

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

OFFICE OF SPECIAL PROJECTS

ALLEGATIONS RELATED TO USACE OPERATIONS AND MAINTENANCE CONTRACT FOR AFGHAN SECURITY FORCES' FACILITIES



NOVEMBER 2017

SIGAR-18-12-SP



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

November 16, 2017

The Honorable Jim Mattis
Secretary of Defense

Lieutenant General Todd T. Semonite
Commanding General and Chief of Engineers
U.S. Army Corps of Engineers

In August 2014, SIGAR investigators received a hotline complaint related to the U.S. Army Corps of Engineers' (USACE) operation and maintenance (O&M) contract that supports Afghan National Defense and Security Forces (ANDSF) facilities throughout southern Afghanistan. One of the allegations made by the complainant charged that USACE was paying its O&M contractor, ITT/Exelis Systems Corporation (Exelis), upwards of \$50,000 per month to rent six conex containers, also known as steel shipping containers, to use as warehouse space to support O&M operations at Camp Hero in Kandahar province, Afghanistan. The complainant also alleged that USACE could have saved thousands in taxpayer dollars had USACE purchased the containers outright rather than paying Exelis to rent them over the course of the contract. After investigating the complaint for possible criminal wrongdoing, SIGAR concluded that there did not appear to be any criminal offences and the complaint was referred to SIGAR's Special Projects Directorate for further examination. We initiated this review in response to these allegations.

We found that between December 2010 and June 2015, USACE paid Exelis approximately \$2.15 million to provide warehouse supply services for O&M activities at ANDSF facilities in southern Afghanistan. Under the warehouse supply service package, USACE did not specifically pay for a certain number of warehouses or amount of space, but rather for all of the activities associated with warehousing O&M equipment and spare parts, such as warehouse space, logistics, inventory, delivery, and vehicle transfer. The firm-fixed price contract awarded by USACE placed the financial burden of purchasing or renting containers, and the associated financial profits or losses of doing so, on Exelis. Because USACE paid for a service, it did not require Exelis to report on the manner in which it obtained warehouse space or the discrete costs associated with procuring the space. As a result, we were unable to quantify the amount of any cost savings that may have been generated over the life of the contract if USACE had provided the space to Exelis as government furnished equipment, or the effect of Exelis' decision to rent or purchase containers for warehouse storage. We were, however, able to determine that USACE's average monthly cost for warehouse services was \$39,504 (approximately \$10,000 less per month than was alleged by the complainant) and that those payments included much more than the simple provision of six containers, as was alleged. Moreover, a senior USACE official responsible for overseeing the contract told us that Exelis successfully fulfilled its contractual obligations in accordance with agreed upon terms. As a result, our review could not substantiate the allegations made by the complainant.¹

We provided a draft of this report to USACE for comment on November 9, 2017. On November 15, 2017, USACE responded and stated that it did not have any technical or written comments on the draft report.

We conducted this special project in Washington, D.C. from March 2017 to November 2017, in accordance with SIGAR's quality control standards. These standards require that we carry out work with integrity, objectivity, and independence, and provide information that is factually accurate and reliable.

¹ We did not review the USACE decision to award the service-based firm-fixed price contract, nor did we conduct a financial audit of all invoiced costs.

SIGAR performed this special project under the authority of Public Law No. 110-181, as amended, and the Inspector General Act of 1978, as amended. Should you or your staff have any questions about this project, please contact Mr. Matthew Dove, Director of Special Projects, at (703) 545-6051 or matthew.d.dove.civ@mail.mil.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. F. Sopko', with a long horizontal flourish extending to the right.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

A key U.S. government objective in Afghanistan is to build the country's capacity to provide for its own security by training, equipping, and providing infrastructure to support the Afghan National Defense and Security Forces (ANDSF).² Cumulative appropriations for relief and reconstruction in Afghanistan totaled approximately \$120.8 billion, as of September 30, 2017. As part of the reconstruction effort, the Department of Defense disbursed approximately \$9 billion to support the ANDSF infrastructure projects.³ The U.S. Army Corps of Engineers (USACE) has been responsible for constructing ANDSF facilities, as well as providing operation and maintenance (O&M) support for these facilities.

