SIGAR

Special Inspector General for Afghanistan Reconstruction

SIGAR Audit 13-15

Afghanistan Public Protection Force: Concerns Remain about Force’s Capabilities and Costs

JULY 2013

SIGAR Audit 13-15/Security Transition

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SIGAR AUDIT 13-5

WHAT SIGAR REVIEWED

USAID relies on implementing partners—such as nongovernmental organizations and commercial companies—to carry out its reconstruction and development assistance programs in Afghanistan. Until early 2012, implementing partners executing USAID's largest projects, by dollar value, contracted with private security contractors (PSCs) to provide security services for personnel, offices, housing, project sites, and movements. In August 2010, the President of Afghanistan issued a decree requiring the disbandment of all PSCs. However, in March 2011, the Afghan government issued a "bridging" strategy that delayed by 1 year the PSCs' disbandment and the requirement that implementing partners transfer security services formerly provided by PSCs to the state-run APPF. The strategy also allowed the use of RMCs to provide security advisory services.

This report follows up on SIGAR's June 2012 audit that outlined concerns regarding the security transition from PSCs to the APPF. The objectives of this audit were to (1) determine the effect of the transition to the APPF on the security provided for USAID projects, (2) examine the costs of APPF and RMC services for select projects, and (3) assess USAID's mechanisms to review costs of security services provided by the APPF and RMCs. To address these objectives, SIGAR selected 10 projects that were active as of October 2012, part of the sample selected for the June 2012 report, and using a PSC prior to the transition.

WHAT SIGAR FOUND

The effect of the transition to the Afghan Public Protection Force (APPF) has been minimal on projects in SIGAR's sample, but only because implementing partners hired risk management companies (RMCs) to fill APPF capacity gaps and perform critical functions. Without RMCs, the APPF would be unable to provide the full range of security services needed by U.S. Agency for International Development (USAID) implementing partners. Contracts with implementing partners require the APPF to provide an appropriate number of capable and trained guards, as determined by the APPF in conjunction with the implementing partner, and a sufficient number of properly trained officers and non-commissioned officers to oversee the guards. However, for five projects that use APPF services, RMCs perform critical functions and fill gaps in APPF capabilities in recruiting, training, and supervision. Further, implementing partners reported that APPF officers and non-commissioned officers provided little benefit and were unable to perform required duties.

Although contracted security costs decreased for more than half of the projects in our sample following the transition to the APPF, those decreases occurred largely as a result of implementing partners reassessing security needs and renegotiating expatriate labor rates or contracts. The ease with which implementing partners revised their security postures and renegotiated expatriate labor rates to decrease costs raises the concern that previous security requirements and costs billed to USAID by implementing partners were unnecessarily high.

APPF Locations in Afghanistan

Source: SIGAR analysis of APPF Advisory Group data.

WHAT SIGAR FOUND (CONTINUED)

Ultimately, relying on the APPF as the sole provider of security services raises concerns for future unrestrained cost increases. As it currently stands, the APPF can unilaterally establish its rates without fear of competition, and USAID does not have mechanisms in place to ensure that the APPF only charges implementing partners for the services it provides. For example, SIGAR found that the APPF billed each implementing partner for some services and items actually provided by the RMCs and implementing partners that require armed security have no choice but to pay the APPF's often inconsistent and inappropriate fees. Thus, the APPF acts as a monopoly service provider. Although contracted security costs for the majority of projects decreased, the average rate for armed local guard services increased as much as 47 percent for projects under the APPF. These costs could increase even more over time and implementing partners—left with no other options for local armed guard services—would have no choice but to pay the higher prices.

Finally, USAID's continuing inability to ensure that its implementing partners adhere to Afghan government regulations for the proper use of RMCs may result in Afghan government intervention to disband RMCs without a valid RMC license. Should the Afghan government intervene in this way, USAID's implementing partners would be left without the security services required to continue operations.

WHAT SIGAR RECOMMENDS

SIGAR is making five recommendations to (1) determine why a formal process requiring implementing partners to submit RMC licenses as part of their requests to enter into subcontracts with RMCs was never created, (2) establish and implement the necessary processes requiring implementing partners to submit RMC licenses, (3) develop policy guidance for implementing partners regarding the proper use of RMCs, (4) clarify the ratio of RMC guards to APPF guards cited in RMC regulations, and (5) establish a formal process to ensure that implementing partners do not exceed the RMC ratio.

In its comments on a draft of this report, USAID disagreed with SIGAR's recommendations. Despite its disagreement, however, USAID identified several steps it has or is taking to address several of them. For example, although USAID disagreed with SIGAR's recommendations regarding the necessary policy and processes requiring its implementing partners to submit RMC licenses, USAID commented that it has already developed such policy and processes and that a reminder to use them was sent to USAID's Office of Acquisition and Assistance staff on July 2, 2013—1 day after SIGAR provided its draft report to USAID for comment. Nevertheless, as USAID acknowledges in its comments, full compliance with this policy has not yet been implemented. Therefore, SIGAR maintains that the recommendations continue to be valid.

Moreover, USAID disagreed with SIGAR's recommendation to develop guidance for implementing partners on the proper use of RMCs, stating that the Afghan government had already provided such guidance. However, as SIGAR's draft report noted and USAID acknowledges in its comments, Afghan government procedures are unclear and can be interpreted in different ways. SIGAR maintains that USAID should clarify its position on the use of RMCs and alert its implementing partners accordingly.

USAID also disagreed with SIGAR's recommendations to clarify the ratio of RMC guards to APPF guards and to establish a process to ensure that implementing partners do not exceed the ratio. However, USAID also commented that it recently took actions to address these recommendations. USAID also noted that it is the responsibility of implementing partners, not USAID, to ensure the ratio is not exceeded. SIGAR disagrees. Because it relies on implementing partners to achieve its project objectives, USAID has a vested interest in ensuring that those partners comply with Afghan law. If USAID's implementing partners are found to be in violation of Afghan law, the project itself may be at risk. SIGAR maintains that the recommendations are valid.

July 30, 2013

The Honorable John F. Kerry
Secretary of State

The Honorable Rajiv Shah
Administrator, U.S. Agency for International Development

Mr. William Hammink
USAID Mission Director for Afghanistan

This report discusses the results of SIGAR's audit of the U.S. Agency for International Development's (USAID) transfer of security functions for its reconstruction projects in Afghanistan from private security contractors to the Afghan Public Protection Force (APPF). The report includes five recommendations to the USAID Mission Director to (1) determine why a formal process requiring implementing partners to submit risk management company (RMC) licenses as part of their requests to enter into subcontracts with RMCs was never created, (2) establish and implement the necessary processes requiring implementing partners to submit RMC licenses, (3) develop policy guidance for implementing partners regarding the proper use of RMCs, (4) clarify the ratio of RMC guards to APPF guards cited in RMC regulations, and (5) establish a formal process to ensure that implementing partners do not exceed the RMC ratio.

We received written comments on a draft of this report from USAID, which we incorporated, as appropriate. USAID did not agree with our recommendations, but identified several steps it has taken, or is taking, to address several of them. USAID's comments and our responses are presented in appendix II.

SIGAR conducted this audit under the authority of Public Law No. 110-181, as amended; the Inspector General Act of 1978, as amended; and in accordance with generally accepted government auditing standards.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

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ABBREVIATIONS

APPF	Afghan Public Protection Force
MOI	Afghan Ministry of Interior
PSC	private security contractor
PLSO	Partner Liaison Security Office
RMC	risk management company
USAID	U.S. Agency for International Development

The U.S. Agency for International Development (USAID) relies heavily on implementing partners, such as nongovernmental organizations and commercial companies, to carry out its reconstruction and development assistance programs in Afghanistan.[1] Until early 2012, implementing partners executing USAID's largest projects by dollar value contracted with private security contractors (PSCs) to provide security services for their personnel, offices, housing, project sites, and movements. However, in August 2010, the President of Afghanistan issued Presidential Decree 62 requiring the disbandment of all PSCs.[2] The decree stated that the organizations could provide their own security inside their compounds and that the Ministry of Interior (MOI) would provide external security. In March 2011, the Afghan government issued a "bridging" strategy that delayed the disbandment of PSCs and required that the responsibility for security services for development programs and projects transfer to a state-run Afghan Public Protection Force (APPF) by the following year.[3] To address concerns about the APPF's capacity to provide all security services previously provided by PSCs, the President of Afghanistan approved a security model that allowed implementing partners to use "risk management companies" (RMCs) to provide advisory services in addition to the armed security services provided by the APPF.

In a March 2012 alert letter; a March 2012 testimony before the U.S. House of Representatives, Committee on Oversight and Government Reform, Subcommittee on National Security; and a June 2012 audit report, we alerted the USAID Mission Director for Afghanistan to multiple concerns related to the impending APPF transition.[4] This audit builds on that previous work, which we conducted prior to and during the initial transition, and examines the actual effects of the transition 1 year later. Specifically, we conducted this audit to (1) determine the effect of the transition to the APPF on the security provided for USAID reconstruction projects, (2) examine the costs of APPF and RMC services for select USAID projects, and (3) assess USAID's mechanisms to review costs of security services provided by the APPF and RMCs.

