR had identified in recent years.



SIGAR's Senior Visual Information Specialist, Olivia Paek, is leaving the Research and Analysis Directorate this quarter after seven years with the agency. Olivia has been responsible for the design, layout, photographs, and many other visual aspects of SIGAR's reports, including the *Quarterly Report to the United States Congress*.

SIGAR BUDGET

SIGAR is funded through September 30, 2020, under the Consolidated Appropriations Act, 2019, H.R. 648, which provides the agency full funding based on the FY 2019 amount of \$54.9 million. The budget supports SIGAR's oversight activities and products by funding SIGAR's Audits and Inspections, Investigations, Management and Support, and Research and Analysis Directorates, as well as its Office of Special Projects and the Lessons Learned Program.

SIGAR STAFF

SIGAR's staff count remained steady since the last report to Congress, with 183 employees on board at the end of the quarter: 24 SIGAR employees were at the U.S. Embassy Kabul and one was at Bagram Airfield. SIGAR employed five Afghan nationals 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 12 employees on temporary duty in Afghanistan for a total of 123 days.

“If the need for oversight is ignored or sidelined, both the American taxpayer and the Afghan people will suffer even with a successful peace agreement.”

—*Inspector General John Sopko, SIGAR*