In July 2010, the U.S. Army Corps of Engineers (USACE) awarded two firm-fixed-price indefinite delivery/indefinite quantity service contracts⁴ to ITT/Exelis Systems Corporation (Exelis)⁵ to provide operation and maintenance (O&M) for Afghan National Defense and Security Forces (ANDSF) facilities throughout Afghanistan.⁶ The contracts provided an agreed-upon allowable cost for services that is fixed and not subject to any adjustment on the basis of the contractor's actual costs. One contract covered ANDSF facilities in designated Northern provinces, and the other contract covered ANDSF facilities in the Southern part of the country.⁷ The contract covering facilities in Afghanistan's northern and eastern provinces was valued at \$498 million and the contract covering Afghanistan's southern and western provinces at \$350 million. Both contracts expired in June 2015. In May 2015, USACE awarded a \$245 million contract to IDS International Government Services, LLC to provide follow-on O&M support and training assistance for 42 ANDSF critical infrastructure facilities throughout Afghanistan. IDS supported these facilities until November 2017 when the responsibility for O&M was transferred to the ANDSF.

In August 2014, SIGAR investigators received a complaint on the SIGAR hotline alleging gross mismanagement of the USACE O&M contract. Within the complaint there were several allegations made against USACE. The complainant alleged that USACE paid Exelis \$50,000 per month to rent warehouse space, consisting of six conex containers, at Camp Hero in Kandahar province, Afghanistan. The complainant also alleged that USACE could have saved thousands in taxpayer dollars had USACE purchased the containers outright rather than allowing Exelis to rent them over the course of the contract. The complainant also alleged that USACE did not provide adequate oversight of Exelis to determine whether the amount of warehouse space provided by Exelis was warranted under the contract. After conducting an investigation, SIGAR investigators concluded that there did not appear to be any criminal offences and referred the allegation to the Special Projects Directorate for further examination.

² The primary components of the ANDSF are the Afghan National Army and Afghan National Police.

³ Department of Defense entities tasked with construction and oversight, include the Combined Security Transition Command-Afghanistan, Air Force Civil Engineer Center, and the U.S. Army Corps of Engineers. Construction of ANDSF facilities is primarily funded through the Afghan Security Forces Fund.

⁴ Under a firm fixed-price contract, payment for services may vary per month based on activity, but the total negotiated amount for the contract remains unchanged. Firm fixed-price contracts provide maximum incentive for the contractor to control costs and perform effectively and impose a minimum administrative burden upon the contracting parties. Firm fixed price contracts are available when cost or pricing information permits realistic estimates of the probable cost of performance; or when performance uncertainties can be identified and reasonable estimates of their cost impact can be made, and the contractor is willing to accept a firm fixed price representing assumption of the risks involved.

⁵ USACE awarded the O&M contracts to ITT Systems Corporation. In late 2011, the company changed its name to ITT Exelis Systems Corporation. USACE modified the contracts to reflect this name change.

⁶ On July 26, 2010, USACE-TAM awarded contract number W912ER-10-D-0002 to cover ANSDF facilities located in the capital region and in northern and eastern Afghanistan. USACE-TAM awarded contract number W912ER-10-D-0003 on July 27, 2010, to cover facilities in the southern and western parts of the country. Prior to July 2010, USACE provided O&M services at ANSF facilities under six separate contracts.