To address these objectives, we selected 10 projects that were (1) active as of October 2012, (2) in the sample selected for the previous June 2012 audit report, and (3) using a PSC prior to the transition. The previous sample represented 35 of the largest projects, by dollar value, from fiscal years 2009-2011. A total of 8 implementing partners executed these 10 projects, which represent over $1 billion in total estimated cost and, as of March 2013, about $713 million in expenditures. Of these projects, 5 transitioned to the RMC/APPF model, 4 used only an RMC, and 1 did not use either the APPF or an RMC. For the 10 selected projects, we requested APPF and RMC invoices from each implementing partner, as applicable. Additionally, we reviewed relevant guidance, including the Federal Acquisition Regulation, Code of Federal Regulations, Presidential Decree 62, and *The Bridging Strategy for Implementation of Presidential Decree 62*. We also met with officials

[1] "Implementing partners" is a term USAID uses to mean contractors and recipients of cooperative agreements and grants.

[2] President of Islamic Republic of Afghanistan Decree 62, *Dissolution of Private Security Companies*, August 17, 2010.

[3] Minister of Interior, *The Bridging Strategy for Implementation of Presidential Decree 62, (Dissolution of Private Security Companies); Bridging Period March 22, 2011- March 20, 2012,* March 15, 2011. Although the bridging strategy set March 20, 2012 as the deadline for the transition of security for development projects, on that day, the Afghan government released an APPF transition plan granting interim licenses to some PSCs, allowing implementing partners more time to finalize security contracts with the APPF. Development programs and projects include all projects funded by USAID and executed by its implementing partners. PSCs providing services for International Security Assistance Force and Afghan National Security Forces construction sites and for coalition bases were given up to an additional year to continue the use of PSCs. Entities accredited with diplomatic status are exempt and can continue the use of PSCs for their security needs.

[4] SIGAR Alert 12-1, *Preliminary Observations and Suggested Actions before Transition of Security Services to Afghan Public Protection Force*, March 15, 2012; SIGAR Testimony for the U.S. House of Representatives, Committee on Oversight and Government Reform, Subcommittee on National Security, *Are Changes in Security Policy Jeopardizing USAID Reconstruction Projects and Personnel in Afghanistan?* March 29, 2012; SIGAR Audit 12-10, *Increases in Security Costs are Likely under the Afghan Public Protection Force; USAID Needs to Monitor Costs and Ensure Unlicensed Security Providers Are Not Used*, June 29, 2012.

from USAID, the APPF Advisory Group,[5] the implementing partners for the 10 projects, and 2 RMCs. See appendix I for more detail on our scope and methodology.

BACKGROUND

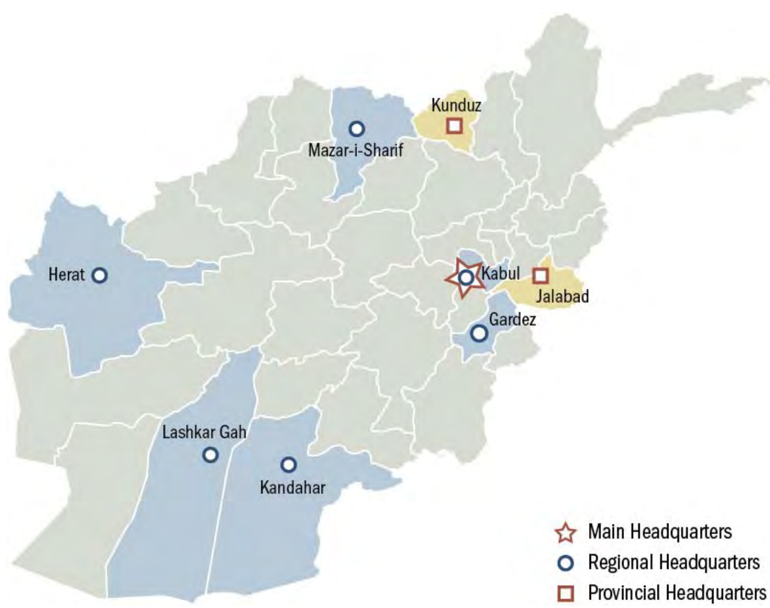
Prior to March 2012, many of USAID's implementing partners had contracts with at least one PSC to provide functions. PSCs provided four basic security services:[6]

- static (site) security—protecting fixed or static sites, such as housing areas, reconstruction work sites, or government buildings;
- convoy security—protecting convoys traveling through unsecured areas;
- security escorts—protecting individuals traveling through unsecured areas; and
- personal security details—providing full-time protective security to high-ranking individuals.

Following the Afghan government decision to disband PSCs through Presidential Decree 62, the Commander of the International Security Assistance Force and the U.S. Ambassador to Afghanistan issued a joint letter expressing support for the transfer of security services to the state-run APPF. In the same letter, however, they cautioned that a successful transition would depend on certain actions taken by the Afghan government, including the development of a fully functioning APPF by March 2012—the end of the bridging period—for development projects.[7]

The APPF is a pay-for-service security provider and a state-owned enterprise under the Afghan MOI. Originally established in 2009, the APPF was selected by the Afghan government as the force that would ultimately replace PSCs. The APPF is headquartered in Kabul and embedded in six Afghan National Police zone headquarters in Kabul, Herat, Mazar-e-Sharif, Kandahar, Gardez, and Lashkar Gah. It also has a presence in two provincial headquarters in Jalalabad and Kunduz.[8] According to the APPF Advisory Group, as of May 2013, the APPF had about 14,873 guards, far short of the Afghan government target of 25,000 by March 2013. Figure 1 shows a map of APPF locations throughout Afghanistan.

Figure 1 - APPF Locations in Afghanistan



Source: SIGAR analysis of APPF Advisory Group data.

[5]To help MOI build the APPF, assess its capacity, and ensure a smooth transition of security services, the International Security Assistance Force established the APPF Advisory Group to work with the MOI. The APPF Advisory Group includes representatives from the International Security Assistance Force, U.S. Embassy Kabul, and USAID.

[6]PSCs also provided other security services, such as operational coordination, intelligence analysis, and security training.

[7]Letter to Minister of Interior, Afghanistan Bismullah Khan Mohammadi, March 15, 2010.

[8]APPF guards are not members of the Afghan National Army or Police and they have no mandate to investigate crimes or arrest suspects.

To address concerns about the APPF's capacity to provide the full range of security services previously provided by PSCs, the President of Afghanistan allowed implementing partners to use RMCs as a temporary solution. Under this new security model, the Afghan government requires implementing partners to contract with the APPF for any armed security services. However, the implementing partners also have the option of hiring an RMC to provide security advisory services. RMCs can advise implementing partners on the security of sites, buildings, and personnel. RMCs can also advise on logistics, transportation of goods and equipment, and contract management. In addition, RMCs can provide training to APPF guards. RMCs cannot provide armed security or other guard services, but some RMC personnel may be lightly armed for their personal protection. To register as an RMC, a company must submit an application to the MOI and pay various fees, including a yearly licensing fee, a bank guarantee, and fees for each armored vehicle and armed personnel.[9] The Afghan government expects that as the APPF develops, it will begin to provide the full range of security services previously provided by PSCs, ultimately eliminating the need for RMCs.[10] If implementing partners choose not to contract with the APPF or RMCs, their only remaining option for security services is to use unarmed guards.

Table 1 - Selected USAID Projects

Project	Implementing Partner	Contracted with the APPF	Contracted with an RMC
Regional Afghan Municipalities Program for Urban Population- South	Chemonics International Inc.	Yes	Yes
Trade Access and Facilitation for Afghanistan	Chemonics International Inc.	Yes	Yes
Regional Afghan Municipalities Program for Urban Population- East	Development Alternatives Inc.	Yes	Yes
Incentives Driving Economic Alternatives for the North, East, and West	Development Alternatives Inc.	Yes	Yes
Kandahar-Helmand Power Program	Black & Veatch Special Projects Corporation	Yes	Yes
Support Increased Electoral Participation in Afghanistan 1[a]	National Democratic Institute	No	Yes
Support Increased Electoral Participation in Afghanistan 2	International Foundation for Electoral Systems	No	Yes
Support Increased Electoral Participation in Afghanistan 3	International Republican Institute	No	Yes
Economic Growth and Governance Initiative	Deloitte Consulting	No	Yes
Health Service Support Project	JHPIEGO Corporation	No	No

Source: SIGAR analysis of USAID provided data.

[a]The Consortium for Elections and Political Process Strengthening consists of three implementing partners—National Democratic Institute, International Foundation for Electoral Systems, and International Republic Institute—that together implement the Support Increased Electoral Participation in Afghanistan. Because each implementing partner handles its security separately and contracts with its own RMC, we report on each project individually, referring to each as Support Increased Electoral Participation in Afghanistan 1, 2, or 3, respectively.

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[9]Islamic Republic of Afghanistan Ministry of Interior Affairs, *Procedure for Regulating Activities of Risk Management Companies in Afghanistan*, January 10, 2012. The registration fee—six million Afghanis or approximately $114,395, using a 2013 exchange rate of 52.45 AFN to $1—is the same amount required for a PSC license before the transition.

[10]The Afghan government has not indicated if or when it will disallow the use of RMCs.

