

2 SIGAR OVERSIGHT



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Deputy Inspector General Gene Aloise talks about SIGAR's work at the May 2016 Audit and Fraud Roundtable Group meeting in Copenhagen, Denmark. (SIGAR photo by Eugene Gray)

SIGAR OVERSIGHT ACTIVITIES

This quarter SIGAR issued 17 audits, inspections, alert letters, and other products. SIGAR work to date has identified over \$2 billion in savings for the U.S. taxpayer.

One performance audit examined the scope of efforts by the Department of Defense (DOD), the Department of State (State), and the U.S. Agency for International Development (USAID) to develop Afghanistan's information and communications-technology (ICT) sector since 2002 and the extent to which the agencies coordinated these efforts. A second performance audit reviewed a contract awarded by DOD to develop the Afghan National Army's (ANA) capacity to perform vehicle maintenance.

SIGAR completed six financial audits this quarter of U.S.-funded contracts, grants, and cooperative agreements to rebuild Afghanistan. These financial audits identified over \$9.2 million in questioned costs as a result of internal-control deficiencies and noncompliance issues. To date, SIGAR's financial audits have identified more than \$292.3 million in questioned costs. SIGAR also announced six new financial audits, bringing the total number of ongoing financial audits to 24 with nearly \$3.8 billion in auditable costs.

This quarter SIGAR published one inspection report that examined whether the construction of the Bagrami Industrial Park in Kabul Province was completed in accordance with contract requirements and construction standards.

This quarter SIGAR's Office of Special Projects produced seven products addressing a range of issues, including: one alert letter on structural damage at a USAID-funded educational facility in the Kushk district of Herat Province; four inquiry letters to DOD, USAID, State, and the Department of Transportation (DOT) about their efforts in developing and implementing rail infrastructure in Afghanistan; a fact sheet on U.S. Department of Labor (Labor) reconstruction spending in Afghanistan; and, a review of USAID-supported health facilities in Badakhshan Province.

During the reporting period, there was one criminal information, one indictment, one conviction, and one sentencing. Fines and restitutions totaled \$10,000. SIGAR initiated 13 new investigations and closed 33, bringing the total number of ongoing investigations to 269.

AUDIT ALERT LETTER

- Audit Alert Letter 16-47-AL: Efforts to Support Afghan Internally Displaced Persons (IDP)

COMPLETED PERFORMANCE AUDIT

- Audit 16-46-AR: Afghanistan's Information and Communications Technology (ICT) Sector
- Audit 16-49-AR: Afghan National Army Technical Equipment Maintenance Program

COMPLETED FINANCIAL AUDITS

- Financial Audit 16-36: Construction of the Afghan Defense University
- Financial Audit 16-41: Afghan National Police Construction Project
- Financial Audit 16-42: Construction of Facilities for the 1st Special Forces, 1st Commando Brigade, and Transient Kandak
- Financial Audit 16-43: Construction of the 4th Special Forces Kandak Facilities and Renovation of the 2nd Commando Brigade Headquarters
- Financial Audit 16-44: USAID's Afghanistan Electoral Reform and Civic Advocacy Program
- Financial Audit 16-45: Construction of the Afghan District Headquarters Uniform Police Stations in Helmand Province

COMPLETED INSPECTION REPORTS

- Inspection Report 16-48-IP: Bagrami Industrial Park

COMPLETED SPECIAL PROJECT PRODUCTS

- Inquiry Letter 16-33-SP: USAID Support to Develop and Implement the Afghan Railway
- Inquiry Letter 16-34-SP: Department of State Support to Develop and Implement the Afghan Railway
- Inquiry Letter 16-35-SP: DOD Support to Develop and Implement the Afghan Railway
- Inquiry Letter 16-37-SP: Department of Labor Reconstruction Spending
- Alert Letter 16-38-SP: Structural Damage at Educational Facility in Herat Province
- Inquiry Letter 16-39-SP: Department of Transportation Support to Develop and Implement the Afghan Railway
- Review 16-40-SP: USAID-Supported Health Facilities in Badakhshan Province

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Performance audits: provide assurance or conclusions based on an evaluation of sufficient, appropriate evidence measured against stated criteria. Performance audits provide objective analysis so that management and those charged with governance can use the information to improve the program performance and operations, reduce costs, and facilitate decision-making by parties with responsibility to oversee or initiate corrective action for public accountability. Performance audits are conducted in accordance with generally accepted government auditing standards (GAGAS) and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Quality Standards for Federal Offices of Inspector General.