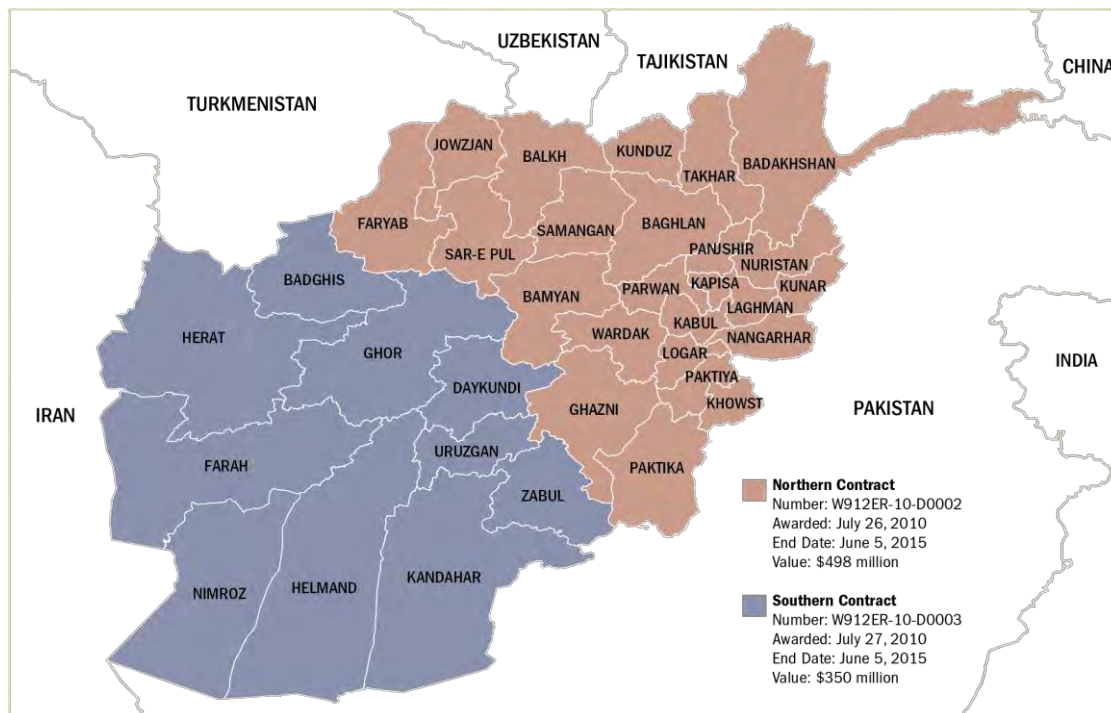
⁷ Provinces included under the northern contract included Badakhshan, Baghlan, Balkh, Bamiyan, Faryab, Ghazni, Jowzjan, Kabul, Kapisa, Khost, Kunar, Kunduz, Laghman, Logar, Nangahar, Nuristan, Paktika, Paktya, Panjshir, Parwan, Samangan, Sar-e Paul, Takhar, and Wardak. Provinces included under the southern contract included Badghis, Daykundi, Farah, Ghor, Helmand, Herat, Kandahar, Nimroz, Uruzgan, and Zabul.

We conducted this review to determine whether USACE mismanaged or provided insufficient oversight of the O&M contract by allowing its contractor to charge \$50,000 per month to rent storage containers or otherwise overcharge for the containers used as warehouse space at Camp Hero.⁸ To conduct our review, we reviewed relevant contract documentation related to the southern O&M contract, including task orders and invoices submitted to USACE by Exelis for all warehouse contract line items between 2010 through 2015. We obtained and analyzed documents, emails, and photographs of the warehouse space at Camp Hero, and interviewed officials from DOD, including at the Office of the Secretary of Defense and USACE. We conducted our work in Washington, D.C. from March 2017 through September 2017, in accordance with SIGAR’s quality control standards. These standards require that we carry out work with integrity, objectivity, and independence, and provide information that is factually accurate and reliable.

O&M CONTRACTS FOR ANDSF FACILITIES AND EQUIPMENT MAINTENANCE

USACE’s two July 2010, contracts with Exelis for O&M support at ANDSF facilities across Afghanistan each consisted of one base year plus four option years and included O&M support for hundreds of facilities. The base year of for the northern contract began on November 1, 2010 and the base year for the southern contract on December 1, 2010. The fourth year option for each contract was exercised and ended on June 5, 2015.⁹ O&M services provided under the contracts included maintenance for buildings and structures; utility systems O&M; and heating, ventilation, and air conditioning systems O&M. The contracts also required Exelis to train ANDSF workers on the required O&M trade skills, such as electrical, plumbing, and sewage treatment plant operation, through formal vocational and managerial training, on-the-job training, and job shadowing. Figure 1 shows the areas of Exelis O&M responsibilities under both the northern and southern O&M contracts.