During the course of this audit, we identified and selected a judgmental sample of 10 USAID projects that were (1) included in the sample for our previous work of USAID's 35 largest projects, by dollar value, between fiscal years 2009 through 2011,[11] (2) active as of October 1, 2012, and (3) using a PSC prior to the transition. As of March 31, 2013, these projects had collective expenditures over $713 million. Table 1 shows the 10 USAID projects in our sample and whether they contracted with the APPF or an RMC after the transition in March 2012.

SIGAR Raised Concerns Regarding the APPF in 2012

Our previous audit work identified three concerns related to the transition to the APPF.[12] These concerns related to (1) the cost of the transition, (2) weak APPF capacity, and (3) lapses in USAID oversight of PSCs. For example, in our June 2012 audit report, we found that the cost for local guards would likely increase under the APPF.[13] The report also noted that some implementing partners indicated they might hire more expatriates to facilitate the transition, a move that could significantly increase expatriate labor costs.[14] We found that implementing partners for six projects illegally used unlicensed PSCs despite two earlier recommendations from SIGAR and the USAID Office of Inspector General that USAID take steps to ensure the use of licensed PSCs.[15] We made three recommendations to USAID that it conduct a systematic assessment of security costs and institute a formal review process to ensure that implementing partners are using licensed RMCs.[16]

IMPLEMENTING PARTNERS ARE RELYING ON RMCS BECAUSE THE APPF IS NOT ABLE TO PERFORM SOME BASIC FUNCTIONS

The effect of the transition to the APPF has been minimal on projects in our sample, but only because implementing partners hired RMCs to fill APPF capacity gaps and perform critical functions. Contracts with implementing partners require the APPF to provide an appropriate number of capable and trained guards, as determined by the APPF in conjunction with the implementing partners, and a sufficient number of properly trained officers and non-commissioned officers to oversee the guards. However, for the five projects in our sample that use APPF services, we found that the APPF was unable to provide the full range of security services needed by USAID implementing partners. Instead, RMCs perform critical functions and fill a number of gaps in APPF capabilities. The critical functions include:

- *Recruiting*. Implementing partners and RMCs, rather than the APPF, recruited almost all newly hired guards. According to the APPF Advisory Group, the APPF has difficulty providing guards for projects and programs outside the Kabul area, and one implementing partner reported lengthy delays in obtaining new recruits directly from the APPF.
- *Training*. It is the contractual responsibility of the APPF to provide initial and ongoing training for APPF guards, and the APPF charges a monthly training fee for the training service. However, we found that

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[11] SIGAR Audit 12-10.

[12] SIGAR Alert 12-1.

[13] SIGAR Audit 12-10.

[14] While no official definition of an expatriate exists, USAID and its implementing partners generally consider expatriates to be U.S., Australian, Canadian, South African, or British citizens. Citizens of other countries—often from the Middle East or Central Asia—are considered third country nationals.

[15] SIGAR Alert 12-1.; USAID Office of Inspector General Audit Report No. 5-306-10-009-P, *Audit of USAID/Afghanistan's Oversight of Private Security Contractors in Afghanistan,* May 21, 2010.

[16] PSCs generally provided for overall project security and consisted of management, advising, oversight, and training functions—staffed predominately by expatriates or third-country nationals—as well as guards, staffed predominately by Afghan nationals. Following issuance of the bridging strategy, many PSCs converted their expatriate management, advising, oversight, and training structure into an RMC.

RMCs provided virtually all training for APPF personnel. An average of 99 percent of APPF guards for the five projects in our sample that use APPF services were previously recruited, hired, and trained by PSCs—now RMCs—before the transition and have not required or received any direct training from the APPF. Furthermore, implementing partners for all five projects reported concerns that guards that had been recruited and trained by the APPF were unprepared and did not meet the standards of guards trained by the RMCs. One implementing partner puts all APPF-provided personnel through its RMC's internal training regimen.

- *Supervision*. According to USAID officials and implementing partners, the APPF requires one APPF officer or non-commissioned officer for every ten APPF guards. However, the APPF did not provide enough properly trained officers or non-commissioned officers to meet contractual requirements for four of five projects. As a result, RMC personnel performed the supervisory functions that are the responsibility of APPF officers.[17]
- *Performance*. The officers and non-commissioned officers provided by the APPF added little value to project security or APPF performance, and many were unable to perform required duties, according to implementing partners. One implementing partner stated that the officers are not able to perform daily roll call functions, and two implementing partners reported that the officers do not speak English, which is required. Two implementing partners stated that they resist the assignment of additional officers and non-commissioned officers because the additional personnel provide little value but increase costs.

Overall, the implementing partners for all five projects stated that the combined services of the APPF and the RMCs "equaled" the services provided by the PSCs, and because the RMCs performed the critical functions of recruiting, training, and supervising, security services were not affected as a result of the transition.

CONTRACTED SECURITY COSTS GENERALLY DECREASED FOLLOWING THE TRANSITION DUE TO REVISED SECURITY POSTURES AND LOWER EXPATRIATE LABOR RATES

All five projects whose implementing partners contracted with the APPF also hired an RMC, and four of those projects experienced a decrease in contracted security costs because implementing partners revised their security postures, consolidated security requirements, and/or decreased labor costs for their expatriate personnel. For example, four projects significantly decreased expatriate labor costs by either re-competing their contracts or renegotiating lower expatriate labor rates with the RMC. We found that the average rate for expatriate personnel decreased more than $30,000 per year per expatriate for the RMCs, compared to expatriates hired by the PSCs. Additionally, implementing partners for two projects consolidated staff from multiple guest houses into a single compound, thereby reducing security requirements and associated costs. One project had a significant increase in security costs following the transition, but the increase was the result of a significantly expanded project scope, rather than the effect of the transition. Table 2 shows the difference in security costs before and after the transition for the five projects in our sample that transitioned to the APPF as well as the change in security personnel for each project.

[17]APPF officers are appointed by the APPF to lead the guards and act as principal APPF representatives, liaising directly with implementing partners.

Table 2 - Difference in Security Costs and Personnel for Projects That Transitioned to the APPF

Project[a]	Change in Security Costs[b]	Change in Armed Expatriate Personnel (PSC to RMC)	Change in Armed Afghan National Guard Personnel	Change in Afghan National Unarmed Personnel[e]
Regional Afghan Municipalities Program for Urban Population–South	-89%[c]	-6[c]	-85	-43
Trade Access and Facilitation for Afghanistan	-18%[c]	+13[c]	+10	-46
Regional Afghan Municipalities Program for Urban Population–East	-38%	-7	-29	-27
Incentives Driving Economic Alternatives for the North, East, and West	-37%	-1	-48	-3
Kandahar–Helmand Power Program	+530%[d]	+44	+92	-9

Source: SIGAR analysis of PSC invoices from March 2011 to February 2012 and APPF and RMC invoices from March 2012 to February 2013.

Notes:

[a]Several projects also had changes in the number of unarmed expatriates, unarmed third country nationals, and armed third country nationals,.

[b]Percentage represents the change in monthly average security costs from the 12 month period preceding the March 2012 transition to the 12 month period after the transition. APPF invoices were billed in Afghanis and RMC invoices in U.S. dollars. Implementing partners locked in a rate of 50 AFN to $1, and we therefore used the same conversion rate.

[c]In anticipation of the transition and in an effort to reduce security costs, Chemonics reported that it consolidated all of its security services for all projects in Afghanistan under one RMC contract and one APPF contract. Therefore, we could not determine the security costs and personnel numbers per project based on the subcontractor invoices provided by Chemonics. Instead, Chemonics provided us its calculations of security costs for the RMC and APPF and total personnel allocations per project, and these are the totals used in our analysis. As a result, we cannot validate the security costs for the two Chemonics projects.

[d]From March to December 1, 2012, the U.S. Army Corps of Engineers provided security for Kajaki Dam under the Kandahar-Helmand Power Program, and USAID reimbursed the agency for $5.9 million in security costs for this period. To ensure these security costs were included, we amortized this value over the 9 month period and included it in our pre-transition security costs for analysis.

[e]Personnel numbers were self-reported by implementing partners.

Although contracted security costs decreased, all five projects incurred additional costs that were not captured in APPF or RMC invoicing and, therefore, were not depicted in table 2. For example, the implementing partners for all five projects initially hired additional personnel—three projects hired new personnel on a permanent basis—to assist in the award and management of APPF contracts.[18] For three of these projects, more than half of the personnel were permanent hires and expatriates, which cost, on average, more than $300,000 each year.[19] Implementing partners stated that additional personnel were necessary due to the "personality-driven"

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[18]These internalized costs could not be captured through an invoice review of contracted security services and could not be included in an overall comparison of project security costs because these direct hires generally worked on RMC/APPF issues across all projects for the implementing partner, rather than exclusively for the projects in our sample. Therefore, we could only compare the contracted security costs prior-to and following the transition, rather than the total security costs incurred by implementing partners in the first year of the transition.