Inspections: are systematic and independent assessments of the design, implementation, and/or results of an agency's operations, programs, or policies. SIGAR conducts inspections, in accordance with CIGIE Quality Standards for Inspection and Evaluation, to provide information to Congress and the public on the quality of construction of facilities and infrastructure throughout Afghanistan; and generally, to provide an assessment of the extent to which the facilities were constructed in accordance with the contract requirements, used as intended, and are being maintained.

Financial audits: provide an independent assessment of and reasonable assurance about whether an entity's reported condition, results, and use of resources are presented in accordance with recognized criteria. SIGAR performs financial audits in accordance with GAGAS, which includes both requirements contained in the American Institute of Certified Public Accountants Statements on Auditing Standards and additional requirements provided in GAGAS. SIGAR also reviews financial audits conducted by independent public accountants (IPA). When an IPA conducts a financial audit, SIGAR conducts reasonable procedures to ensure compliance with GAGAS, based on the intended use of the IPA's work and degree of responsibility accepted by SIGAR with respect to that work.

This quarter, SIGAR's suspension and debarment program referred eight individuals and five companies for suspension or debarment based on evidence developed as part of investigations conducted by SIGAR in Afghanistan and the United States. These referrals bring the total number of individuals and companies referred by SIGAR since 2008 to 756, encompassing 401 individuals and 355 companies to date.

AUDITS

SIGAR conducts **performance audits, inspections, and financial audits** of programs and projects connected to the reconstruction effort in Afghanistan. Since its last report to Congress, SIGAR has issued one audit alert letter, two performance audits, six financial audits, and one inspection report. This quarter, SIGAR's has 13 ongoing performance audits.

Audit Alert Letter

U.S. military and civilian officials have asked SIGAR to provide them with real-time information to prevent waste and increase the effectiveness of U.S. reconstruction programs. One of SIGAR's main goals is to provide implementing agencies and Congress with actionable information while there is still time to make a difference. To achieve that goal, SIGAR sends audit alert letters to highlight concerns. During this reporting period, SIGAR sent one audit alert letter, addressing U.S.- and Afghan-government efforts to assist internally displaced persons (IDPs).

Audit Alert Letter 16-47-AL: Efforts to Support Afghan IDPs

In July, SIGAR wrote to USAID and State to share its observations on U.S. and Afghan government efforts to assist IDPs in Afghanistan as part of its audit examining issues related to Afghan IDPs, refugees living in Iran and Pakistan, and returnees in Afghanistan. SIGAR reported on its audit of U.S. efforts to assist Afghan refugees and returnees in August 2015.

The objectives of the review were similar to the prior audit, but specifically focused on assessing the extent to which (1) the Afghan government has implemented its National Policy on Internally Displaced Persons, and (2) USAID and State-funded nongovernmental organizations (NGO) and international organizations coordinate and share information on IDP assistance.

SIGAR found that the Afghan government has not fully implemented its national IDP policy because of resistance from provincial governments to supporting IDPs and limitations that exist within key ministries. Provincial leaders have posed challenges by, for example, refusing to accept migrant settlements in their provinces and insisting that established settlements be demolished to make room for urban-development and infrastructure projects. Furthermore, key ministries charged with implementing the

national policy and assisting IDPs, particularly the Ministry of Refugees and Repatriation, struggled with delays in implementing required actions, allegations of corruption, and lack of internal capacity for achieving their mandate.

SIGAR also found that USAID- and State-funded NGOs and international organizations did not fully coordinate their efforts to assist Afghan IDPs. Neither agency required its NGOs or international organizations to coordinate their IDP efforts in all sectors—for example, education, food security and agriculture, health, and nutrition—with each other, United Nations agencies, or the Afghan government. As a result, their coordination with each other or with other humanitarian organizations is inconsistent, and the extent of this coordination varies.

SIGAR noted that fully implementing the recommendation in its August 2015 audit report would help address some of these issues.

Performance Audit Reports Published

This quarter SIGAR published two performance audit reports. One examined the scope of U.S. agencies' efforts to develop Afghanistan's information and communications-technology sector since 2002. The other reviewed a contract awarded by DOD to develop the ANA's capacity to perform vehicle maintenance.