Figure 1 - Location of Exelis’ Northern and Southern O&M Operations



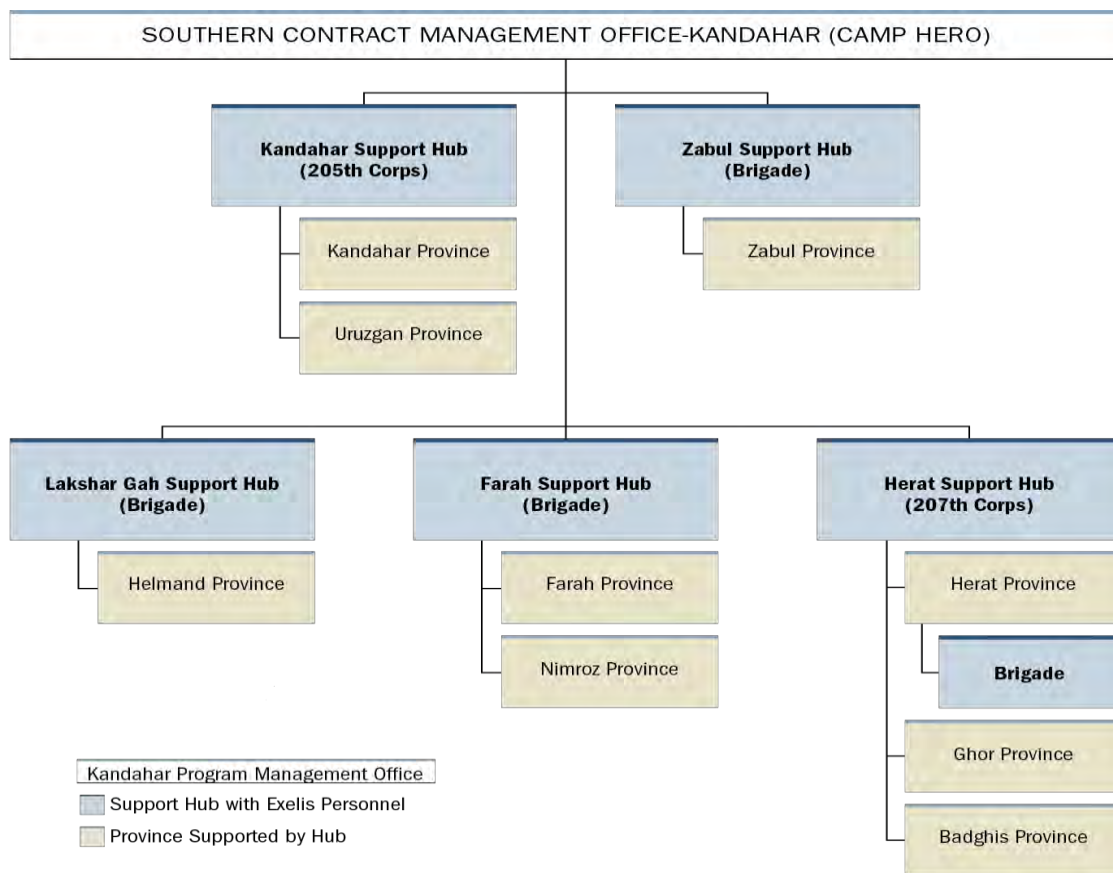
Source: USACE contract numbers W912ER-10-D-0002 and W912ER-10-D-0003. Totals include all task orders and modifications.

⁸ We did not assess USACE’s requirements generation process or contracting process.

⁹ Both contracts exercised the fourth option year, however, a bridge contract was put into place for O&M operations in the north to extend the ordering period because the O&M work required for ANDSF facilities was greater than anticipated.

In order to provide O&M support to ANDSF facilities throughout Afghanistan, Exelis employed a “hub-and-spoke” approach in both the northern and southern regions. Through this approach, Exelis established a central program management office and support hubs to execute O&M services at ANDSF locations in designated geographical areas throughout Afghanistan. The central program office for O&M support operations in the south was located at Camp Hero in Kandahar province. The central program office managed five support hubs.¹⁰ The support hubs were located in Kandahar, Herat, Farah, Zabul, and Helmand, and provided O&M services at ANDSF locations in the 10 provinces throughout the southern region. Each support hub was responsible for an average of eight remote ANDSF facilities near the support hub.¹¹ Figure 2 shows the operational structure and location of the program management office, support hubs, and service areas in southern Afghanistan.

Figure 2 - Structure and Location of Exelis’ Program Management Office and Support Hubs Under the Southern Contract



Note: Qalat was the central location of Exelis operations in Zabul Province.

Source: Exelis Management and Technical Approach, W912ER-10-R-003.

¹⁰ Exelis reported that it operated six support hubs, one of which was located at a brigade site in Herat. Because the brigade site was located under the Herat support hub, SIGAR counted the total number of support hubs as five.

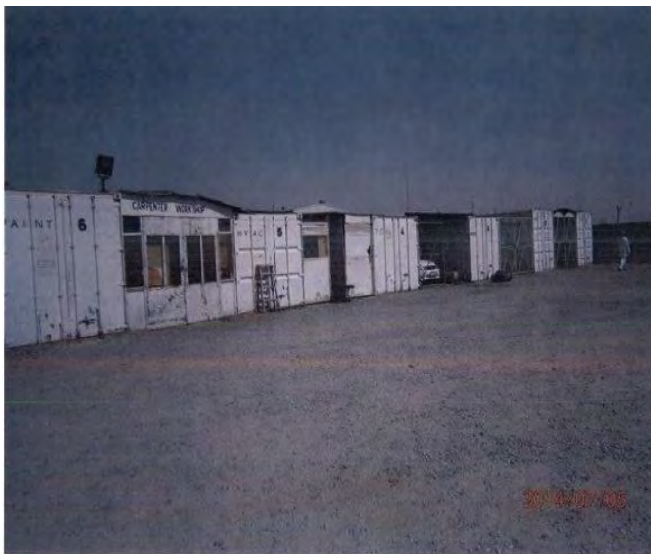
¹¹ The program management office for the northern contract was located in Kabul. According to USACE, Exelis had nine support hubs under the northern contract.