[19]All projects that transitioned reported hiring additional personnel, but several of these projects hired the personnel on a temporary basis to manage the initial transition.

nature of the APPF, which required significant additional administrative and management personnel time for contract negotiations and APPF contract management. One security manager estimated that he is at the APPF headquarters four times per week. Furthermore, implementing partners for three projects stated that because they were concerned about APPF personnel whom they or their RMC had not recruited and vetted, they upgraded site security—and incurred additional one-time costs—to prevent APPF personnel from entering expatriate living or work spaces.[20]

Rates Charged for Local Guards Increased Following the Transition

Although overall contracted security costs decreased for four of the five projects that contracted with the APPF and RMCs, we found that the burdened rate charged for local guards actually increased.[21] Our June 2012 report showed that if salaries for local Afghan guards were kept constant, the transition to the APPF would increase burdened costs for local guards between 25 and 46 percent. In this audit, our analysis of APPF invoices to implementing partners shows that since the transition from PSCs to the APPF, individualized burdened rates for local guards increased between 23 and 47 percent. The increase and variation in costs is, in part, the result of the increases in non-salary direct costs for local guards. For example, implementing partners reported that they paid between $99 and $274 for uniforms per guard per year when they were using PSCs. However, the APPF charged $600 for uniforms per guard per year beginning in March 2012. By March 2013, the APPF had increased the uniform costs to $800 per guard per year. The APPF also charged implementing partners varying rates for training, administrative costs, bank charges, and burial expenses. Table 3 compares the APPF burdened guard rates for projects in our review to the average burdened rate for a local guard under a PSC contract in fiscal year 2011.[22]

Table 3 - Difference in PSC and APPF Monthly Burdened Guard Rates [a]

Project[b]	TAFA/RAMP-UP South	SIEPA 3[c]	RAMP-UP East/IDEA-NEW	KHPP (A)[d]	KHPP (B)[d]
APPF Guard Burdened Rate	$695	$709	$736	$807	$833
Average Burdened Rate for PSC Guard in 2011[e]	$566	$566	$566	$566	$566
Percent Change	+23%	+25%	+30%	+43%	+47%

Source: SIGAR analysis of PSC invoices and available APPF invoices

Notes: [a] The cost comparison does not account for inflation between October 2011 and March 2012. [b] Project acronyms are as follows: TAFA – Trade Access and Facilitation for Afghanistan; RAMP-UP – Regional Afghan Municipalities Program for Urban Population; SIEPA – Support Increased Electoral Participation in Afghanistan; IDEA-NEW – Incentives Driving Economic Alternatives for the North, East and West; KHPP – Kandahar-Helmand Power Program. [c]While the International Republican Institute does not contract directly with the APPF, the Institute's RMC, Pilgrims Group, manages the APPF security on the implementing partner's compound. We calculated the burdened rate based on invoices provided by Pilgrims Group. [d]Black & Veatch Special Projects Corporation has one contract with the APPF for the Kandahar-Helmand Power Program. This contract has several task orders for specific activities. Each task order contains specific requirements and terms for security for different elements under the Kandahar-Helmand Power Program. These rates were applied to two different task orders under the contract with the APPF. [e]Average burdened rate for a local guard employed by a PSC during the fiscal year 2011 as calculated in SIGAR 12-10.

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[20]We did not include one-time charges, such as security upgrades and RMC registration fees, in our comparison of year-to-year costs associated with the transition.

[21]A burdened rate includes the salary of a guard, administrative and overhead costs, profit, and any related other direct costs. We calculated the burdened rate by identifying all direct costs associated with APPF guards in APPF invoices to implementing partners. We compared these rates to the average burdened rate, calculated in SIGAR Audit Report 12-10, of $566 for a local guard employed by a PSC in fiscal year 2011.

[22]APPF invoices to implementing partners had sufficient data to determine burdened rates for the projects using the APPF. The Kandahar-Helmand Power Project is implemented through two task orders and the APPF issues separate invoices for each task order.

The Five Projects That Did Not Transition Did Not Use Armed Guards

The implementing partners for the other five projects in our review significantly changed their security postures and four of the five projects eliminated armed local guards from their work sites altogether. The fifth project never used armed local guards, but eliminated its only armed expatriate as a result of the transition. Consequently, implementing partners for the five projects did not contract with the APPF for security services. All five projects instead used unarmed "chowkidars," or watch keepers, after the transition. Contracted security costs for three of these projects decreased as a result of the reduced armed security force.

Contracted security costs increased for two projects because implementing partners hired more expatriate RMC staff and unarmed guards than they had with the PSC. For example, rather than transitioning to the APPF, one project increased its use of armed expatriate personnel from one to seven, significantly increasing its overall security costs. Table 4 shows the difference in security costs from before and after the transition for the five projects that did not transition to the APPF, and the change in security personnel for each project.

Table 4 - Difference in Security Costs and Personnel for Projects That Did Not Transition to the APPF[a]

Project	Change in Security Costs[b]	Change in Armed Expatriate Personnel (PSC to RMC)	Change in Armed Afghan National Guard Personnel	Change in Afghan National Unarmed Personnel[e]
Support Increased Electoral Participation in Afghanistan 1	-13%[c]	0	-12	+9
Support Increased Electoral Participation in Afghanistan 2	+6%	+1	-8	+17
Support Increased Electoral Participation in Afghanistan 3	-68%	-4	-14	+3
Economic Growth and Governance Initiative	+49%	+6	-66	+72
Health Service Support Project	-15%[d]	-1	0	-5

Source: SIGAR analysis of PSC invoices from March 2011 to February 2012 and RMC invoices from March 2012 to February 2013.

Notes:

[a]Several projects also had changes in the number of armed third country nationals, unarmed expatriates, and unarmed third country nationals.

[b]Percentage represents the monthly average of security costs in the year preceding the March 2012 transition as compared to the monthly average of security costs in the year after the transition.

[c]In addition to subcontracting with an RMC, the National Democratic Institute also directly hired the local guards previously employed by the PSC as internal unarmed guards. We included the costs for these guards in our analysis of the post-transition security costs. Further, the National Democratic Institute had one RMC contract for all of its projects in Afghanistan. Therefore, we could not determine the security costs and personnel numbers per project based on the subcontractor invoices provided. Instead, the National Democratic Institute provided us its allocation percentages of costs and personnel for this project, and we used these allocations to calculate the totals used in our analysis. We did not perform on-site inspections to validate the security costs or personnel numbers for this project.

[d]In anticipation of the transition, JHPEIGO directly hired the local guards previously employed by the PSC as internal armed guards in May 2011. We included these costs in our analysis.

[e]Personnel numbers were self-reported by implementing partners.

As with projects that made the transition to the APPF, several projects that did not use the APPF's services incurred additional costs that were not captured through invoicing and, therefore, were not depicted in the table above. For example, implementing partners for two projects installed additional security upgrades, such as safe rooms and internal blast walls, to further bolster security as part of their revised security posture, at a total one-time cost of more than $100,000.

DESPITE USAID'S EFFORTS TO REVIEW COSTS, THE APPF CHARGES INCONSISTENT AND INAPPOPRIATE FEES

USAID has mechanisms in place to review the proposed costs associated with an implementing partner's use of the APPF before providing consent or approval to subcontract with the APPF. However, the APPF is the only allowable armed security provider and rates are subject to negotiation by implementing partners. As a result, our analysis of APPF invoices to implementing partners showed that USAID's review mechanisms do not and cannot ensure that APPF rates are consistently applied across implementing partners.

USAID generally requires implementing partners to seek approval or consent from USAID's Office of Acquisition and Assistance before signing any subcontract, including subcontracts with RMCs or the APPF.[23] According to officials, USAID's Partner Liaison Security Office (PLSO)—made up of security experts at the USAID mission in Afghanistan—reviews implementing partners' requests to enter into subcontracts with the APPF or an RMC for "consistent" and "reasonable" security costs before the Office of Acquisition and Assistance grants approval or consent to subcontract. PLSO provided 10 APPF and RMC subcontract reviews that it completed for the projects in our sample. Our analysis found that the reviews examined proposed subcontract costs for consistency with market rates and reasonableness and were thorough and specific in identifying cost and performance concerns.

However, the APPF is the only allowable security service provider, and the PLSO's reviews cannot ensure that APPF rates are reasonable and applied consistently across projects. Implementing partners, RMCs, USAID officials, and APPF Advisory Group officials all described the APPF as "personality-driven" and noted that a favorable relationship with the APPF could result in lower fees for some line items. Several implementing partners were able to negotiate lower rates—or eliminate them altogether—for some line items that they believed were not reasonable, while other implementing partners were not as successful. For example, one implementing partner negotiated a phased-in rate for weapons, resulting in a waived weapons charge in the first year of the APPF contract. The implementing partner paid half the published fee in the second year, and the full published fee in the third year. For another implementing partner, the APPF agreed to charge the training fee exclusively for new guards recruited and trained through the APPF, and not for guards that were originally recruited and trained by the RMC, or the former PSC.

The PLSO identified several concerns with the reasonableness and consistency of some rates associated with uniforms, training, weapons, and guard salaries. For example, in two reviews, the PLSO questioned why the APPF was charging training fees if the RMC was actually conducting the training. Additionally, the PLSO's reviews for four projects questioned APPF charges for full uniform kits every year. One implementing partner was able to negotiate to pay only for replacement items; another implementing partner stated that despite its efforts, it was unable to negotiate the same deal with the APPF.