Performance Audit 16-46-AR: Afghanistan's Information and Communications Technology (ICT) Sector

U.S. Agencies Obligated Over \$2.6 Billion to the Sector, but the Full Scope of U.S. Efforts is Unknown

In 2001, Afghanistan had only a rudimentary telecommunications system located in major cities and along its borders. Since then, considerable development has taken place as a result of private sector investment, as well as the Afghan government and international partners' efforts. USAID reports that, among other things, the sector contributed \$1.81 billion in revenues to the Afghan government in 2013, employs about 130,000 Afghans, and provides mobile-phone services to roughly 90 percent of the population. Private-sector investment alone had reached \$2 billion by 2013. Additionally, DOD estimates that the ICT sector could generate an additional \$1 billion in revenue per year for the Afghan government within the next decade from data-transit tariffs and the provision of information services.

The objectives of the audit were to determine (1) the scope of U.S. agencies' efforts to develop Afghanistan's ICT sector since 2002, and (2) the extent to which the agencies coordinated these efforts.

Although the United States, coalition partners, and other stakeholders have supported the development of Afghanistan's ICT sector through a variety of projects and programs, the sector's infrastructure has largely been created through Afghan-led efforts, such as the Afghan government's

COMPLETED PERFORMANCE AUDIT

- Audit 16-46-AR: Afghanistan's Information and Communications Technology (ICT) Sector
- Audit 16-49-AR: Afghan National Army Technical Equipment Maintenance Program

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policies and regulations encouraging private investment, and private entities making those investments. The country has six active service carriers, including five 3G-licensed mobile-network service operators. These companies are responsible for building most of the over 5,000 telecommunications cellular towers in Afghanistan that power the mobile networks used by most cellular phones in the country. Roshan and Mobile Telephone Networks are the largest mobile cell-phone carriers by customer base. Two of the six service carriers—Afghan Telecom and Wasel Telecom—also offer landline-telephone services. Afghan Telecom provides landline services nationally, while Wasel Telecom provides landline services regionally in northern Afghanistan. SIGAR made no recommendations in this report.

Based on SIGAR’s analysis of DOD, State, and USAID data, SIGAR determined that since 2002, those agencies have provided over \$2.6 billion to support the Afghan ICT sector. DOD invested the most, obligating more than \$2.5 billion. State obligated at least \$83 million to support the Afghan media and rule-of-law development, and USAID obligated at least \$44 million to increase the ICT capacity of various Afghan ministries.

However, because the agencies were not required to track their ICT efforts in a centralized database, the information reported to SIGAR by DOD, State, and USAID may not be comprehensive or entirely reliable. For example, SIGAR independently identified a DOD contract valued at over \$400 million that was not included in the data DOD provided. Additionally, SIGAR found that some of State’s and USAID’s ICT-sector activities were implemented as part of larger programs, and funding information was not disaggregated by components. Finally, records for some USAID programs implemented before 2005 were not available because the agency’s document-retention requirements only extend to three years after a program’s completion date. As a result, the full scope of U.S. efforts is unknown.

SIGAR also found that DOD, State, and USAID coordinated their efforts to support the ICT sector in Afghanistan. State established the first formal coordination unit, the Afghanistan Reconstruction Group (ARG), in 2004. In 2005, State appointed the first U.S. Senior Telecommunications Advisor to coordinate and synchronize efforts with both public and private organizations. State eliminated the ARG in 2008 and, along with it, terminated the Senior Telecommunications Advisor position. However, State officials indicated that informal coordination with the Afghan government continued. In 2010, the International Security Assistance Force created the Telecommunications Advisory Team, which became the primary coordinating entity for U.S. agencies and led the Telecommunications Working Group until its mission ended in late 2014. DOD officials said the Telecommunications Working Group has continued to meet under the auspices of the U.S. Embassy in Kabul.

Performance Audit 16-49-AR: Afghan National Army Technical Equipment Maintenance Program

Poor DOD Management of Vehicle-Maintenance Program

Resulted in Increased Costs and Unmet Objectives

Establishing an organic Afghan vehicle-maintenance capacity is critical if the ANA is to have a fully operational fleet of vehicles to provide the mobility and protection needed to support its fight against the insurgency. Without such a capability, the ANA will be at a severe disadvantage in waging counterinsurgency operations.