Support hubs were equipped with a central warehouse, personnel to operate the warehouse, repair parts specific to each location's needs, and technical service support staff to maintain ANDSF sites, provide regularly scheduled and emergency service repair, and deliver on-the-job and vocational training to ANDSF staff within their respective geographic area of responsibility. The repair parts were purchased on an as-needed basis in order to minimize the amount of inventory in stock at any given time at support hubs. Site managers at each hub were responsible for the inventory quantities and for ordering parts that were not carried as standard inventory items. The support hub at Camp Hero in Kandahar served as Exelis' centrally located distribution center, and warehouse personnel at the location were responsible for receiving, storing, and dispensing supplies and parts to warehouses at the five support hubs. USACE reported that Exelis maintained four 40x8 foot containers at Camp Hero.¹² Inventory remained at hub locations until work was required or requested at remote ANDSF locations in the southern provinces. Operating costs for warehouse operations were spread across the five support hubs.

USACE CONTRACTED FOR WAREHOUSE SERVICE OPERATIONS, NOT INDIVIDUAL WAREHOUSE FACILITIES OR SPACE

USACE awarded two firm fixed price service-based contracts to Exelis to provide O&M for ANDSF facilities across Afghanistan—one for O&M operations in the north and one for O&M operations in the south. Under each contract there was a requirement to provide warehouse space to store parts and equipment for O&M operations. Rather than pay for individual warehouse space, USACE agreed to pay Exelis a firm-fixed price for "warehouse service support operations." Our review of contract documents and information provided by USACE found that warehouse service support operations included storing and mobilizing O&M service equipment, warehouse maintenance, logistics, inventory, vehicle transfer, and delivery of O&M parts to hubs and ANDSF locations. However, USACE did not stipulate in the contracts either the size or type of warehouse space that Exelis would need necessary to fulfill its obligations. Photo 1 shows the containers that Exelis used as warehouses at Camp Hero in Kandahar.¹³

Photo 1 - Exelis' Warehouse Storage Containers and Inventory at Camp Hero Under the Southern O&M Contract



Source: SIGAR, July 5 and 6, 2014.

¹² While not specified by USACE, containers used for storage are typically 40'X8'.

¹³ In austere environments, like Afghanistan, conex containers are often used for providing secure storage for goods.

Between December 2010 and June 2015, USACE spent approximately \$2.15 million on warehouse operations for ANDSF O&M operations in southern Afghanistan. Table 1 shows the amount USACE paid to Exelis for warehouse operations over the course of the contract.

Table 1 - Total Cost of Southern O&M Warehouse Service Supply Contract - W912ER-10-D-0003

Warehouse Operations	Invoiced Amount
Base Year	Dec 2010-July 27, 2012
Total ANA	\$275,923.20
Total ANP	\$22,994.42
Total	\$298,917.42
Option Year 1	Jul 28, 2011 - July 27, 2012
ANA	\$463,149.85
ANP	\$41,110.60
Total	\$504,260.45
Option Year 2	July 28, 2012-July 27, 2013
ANA	\$395,569.08
ANP	\$177,719.40
Total	\$573,288.48
Option Year 3	July 28, 2013 - July 27, 2014
ANA	\$392,447.66
ANP	\$160,295.53
Total	\$552,743.19
Option Year 4	Invoiced Amount July 28, 2014 - March 27, 2015
ANA	\$218,681.11
Total	\$218,684.11
Total Amount	\$2,147,893.65

Source: SIGAR analysis of Exelis invoice data for warehouse service operations under W912ER-10-D-0003.