We also found that USAID's review mechanisms cannot ensure that the APPF charges implementing partners only for the services it provides.[24] For example, we found that the APPF billed each implementing partner for some services and items actually provided by the RMCs. Because implementing partners have no option for armed security services except the APPF, they appear to have no choice but to pay these costs. For example, the APPF charges a monthly training fee for each guard. Our analysis shows that 99 percent of guards for these five projects were already trained and certified by the PSC and did not receive training from the APPF, even though the implementing partner was charged for these services. Additionally, the APPF charges

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[23]According to USAID, implementing partners are required to seek consent to subcontract, and the Federal Acquisition Regulation (FAR) Subpart 44.2 provides the requirements concerning consent to subcontract. Code of Federal Regulations Title 22 Part 226.25 requires recipients of USAID funds under a cooperative agreement to seek approval of subaward, transfer, or contracting out any work under an award.

[24]USAID does not have a direct contractual relationship with the APPF and does not necessarily review APPF invoices submitted to implementing partners. However, USAID's processes for consent or approval do not ensure that proposed costs for services are allowable based on the actual provision of those services.

implementing partners a monthly weapons fee of approximately $25 per guard. Implementing partner officials reported that these are the same weapons previously purchased by PSCs that the APPF required be turned over to the APPF for use by its guards during the transition.[25] Therefore, implementing partners are now paying a monthly rental fee for weapons previously purchased by its subcontracted PSCs.

USAID Does Not Ensure That Partners Are Using Licensed RMCs

USAID's mechanisms to review proposed RMC services before providing subcontractor consent or approval do not ensure that implementing partners are using properly licensed RMCs. Similar to previous requirements for PSCs, the Afghan government requires foreign RMCs to be licensed by the MOI at a cost of more than $114,000,[26] and licenses must be renewed annually.[27] However, in June 2012, we found that USAID's implementing partners continued to use unlicensed PSCs despite prior recommendations from SIGAR and the USAID Office of Inspector General that the agency take steps to ensure implementing partners only use properly licensed PSCs.[28] To correct the problem, we recommended that USAID implement a formal process to ensure implementing partners only use licensed RMCs following the transition.[29] USAID concurred with our recommendation and issued a policy directive[30] in June 2012, requiring contracting and agreement officers to ensure that implementing partners submit RMC licenses, ensure that the licenses are reviewed for validity, and document these reviews prior to approving or consenting to the RMC subcontract award.

Despite USAID's assurances that it would implement a formal process to ensure that licenses are submitted, reviewed, and documented, and its resulting policy directive, we found that USAID has not implemented such a process. Our review of the requests to subcontract with RMCs, which were submitted to USAID by the implementing partners for the eight of nine projects that used an RMC, found that only one implementing partner provided an RMC license as part of its request.[31] Additionally, USAID could not provide us with documentation showing that licenses were reviewed for validity, and, despite several requests, could provide us valid licenses for only four of the six RMCs used by implementing partners. Even though USAID did not require documentation demonstrating that the RMCs were properly licensed, it provided approval or consent for the projects to enter into subcontracts with the chosen RMC.[32]

Additionally, USAID's review mechanisms do not ensure that implementing partners are not exceeding the maximum number of allowable armed RMC personnel. Afghan government regulations limit the number of

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[25]Original instructions issued by the APPF Advisory Group called for all PSCs to turn over weapons and ammunition to the APPF and stated that the APPF would pay a fair market price upon receipt. However, we found that although PSCs in our sample were forced to turn over weapons and ammunition, the APPF did not reimburse/pay for them, nor did the APPF provide any credit for the weapons and ammunition in invoices. One implementing partner was able to negotiate a phased-in weapons rental fee. According to USAID officials, implementing partners also had the option of exporting the weapons out of the country.

[26]This is the same amount required for a foreign PSC license before the transition. The fee of six million AFN is approximately $114,395, using a 2013 exchange rate of 52.45 AFN to $1. Local RMCs pay half the license fee of foreign RMCs.

[27]Islamic Republic of Afghanistan Ministry of Interior Affairs, Afghan Public Protection Force Enterprise, *Risk Management Company Procedure,* 1391.

[28]SIGAR Alert 12-1; USAID Office of Inspector General Audit Report No. 5-306-10-009-P, *Audit of USAID/Afghanistan's Oversight of Private Security Contractors in Afghanistan*, May 21, 2010.

[29]SIGAR Audit 12-10.

[30]USAID Afghanistan Policy Directive OAA-IN-2012-016, *Required Review Process Prior to Subaward Approval/Consent of RMCs*, June 6, 2012.

[31]SIGAR reviewed the requests to subcontract and the consequent USAID approvals or consents for the first year of the transition. Although nine projects in our sample used an RMC, USAID only provided requests for consent or approval for eight.

[32]We obtained documentation from other sources confirming that all six RMCs were appropriately licensed. USAID provided documentation showing that approval or consent was provided for 8 of 9 projects.

armed RMC personnel to one for every ten APPF guards.[33] Our analysis found that three of the five projects that are using both RMCs and the APPF exceeded this ratio. One implementing partner exceeded the ratio by 60 percent—or 45 more armed RMC personnel than allowable.

Further, implementing partners for four projects in our sample contracted with an RMC but did not contract with the APPF. Although USAID officials assert that this practice is allowable—and have provided consent for partners to use RMCs without the APPF—contracting with an RMC without security provided by APPF guards appears to exceed the RMC to APPF ratio stipulated by the Afghan government. USAID officials stated that their understanding of the regulation is that the ratio applies to RMC personnel compared to the number of implementing partners' employees, not APPF personnel. Nevertheless, even if the ratio did compare RMC personnel to implementing partner personnel, USAID's review mechanisms do not ensure that implementing partners do not exceed the maximum number of allowable armed personnel. If implementing partners are found to be in violation of Afghan law, the Afghan government can fine RMCs and revoke RMC licenses, putting project security, and ultimately the project itself, at risk.[34]

CONCLUSION

The Afghan government currently allows limited use of RMCs; however, APPF officers and non-commissioned officers are expected to eventually assume all the responsibilities and functions currently performed by RMCs. Nevertheless, the RMCs continue to provide critical functions that allow implementing partners to maintain the same level of security they had under the PSC model. Ongoing concerns with the capacity and performance of the APPF in the recruitment and provision of qualified guards and the inability of officers and non-commissioned officers to perform routine training and supervisory functions indicate that implementing partners will continue to rely heavily on RMCs for critical services.

Further, while contracted security costs decreased for more than half of the projects in our sample following the transition, those decreases occurred largely as a result of implementing partners reassessing security needs and renegotiating expatriate labor rates or contracts. The apparent ease with which implementing partners revised their security postures and renegotiated expatriate labor rates to reduce costs raises the concern that previous security requirements and costs were unnecessarily high.

Ultimately, relying on the APPF for as the sole provider of security services raises concerns for future unrestrained cost increases. As it currently stands, the APPF can unilaterally establish its rates without fear of competition, and implementing partners that require armed security have no choice but to pay the APPF's often inconsistent and inappropriate fees. Thus, the APPF acts as a monopoly service provider. Although contracted security costs for the majority of projects decreased, the average rate for armed local guard services increased as much as 47 percent for projects under the APPF. These costs could increase even more over time and implementing partners—left with no other options for local armed guard services—would have no choice but to pay the higher prices.

Finally, USAID's continuing inability to ensure that its implementing partners adhere to Afghan government regulations for the proper use of RMCs may result in Afghan government intervention to disband RMCs without a valid RMC license. Should the Afghan government intervene in this way, USAID's implementing partners would be left without the security services required to continue operations.

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[33]*Risk Management Company Procedure,* 1391.

[34]*Procedure for Regulating Activities of Risk Management Companies in Afghanistan*, January 10, 2012.

RECOMMENDATIONS

To ensure implementing partners use RMCs in accordance with Afghan government regulations, we recommend that the USAID Mission Director for Afghanistan:

1. **Determine why a formal process requiring implementing partners to submit Afghan Ministry of Interior licenses as part of their requests to enter into subcontracts with RMCs was not created.**
2. **Establish and implement the necessary processes requiring implementing partners to submit RMC licenses, ensure that the licenses are reviewed for validity, and document these reviews prior to approving or consenting to the RMC subcontract award.**
3. **Develop policy guidance for implementing partners regarding the proper use of RMCs. Such guidance should clearly indicate whether an implementing partner can contract with an RMC when it is not contracting with the APPF.**
4. **Clarify the ratio regarding the maximum allowable number of RMC personnel cited in RMC regulations with the Afghan government.**
5. **Establish a formal process to ensure that implementing partners do not exceed the applicable RMC ratio.**

AGENCY COMMENTS

We received written comments on a draft of this report from the USAID Mission Director for Afghanistan. In general, USAID disagreed with our recommendations and conclusions. USAID commented that, in its view, the transition to the APPF was generally successful, noting that overall security costs incurred by its implementing partners did not increase following the transition. As our report details, however, the transition to the APPF has faced a number of challenges. For example, the APPF cannot perform a number of basic functions that it is mandated to provide, such as recruiting, training, and supervision. Further, our analysis shows that, while overall security costs have declined, this has largely occurred because implementing partners revised their security postures, consolidated security requirements, and/or decreased labor costs for their expatriate personnel. Moreover, costs charged by the APPF have, as we predicted, increased. For instance, since the transition from PSCs to the APPF, individualized burdened rates for local guards have increased between 23 and 47 percent. In addition, as detailed in this report, the APPF has levied unreasonable and inconsistent fees, such as charging at least $500 more for guard uniforms than implementing partners paid when they used PSCs. We find these developments—and USAID's response to them—troubling, particularly given the Afghan government's plans to eventually phase out RMCs.