In December 2010, the Department of Defense awarded a 5-year, firm-fixed-price contract called the ANA Technical Equipment Maintenance Program (A-TEMP) to Afghanistan Integrated Support Services JV (AISS) to develop the ANA's capacity to maintain its growing fleet of more than 26,000 vehicles at a projected cost of nearly \$182 million, not including the cost of supply-chain management or spare parts. After 63 modifications, the total obligated amount increased to \$368 million, and the period of performance was extended from December 30, 2015, to June 28, 2016. According to DOD, both the obligations and period of performance are likely to increase further.

The objectives of this audit were to assess the extent to which (1) the current ANA A-TEMP contract and program were designed to promote the accurate assessment of Afghan vehicle-maintenance needs, contractor performance, and cost containment; (2) the U.S. government provided effective management and oversight of contractor performance; and (3) the contract met its program objectives to develop a self-sufficient Afghan maintenance capacity through the performance of maintenance on the ANA vehicle fleet and the training of ANA maintenance personnel.

In structuring the ANA A-TEMP contract, the Army Contracting Command (ACC) and the Combined Security Transition Command–Afghanistan (CSTC-A): (1) made inaccurate assumptions about the capacity of the Afghans to manage the supply chain and conduct maintenance, (2) underestimated the cost of spare parts, and (3) established performance metrics that did not accurately assess contractor performance or progress towards contract goals. As a result of the inaccurate assumptions about Afghan capacity to conduct supply-chain management and perform maintenance, and due to underestimated spare-parts costs, the contract costs were significantly higher than originally estimated. A contract modification transferring supply-chain management responsibilities from the ANA to AISS shortly after contract award added \$96 million to the contract's cost, and the cost of spare parts has more than doubled over the original estimate of \$30 million, to at least \$61 million. Additionally, the performance metric established by DOD to track contractor performance will be replaced in the future because it was vague and unenforceable.

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Over the course of the ANA A-TEMP contract, the amount and quality of government contract oversight declined due to security concerns, limiting the information available to determine the quality of AISS's performance on the contract. During the first two years, security conditions allowed the Defense Contract Management Agency-Afghanistan (DCMA-A) quality-assurance representatives and contracting officer's representatives (COR) to conduct direct on-site inspections at AISS maintenance and training locations. During this period, AISS was cited by DCMA-A 113 times for failing to fulfill contract requirements.

After June 2013, DCMA-A contract oversight declined significantly due to deteriorating security conditions. As a result, on-site inspection of AISS support to the contract was not conducted by the DCMA quality-assurance representatives, but was limited to monthly checklist inspections conducted only by CORs. In March 2015, DCMA-A formally acknowledged the impact of not being able to have quality-assurance representatives participate in on-site inspections when it was announced that DCMA-A no longer had the ability to perform quality assurance and property audits and functions at the sites in Afghanistan covered by the ANA A-TEMP contract.

On January 6, 2016, contract oversight was transferred to ACC's Contingency Contract Administration Services Expeditionary Contracting Command. DOD further noted that oversight will continue to be a challenge until security in Afghanistan improves and suggested steps to mitigate the risks.

Additionally, SIGAR found that ACC did not use all of the resources available to it to ensure that it only paid AISS for acceptable contract performance, particularly in the initial years of the contract when AISS was issued numerous corrective-action requests for failing to meet contract requirements. One option available to DOD to address poor contractor performance is to withhold payments if the contractor fails to comply with delivery or reporting provisions of the contract. As of June 2016, however, this step had been taken only once. DOD did repeatedly warn AISS of possible contract termination if AISS failed to correct its failures to meet contract requirements, but no contract-termination actions were ever undertaken.

Another instance where DOD could have, but did not, take action to reduce costs involved the manner in which AISS was paid for repairing ANA vehicles at the Equipment Maintenance Sites (EMS). AISS was compensated for repairs it did at EMS locations based on the number of vehicles in the ANA vehicle fleet—not on the number of vehicles repaired at the EMSs. Because DOD closed EMS locations in 2013 and 2014, and ANA resisted turning in vehicles for maintenance, the number of vehicles AISS received and repaired declined from a high of 3,072 vehicles in the second quarter of 2012 when all EMSs were open, to a low of 82 in the third quarter of 2015 when only two EMSs were open. Payments to AISS based on ANA vehicle density and not vehicles actually repaired resulted in escalating per-vehicle

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repair costs from a low of \$1,889 when all EMSs were open and vehicle turn-in rate was at its highest, to a high per-vehicle repair cost of \$51,395 when vehicle turn-in rate was at its lowest.