ALLEGATIONS REGARDING WAREHOUSING COSTS UNDER THE SOUTHERN O&M CONTRACT WERE MISINFORMED

Complainants alleged that Exelis was renting conex containers at a cost of \$50,000 per month to support ANDSF O&M operations in the south, when USACE could have saved thousands of dollars had the agency purchased the containers and provided them to Exelis as government furnished equipment under the contract. We analyzed Exelis' invoices for warehouse operations over the course of the contract. We found that the median monthly cost for warehouse operations billed by Exelis was \$39,504 for ANDSF warehouse operations, including three years where costs averaged more than \$40,000 per month. Table 2 shows the average monthly costs billed by Exelis for its work on the warehouse operations contract.

Table 2 - Average Monthly Costs for Exelis Warehouse Operations under the Southern O&M Contract

Average Monthly Costs for ANA and ANP Warehouse Operations	
Base Year	\$37,364.68
Option Year 1	\$42,021.70
Option Year 2	\$47,774.04
Option Year 3	\$46,061.93
Option Year 4	\$24,297.90
Average	\$39,504.05

Source: SIGAR analysis of Exelis' invoices for warehouse service operations under WR912-D-0003.

As indicated previously, these monthly costs included more than the basic provision of warehouse space. We found, based on available documentation, that USACE did not require that Exelis report on the underlying costs associated with the actual provision of services, including warehouse space, labor, and transportation associated with moving spare parts to ANDSF service locations. Instead, as agreed to with USACE, Exelis was only responsible for reporting on the total costs incurred for fulfilling its responsibilities under the warehouse service contract. As a result, we were unable to determine how much Exelis paid for the containers used as warehouse space based on the contract documentation provided to us by USACE.

Furthermore, USACE was unable to tell us whether Exelis rented, purchased, or acquired the containers free of charge under the southern O&M contract, or the cost implications of that decision. The firm-fixed price contract that USACE awarded allowed Exelis to charge for the provision of warehouse services for an agreed-upon price (a price that was not subject to adjustment without formal agreement between USACE and Exelis). Under the terms of the contract, Exelis assumed responsibility for all costs and the resulting profit or loss—USACE agreed to pay a fixed amount for services rendered and contract completion. Because USACE awarded the warehouse operations contract as a firm fixed-price contract, USACE officials reported that USACE was not concerned with how many actual warehouses Exelis had throughout the southern region, whether they were conex containers or permanent structures, or the costs associated with purchasing or renting the warehouses, as long as Exelis met its contractual obligations for the provision of warehouse operations. Firm-fixed price contracts provide for a price that is not subject to any adjustment on the basis of the contractor's cost experience in performing the contract. This contract type places upon the contractor maximum risk and full responsibility for all costs and resulting profit or loss, and provides maximum incentive for the contractor to control costs and perform effectively. Once USACE negotiated a fixed price for the warehouse operations contract, the financial burden of purchasing or renting containers and the associated financial profits or losses of doing so were born by Exelis.

CONCLUSION

USACE approved a firm fixed price service contract with Exelis for warehouse supply service operations for approximately \$2.15 million between December 2010 and June 2015. Based on the terms of the contract, Exelis was required to maintain warehouse space for O&M operations, but not required to break out the costs of the individual warehouses used over the course of the contract. The overall average monthly costs charged for its work on the warehouse operations contract were approximately \$10,000 less per month than the \$50,000 per month that was alleged to be wasted on containers, and those payments included much more than the simple provision of six conex containers, as was alleged. Our review of the contract requirements and documents, as well as interviews with USACE officials, indicated that Exelis fulfilled its contractual obligations in accordance with the agreed upon terms. As a result, our review did not find that USACE mismanaged the contract or that it provided insufficient oversight by allowing its contractor to charge \$50,000 per month to rent storage containers or otherwise overcharge for the containers used as warehouse space at Camp Hero.

AGENCY COMMENTS

We provided a draft of this report to USACE for comment on November 9, 2017. On November 15, 2017, USACE responded and stated that it did not have any technical or written comments on the draft report.

This project was conducted
under project code SP-162.

SIGAR's Mission

The mission of the Special Inspector General for Afghanistan Reconstruction (SIGAR) is to enhance oversight of programs for the reconstruction of Afghanistan by conducting independent and objective audits, inspections, and investigations on the use of taxpayer dollars and related funds. SIGAR works to provide accurate and balanced information, evaluations, analysis, and recommendations to help the U.S. Congress, U.S. agencies, and other decision-makers to make informed oversight, policy, and funding decisions to:

- improve effectiveness of the overall reconstruction strategy and its component programs;
- improve management and accountability over funds administered by U.S. and Afghan agencies and their contractors;
- improve contracting and contract management processes;
- prevent fraud, waste, and abuse; and
- advance U.S. interests in reconstructing Afghanistan.

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