With regard to the first two recommendations, USAID asserted that a formal process has already been established and implemented. Specifically, USAID stated that it has already issued a policy directive requiring contract and agreement officers and specialists to include valid RMC licenses as part of their review process before approving or consenting to a RMC sub-award. While we acknowledge that this policy directive has been issued, we found that it has not been implemented through a formal process, as USAID was unable to provide us with any documentation showing that implementing partners submitted licenses and that these licenses were checked by USAID officials for validity. USAID acknowledges that compliance with the policy "has not been perfect." In fact, despite disagreeing with our recommendations, USAID issued a reminder to its Office of Acquisition and Assistance staff to use the policy on July 2, 2013—1 day after we provided a draft of this report to USAID for its comments. While we commend USAID for its actions to ensure that compliance with the policy will be more strictly adhered to in the future, it remains to be seen whether its actions will be successful. Therefore, we maintain that our recommendations remain valid and will monitor USAID's efforts to ensure its implementing partners are appropriately licensed.

USAID also disagreed with our recommendation to develop policy guidance for implementing partners regarding the proper use of RMCs, which would clarify whether an implementing partner can contract with an RMC when it is not contracting with the APPF. USAID stated that the Afghan government already issues guidance to all implementing partners that wish to use RMC services and that "any additional guidance would be redundant and could result in possible contradictions." In our view, it is unclear how the recommended USAID guidance could be both redundant *and* contradictory. While we acknowledge that the Afghan government has issued its own guidance, we found, and USAID acknowledged, that the Afghan government procedures are unclear and can be interpreted in different ways. Specifically, we found that some implementing partners interpreted the maximum ratio as RMC personnel to APPF personnel—not RMC personnel to total—which USAID contends is the correct interpretation as clarified with the Afghan government. In light of these differing interpretations of the Afghan government's guidance, we maintain that USAID should clarify its position on the proper use of RMCs and alert its implementing partners as to the correct interpretation of the regulations.

Finally, USAID disagreed with our recommendations to clarify the ratio regarding the maximum allowable number of RMC personnel cited in RMC regulations with the Afghan government and to establish a formal process to ensure that implementing partners do not exceed the applicable the ratio. Despite disagreeing with the recommendations, however, USAID commented that it recently took actions to address them. For example, acknowledging that the Afghan regulation governing RMCs "can be construed as unclear," USAID commented that it has clarified the RMC ratio with the Afghan government. Nevertheless, USAID noted that it is the responsibility of implementing partners and RMCs to ensure that the ratio is not to be exceeded. We disagree. In our view, USAID relies on its implementing partners to achieve its project objectives and should make every effort to ensure that those partners do not exceed the established ratio. If implementing partners are found to be in violation of Afghan law, project security, and ultimately the project itself, is at risk.

We maintain that all of our recommendations are valid. We will monitor their implementation and ensure that the appropriate congressional committees are informed about the status of compliance.

USAID's comments and our responses are presented in appendix II.

Appendix I - Scope and Methodology

In February 2013, SIGAR initiated an audit of the costs of the transition to the Afghan Public Protection Force (APPF) security on the U.S. Agency for International Development's (USAID) implementing partners. Specifically, SIGAR (1) determined the effect of the transition to the APPF on security provided for USAID reconstruction projects, (2) examined the costs of APPF and risk management companies' (RMC) services for select USAID projects, and (3) assessed USAID's mechanisms to review costs of security provided by the APPF and RMCs. This was a follow-on audit to our June 2012 report that highlighted concerns regarding USAID's transition to the APPF.[35]

To address our objectives we selected ten projects that were (1) active as of October 2012, (2) also in the sample selected for the previous June 2012 audit report, and (3) using a private security contractor (PSC) prior to the transition.[36] In our previous report, we selected 35 of USAID's largest projects representing 75 percent of total expenditures during fiscal years 2009 through 2011. Those projects represented 17 implementing partners. To select the projects, the USAID Office of Financial Management (OFM) provided a list of all 162 USAID contracts, cooperative agreements, and grants over $100,000 that had expenditures during fiscal years 2008, 2009, 2010, and 2011. We compared the accrued expenditures for all 162 awards in the OFM report to computer-processed data previously provided to us from USAID's financial information system. We reconciled the total disbursements in the OFM report to USAID's financial system to within 97.7 percent accuracy. We also identified some additional discrepancies in the computer-processed data report, such as expenditures for one financial instrument was listed under different line items, which USAID corrected. Therefore, we concluded that the data were sufficiently reliable for our purposes. Once we were satisfied the data met our needs, we excluded any inter-governmental transfers, grants to the Afghan government, or grants to multilateral organizations. We then stratified the projects by total expenditures to select USAID's 35 largest projects. Ultimately, ten of those 35 projects met the selection criteria for this audit. Eight implementing partners executed these ten projects, representing over $1 billion in total estimated cost and about $713 million in expenditures as of March 2013. Five of the projects transitioned to the APPF, while the remaining four used only an RMC, and one project did not use either the APPF or an RMC.[37]

To identify the effect of the transition to the APPF on USAID reconstruction projects, we reviewed APPF and RMC subcontract and invoice documentation for the projects in our sample. We interviewed all eight implementing partners and two RMCs in our sample. We also met with contracting officer representatives for the projects in our sample.

To calculate the costs of APPF and RMC services and examine the effect the transition had on overall security costs for reconstruction projects, we analyzed the PSC, APPF, and RMC invoices provided by implementing partners from March 2011 to February 2013 to determine pre-transition and post-transition security costs.[38] To assess the pre-transition costs, we used monthly invoices billed by PSCs to implementing partners from March 2011 to February 2012. To assess the post-transition costs, we used monthly invoices billed by the

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[35]SIGAR 12-10, *Increases in Security Costs Are Likely Under the Afghan Public Protection Force; USAID Needs to Monitor Costs and Ensure Unlicensed Security Providers Are Not Used*, June 29, 2012.

[36]The Support Increased Electoral Participation in Afghanistan is a cooperative agreement implemented by the Consortium for Election and Political Process Strengthening and consists of three implementing partners: National Democratic Institute, International Foundation for Electoral Systems, and International Republic Institute. Because each implementing partner handles its security separately and contracts with its own RMC, we counted and reported on each project individually, referring to each as Support Increased Electoral Participation in Afghanistan 1, 2, or 3, respectively.

[37]Our sample was a judgment sample, and not a statistical sample, and therefore the findings reported in this audit cannot be generalized to all USAID projects.

[38]Black and Veatch's Kandahar Helmand Power Program did not begin until April 2011. As a result, our analysis of pre-transition security costs did not include March 2011 for this project. Further, because the International Republic Institute provided incomplete PSC invoice data for January and February 2012, these months were not included to determine the pre-transition average security costs for their project Support Increased Electoral Participation in Afghanistan 3.

RMCs and the APPF to implementing partners from March 2012 to February 2013.[39] Additionally, we analyzed other costs as a result of the transition, including additional administrative costs to implementing partners to manage the APPF and RMCs, and any costs for any additional physical security required as a result of the transition through the use of subcontractor invoices and a data collection instrument. We obtained information on these costs through interviews and a data collection instrument sent and completed by all seven implementing partners whose projects transitioned to either the APPF or RMCs. The data collection instrument asked implementing partners to quantify and provide evidence of these costs where available.[40] We also reviewed disbursement and obligation data for the projects in our sample provided by USAID's Office of Financial Management.

To identify USAID's mechanisms to review security costs and oversee services provided by the APPF and RMCs, we reviewed subcontractor consent/approval requests and USAID's response to those requests for all ten projects. We also examined reviews of these consent/approval requests performed by the Partner Liaison Security Office. We compared the RMCs in our sample to the APPF Advisory Group's list of licensed RMCs.

To address all of our objectives, we reviewed relevant guidance, including the Federal Acquisition Regulation, Code of Federal Regulations, *Presidential Decree 62,* and *The Bridging Strategy for Implementation of Presidential Decree 62*. We reviewed documents, reports, studies, memoranda, and guidance related to the APPF and RMCs. We reviewed guidance and regulations by the Afghan Ministry of Interior on the APPF and RMCs. We met with officials from the USAID Mission's Office for Acquisition and Assistance; Office of Financial Management; PLSO; and with contracting officers and contracting officers' representatives for various projects. We also met with the APPF Advisory Group under the NATO Training Mission-Afghanistan/Combined Security Transition Command-Afghanistan. We analyzed narratives provided by implementing partners in our data collection instrument to identify trends and common responses on the effect of the transition on projects and concerns and experiences in dealing with the APPF. We reviewed documentation from August 2010 through July 2013.

We performed data reliability tests to determine the accuracy and completeness of the computer-processed data in the report by comparing hard copies of invoices received to information documented in the data collection instrument. We determined that the data were sufficiently reliable for the purposes of the audit objectives. We reviewed USAID's internal controls to determine whether USAID ensured implementing partners used RMCs appropriately and our assessment is included in the body of the report.

We conducted our audit work in Kabul, Afghanistan, and Washington, D.C., from February 2013 to July 2013, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was performed by SIGAR under the authority of Public Law No. 110-181, as amended, the Inspector General Act of 1978, as amended.

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[39]Chemonics' Trade Access and Facilitation for Afghanistan project and JHPIEGO's Health Service Support Project were completed in November 2012 and October 2012, respectively. Further, because the International Republican Institute did not provide RMC invoices for March-May 2012, these months were not included to determine the post-transition average security costs for their project Support Increased Electoral Participation in Afghanistan 3.

[40]According to JHPIEGO, it did not transition to an RMC or the APPF after the disbandment of PSCs and therefore did not receive a data collection instrument.

USAID
FROM THE AMERICAN PEOPLE

MEMORANDUM July 22, 2013

TO: John F. Sopko
Special Inspector General for
Afghanistan Reconstruction (SIGAR)

FROM: William Hammink, Mission Director

SUBJECT: Draft SIGAR Report titled "Afghanistan Public Protection Force: Concerns Remain about Force's Capabilities and Costs" (SIGAR Audit 13-15)

REF: SIGAR Transmittal email dated 07/2/2013

Thank you for providing USAID with the opportunity to review the subject draft audit report. Discussed below are our comments.

USAID believes that the transition to the Afghanistan Public Protection Force (APPF) was generally successful. Despite the predictions in SIGAR's audit of APPF in 2012, no USAID Implementing Partners (IPs) left Afghanistan as a result of the transition and overall security costs incurred by IPs did not increase following the transition. Furthermore, the singular achievement of growing an organization from zero employees just over a year ago to more than 15,000 today cannot be overstated. As you no doubt would agree, our shared goal is to further assist the Afghans create a self-sustaining economy; Afghans hiring other Afghans in an Afghan run entity as reflected in the APPF is one starting element in that process.

See SIGAR comment 1

COMMENTS ON SIGAR'S FINDINGS

1. Throughout the document, SIGAR refers to Risk Management Companies (RMCs) being required by IPs in order to supplement APPF. As stated in the first sentence, first paragraph of the summary page:

> *"The effect of the transition to the APPF has been minimal on projects in SIGAR's sample, but only because implementing partners hired RMCs to fill APPF capacity gaps and perform*

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critical functions. Without RMCs, the APPF would be unable to provide the full range of security services needed by USAID implementing partners."

USAID Response: USAID notes that a number of projects utilize only APPF without also using an RMC which would negate the claim that RMCs are required to supplement APPF. However, USAID does agree that a high number of IPs do in fact utilize RMC services which could indicate that many IPs currently only feel comfortable utilizing APPF with the additional support of RMCs.

See SIGAR comment 2

3. On page 3, SIGAR references its previous audit on APPF, SIGAR Audit 12-10, released in June 2012 and states that SIGAR Audit 13-15 builds upon the previous findings. Among the findings and statements made in SIGAR Audit 12-10 were the following:

a. On page 8 of the report, SIGAR made the following assertion: *"Security Costs Will Likely Increase During the First Year of Transition to APPF for 13 USAID Projects".*

b. On page 10 of the report, SIGAR made the following claim: *"Expatriates Could Increase Costs by as Much as $52.1 Million....assuming an increase of expatriate labor of 200%".*

c. On page 11, SIGAR stated *"USAID Reports Security Costs Had Decreased, but Its Data Was Inconsistent and Incomplete".*

USAID Response: If SIGAR Audit 13-15 indeed builds upon the findings in SIGAR Audit 12-10, it is important to note that many of these findings proved to be inaccurate. As SIGAR itself states in Audit 13-15, security costs have decreased and expatriate costs have decreased specifically by more than $30,000 per expatriate as stated on page 8. Given that this audit builds upon the previous audit, it should be noted that the prognosis of APPF provided by USAID was, in fact, correct.

See SIGAR comment 3

4. On page 5, first paragraph, SIGAR states that *"If implementing partners choose not to contract with the APPF or RMCs, their only remaining option for security services is unarmed guards."*

USAID Response: The APPF is the only provider of armed security services in Afghanistan per Presidential Decree 62. While some RMCs may be armed, they are licensed to do so only for their self-protection. Over 70 percent of USAID projects use no security service at all, which is roughly in line with the number of implementing partners using security services prior to the transition to APPF.

See SIGAR comment 4

5. On page 12, second paragraph, SIGAR states the following:

> *"APPF is the only allowable armed security provider and rates are subject to negotiation by implementing partners. As a result, our analysis of APPF invoices to implementing partners showed that USAID's review mechanisms do not and cannot ensure that APPF rates are consistently applied across implementing partners."*

USAID Response: SIGAR correctly identifies that APPF is the only allowable armed security provider and rates are subject to negotiation. However, it is important to underscore the point of negotiation which is to achieve the best possible deal for the parties involved. USAID has no objection to its IPs seeking to obtain the best possible rates for its programs and would expect that those IPs to negotiate the best price.

See SIGAR comment 5

As long as all IPs are charged at or below the APPF published rates, this results in a benefit to USAID in cost savings as opposed to all IPs being simply charged the flat published rates.

In regard to reviewing mechanisms, USAID believes its current procedures of reviewing rates to determine that they are not overall higher than those published is sufficient as that is the only standard applicable, considering that APPF is a parastatal organization. USAID is not seeking to confirm that rates are applied uniformly, but rather that they are reasonable.

6. On page 13, fourth paragraph, SIGAR states that it found that *"USAID does not have mechanisms in place to ensure that the APPF charges implementing partner only for the services it provides."*

USAID Response: USAID does not have a contractual relationship with APPF and as such it is not possible or practicable to have such mechanisms in place. It is the responsibility of the IP to make such determinations directly with APPF. However, in case of disputes, the IP can refer the issue to the cognizant Agreement Officer/Contracting Officer (AO/CO). The AO/CO will then seek the advice of the USAID Partner Liaison Security Office and/or the APPF Advisory Group (AAG) which works with APPF and deal with any issues.

See SIGAR comment 6

7. On page 13, fourth paragraph, SIGAR states the following:

> *"APPF charges implementing partners a monthly weapons fee of approximately $25 per guard. However, these are the same*

weapons previously purchased by PSCs that the APPF required be turned over to the APPF for use by its guards during the transition. Therefore, implementing partners are now paying a monthly rental fee for weapons previously purchased by its subcontracted PSCs."

USAID Response: This statement is not fully accurate in describing the situation, and USAID recommends its deletion. The IPs never procured and never had ownership of these weapons as all previous PSC sub-contracts were Fixed Price. All property procured under the fixed-price sub-contracts would have been retained by the PSC service provider at the end of the award.

See SIGAR comment 7

Under fixed-price awards with a PSC provider, the IP is paying only for a service to be provided by the PSC and any materials purchased under the award to provide this service remain the property of the service provider, which in this case is the PSC provider. Furthermore, all USAID IPs are precluded from directly procuring weapons or other military hardware but instead may choose to contract for the provision of security services that may require the use of weapons to provide this service. This is the same scenario that IPs now operate under in their sub-contracts with APPF.

8. On page 14, second paragraph, SIGAR states the following: *"Despite USAID's assurance that it would implement a formal process to ensure that licenses are submitted, reviewed, and documented, we found that USAID has not established such a process."*

USAID Response: In September 2012, USAID provided to SIGAR the formal process that was implemented to ensure that licenses are submitted, reviewed and documented. This policy directive contained in a memo from the Office of Acquisition and Assistance (OAA)'s Office Director to all Contracting and Agreement Officers as well as Contract and Agreement Specialists, provides that a valid RMC license is required to be submitted and that a review must be conducted and documented prior to approving or consenting to a RMC sub-award. This directive is again provided as Attachment 1.

See SIGAR comment 8

USAID acknowledges that full compliance with this policy has not yet been implemented but it is important to note the policy was created. Furthermore, with the creation of a Compliance Unit within OAA, compliance with this policy will be more strictly adhered to moving forward. A reminder was sent on July 2, 2013 to the entire OAA staff and is provided as Attachment 2.

Finally, it is worth noting that no instances of any IP utilizing an unlicensed RMC have been found.

9. On page 14, third paragraph, SIGAR states that *"USAID's review mechanisms do not ensure that implementing partners are not exceeding the maximum number of allowable armed RMC personnel. Afghan government regulations limit the number of armed RMC personnel to one for every ten APPF guards."* In addition, on page 14, fourth paragraph, SIGAR states *"USAID officials stated that their understanding of the regulation is that the ratio applies to RMC personnel compared to the number of implementing partners' employees, not APPF personnel."*

USAID Response: Understandably, the Afghan regulation can be construed as unclear. The correct interpretation is that the ratio is not one armed RMC personnel for every ten APPF guards but rather one armed RMC personnel for every ten individuals at a project site including IP personnel and any APPF guards that may be at site. The foregoing interpretation has been clarified with both the APPF Advisory Group (AAG) after consultations with the APPF and USAID's Regional Legal Office. Furthermore, this ratio may be exceeded if approved by the executive board. In relation to this, it is the responsibility of the RMC to ensure that it is not in violation of the stated ratio of one (1) RMC consultant to ten (10) individuals at the IP site. USAID cannot be put in a position of providing assurances of compliance between awards in which it does not have privity.

See SIGAR comment 9

10. On page 15, second paragraph, SIGAR states that *"The apparent ease with which implementing partners revised their security postures and renegotiated expatriate labor rates to reduce costs raises the concern that previous security requirements and costs were unnecessarily high."*

USAID Response: This is a speculative statement. SIGAR fails to note that there are many dynamics that go into an IP's decision to change its security posture. For example, some IPs decided that their security interests would be better served by having a lower visibility than would be possible if they were to have uniformed APPF guards providing security.

See SIGAR comment 10

11. On page 15, third paragraph, SIGAR states the following:

> *"Ultimately, relying on the APPF for as the sole provider of security services raises concerns for future unrestrained cost increases. As it currently stands, the APPF can unilaterally*

establish its rates without fear of competition, and implementing partners that require armed security have no choice but to pay the APPF's often inconsistent and inappropriate fees. Thus, the APPF acts as a monopoly service provider."

USAID Response: Correct, as APPF is by Afghan law the only security service provider, there is no other option to consider and it can be interpreted to serve as a monopoly service provider for armed guards. Companies have the choice and make the strategic business decision to either cease conducting business in Afghanistan or adapt their security posture. Since no companies or organizations have left Afghanistan due to APPF, they have either agreed to conduct business or adjust their needs accordingly. Furthermore, as SIGAR notes on page 8, prices have in fact not increased overall. This situation is normal for any business as it matures and better learns its pricing structure. Finally, the influence that can be applied by not continuing to fund and implement a needed project due to high security costs has proven thus far to be sufficient to restrain cost increases.

See SIGAR comment 11

COMMENTS ON SIGAR'S RECOMMENDATION

To ensure implementing partners use RMCs in accordance with Afghan government regulations, we recommend that the USAID Mission Director for Afghanistan:

1. *Determine why a formal process requiring implementing partners to submit Afghan Ministry of Interior licenses as part of their requests to enter into subcontracts with RMCs was not created.*

2. *Establish and implement the necessary processes requiring implementing partners to submit RMC licenses, ensure that the licenses are reviewed for validity, and document these reviews prior to approving or consenting to the RMC subcontract award*

USAID Response: USAID does not agree with these recommendations.

USAID finds these recommendations not applicable as described in detail in Technical Comment 8. A formal process has already been established as outlined in Attachment 1. USAID acknowledges that compliance to date has not been perfect, but as described previously, steps have been taken to ensure the formal process is adhered to moving forward.

3. *Develop policy guidance for implementing partners regarding the proper use of RMCs. Such guidance should clearly indicate whether an implementing partner can contract with an RMC when it is not contracting with the APPF.*

USAID Response: USAID does not agree with this recommendation.

The Afghan Government issued Risk Management Company Procedures to provide guidance to all IPs that wish to use RMC services. There is no requirement that APPF services must be utilized when utilizing RMC services. Any additional guidance would be redundant and could result in possible contradictions. USAID recommends the deletion of this recommendation.

4. *Clarify the ratio regarding the maximum allowable number of RMC personnel cited in RMC regulations with the Afghan government*

5. *Establish a formal process to ensure that implementing partners do not exceed the applicable RMC ratio.*

USAID Response: USAID does not agree with these recommendations.

As discussed in detail in Technical Comment 9, the ratio of RMC personnel has already been clarified. Furthermore, it is the responsibility of the IP and RMC provider to ensure that this ratio is not exceeded as USAID does not have privity to the IP/RMC sub-contract. USAID recommends the deletion of this recommendation.

Attachments:
1) OAA-IN-2012-016 -- Required Review Process Prior to Sub-award Approval/Consent of RMCs
2) OAA Reminder of Process for Approving/Consenting to RMCs dated 7/2/2013

cc: U.S. Embassy Kabul/Coordination Directorate

SIGAR Response to USAID Comments of July 23, 2013

1. While we agree the transition to the APPF has been rapid, our report highlights concerns with the APPF as the sole provider of security services. We note that the APPF was originally created in 2009 and was already in existence during the time of the transition in March 2012. Further, much of the growth of the APPF is a result of trained guards transitioning from the PSCs to the APPF. For example, as we noted in our report, 99 percent of APPF guards for the projects in our sample transitioned from the PSCs.
2. Contrary to USAID's assertion, the report does not claim that RMCs are required to supplement the APPF for every project. However, of the ten projects we selected, five used both the APPF and an RMC, four used only an RMC, and one did not use either the APPF or an RMC. None of the projects in our sample—drawn from 35 of the largest projects, by dollar value, from fiscal years 2009-2011 and representing over $1 billion in total estimated cost and about $713 million in expenditures as of March 2013—used the APPF without an RMC.
3. USAID mischaracterizes the findings of our previous audit, SIGAR 12-10. In that report, we found that implementing partners expected expatriate labor costs to increase post-transition because additional expatriate labor would be required to manage the transition. During the course of this audit, we found that all five projects in our sample that used the APPF required additional expatriate labor, as we reported as a concern in SIGAR 12-10. While the use of expatriates increased, the decrease in the average cost of an expatriate was the result of implementing partners re-negotiating or re-competing labor costs of RMCs. Additionally, SIGAR 12-10 reported that if *security needs stayed the same*, overall security costs would likely increase. We found during the course of our work in this audit, 9 of 10 projects drastically modified their security posture. As result, security costs decreased. Our prior work remains valid.
4. We understand some projects may not require security. For this audit, we reviewed USAID's largest projects by total expenditures, and all 10 projects utilized security services in the form of armed APPF guards, RMC consultants, and/or unarmed guards.
5. As stated in the report, USAID's Partner Liaison Security Office (PLSO) reviews all implementing partner requests for subcontract approval or consent. The PLSO provided 10 APPF and RMC subcontract reviews that it completed for the projects in our sample. Officials from USAID's Office of Acquisition and Assistance and the PLSO stated that ensuring cost consistency was a goal of the PLSO's reviews. Our analysis found that the reviews examined proposed subcontract costs for consistency with market rates and reasonableness and were thorough and specific in identifying cost and performance concerns. However, the PLSO's reviews cannot ensure that APPF rates are reasonable. For example, the PLSO identified several concerns with the reasonableness of APPF rates, but implementing partners were still required to use such services because the APPF is the only allowable armed security service provider.
6. We revised language in the report to indicate that USAID's existing review mechanisms cannot ensure that the APPF does not charge for services it cannot provide. USAID officials stated that the PLSO reviews all requests to subcontract with the APPF for consistency and reasonableness. We believe that ensuring implementing partners are only billed for those services provided is included in a review for "reasonableness." Although the PLSO conducts thorough reviews, the APPF's monopoly status leaves implementing partners no choice, if negotiations fail, other than to pay any APPF fees, even for services not provided.
7. USAID states that our characterization of how the APPF procured and charges for weapons is not fully accurate, asserting that the PSCs actually purchased the weapons and that implementing partners are precluded from directly purchasing weapons. Contrary to USAID's assertion, the report did not state that implementing partners ever had ownership of the weapons or directly procured them. Instead, we

stated that the PSCs purchased the weapons. In addition, APPF invoices to the implementing partners directly charge a rental fee for weapons and ammunition.

8. Our finding that USAID has not, despite agreeing to a recommendation in our prior audit, established a formal process requiring implementing partners to provide RMC licenses and USAID contracting and agreement officers to document the validity of these licenses was based, in part, on an interview with a high-level official in USAID's Office of Acquisition and Assistance. Further evidence of USAID's failure to fully implement our prior recommendation is the agency's inability to provide all licenses for the projects in our sample or documentation showing that license validity had been documented. Furthermore, in USAID's comments, USAID acknowledged that "full compliance has not yet been implemented."

9. Despite USAID's assertion, we maintain that it is in USAID's interest to have mechanisms in place to ensure that its implementing partners do not exceed the allowable ratio. USAID has a contractual relationship with its implementing partners and should make every effort to ensure that those partners do not exceed the established ratio. If implementing partners are found to be in violation of Afghan law, project security, and ultimately the project itself, is at risk.

10. Our conclusion is based on the ability of the implementing partners for 9 of the 10 projects included in our sample to significantly revise their security postures quickly and as a direct result of the required transition to the APPF for armed security services.

11. While we noted that costs did not increase overall, we also found that costs for Afghan guards under the APPF increased by 23 to 47 percent for the projects in our sample. Any cost savings were realized from implementing partners that either did not use the APPF or did not re-negotiate or re-compete their RMC contracts. Our concern is that costs for armed Afghan guards may continue to rise and will be unrestrained due to the lack of competition resulting from APPF's monopoly status. Exacerbating this, the Afghan government plans to eventually phase out RMCs, leaving only the APPF to provide the services currently provided by RMCs and potentially resulting in higher costs.

Appendix III - Acknowledgments

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