AISS consistently failed to meet ANA A-TEMP contract requirements, contributing to its failure to meet program objectives. While AISS established the contractually required number of EMSs and advisor-mentor teams (AMT), it did not always resource the EMSs and AMTs at the levels required by the contract. This resulted in not only the issuance of 113 corrective-action requests, but also the issuance of a cure notice in June 2011, and a letter of concern in October 2012. Following the discontinuation of quality-assurance representative on-site inspections in June 2013, it is impossible for SIGAR to determine if AISS met and maintained contract-performance requirements; however, numerous DOD analyses of the ANA and its capabilities show that the program objectives of the ANA A-TEMP contract have not been met.

Finally, SIGAR found that capacity-building issues endemic to the ANA have contributed to the failure to create an organic Afghan vehicle-maintenance capacity. While AISS used AMTs to train the ANA on vehicle maintenance, challenges such as a low literacy rate in the ANA, poor training attendance, low retention of trained ANA personnel, and a limited pool of ANA managers who possess the skills necessary to manage the supply chain and maintenance shops hindered AISS's efforts. These challenges contributed to the assessment made by DOD that considerable shortfalls continue to exist in the ANA's ability to conduct maintenance and manage the supply chain of its equipment, leading to a significant drop in ANA vehicle operational readiness after the closure of many of AISS's EMS and AMTs. Furthermore, DOD plans to award an additional five-year contract focusing on efforts to develop an organic Afghan vehicle-maintenance capacity within both the ANA and Afghan National Police. DOD's initial cost estimates for the follow-on contract exceed \$1 billion. In response to a draft of this report, DOD noted that it has undertaken numerous efforts to address the contract administration and oversight issues relating to the ANA A-TEMP contract identified by the draft.

To ensure that any follow-on ANA A-TEMP contract does not repeat the mistakes of the current contract and addresses those conditions that prevented achievement of the original contract goals, SIGAR recommends that the Secretary of Defense, before issuing a new contract:

1. Perform a review of the oversight and execution of the current ANA A-TEMP contract to determine lessons learned and best practices.
2. Ensure that the contract appropriately addresses those conditions that hindered AISS's implementation of contract requirements. Specifically, the contract should establish:
 - a. Contract objectives that adequately consider the challenges the Afghans face in managing a vehicle-maintenance program, and

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that define expectations for contractor participation in vehicle maintenance and capacity building.

- b. Metrics to monitor and assess contractor performance, including specific instructions on how and when the contractor is to measure and report progress.

Financial Audits

SIGAR launched its financial-audit program in 2012, after Congress and the oversight community expressed concerns about oversight gaps and the growing backlog of incurred-cost audits for contracts and grants awarded in support of overseas-contingency operations. SIGAR competitively selects independent accounting firms to conduct the financial audits and ensures that the audit work is performed in accordance with U.S. government auditing standards. Financial audits are coordinated with the federal inspector-general community to maximize financial-audit coverage and avoid duplication of effort.

This quarter, SIGAR completed six financial audits of U.S.-funded contracts, grants, and cooperative agreements to rebuild Afghanistan.

SIGAR announced it will initiate six new financial audits. One will examine efforts to produce Afghan-adapted *Sesame Street* programs in Dari and Pashto, another two will look at interim contractor-training and logistics support for the Afghan National Army’s Mobile Strike Force Vehicle Program, another will discuss a surge buy of Afghan Air Force spare parts in support of the ANDSF, another will examine contractor logistics support for the Afghan National Army Special Operations Forces’ PC-12 fixed-wing aircraft, and a final audit will analyze contractor logistics support for the Afghan Air Force’s C-130H aircraft. These new audits bring the total number of ongoing financial audits to 24 with nearly \$3.8 billion in auditable costs, as shown in Table 2.1.

These audits help provide the U.S. government and the American taxpayer reasonable assurance that the funds spent on these awards were used as intended. The audits question expenditures that cannot be substantiated or are potentially unallowable.

SIGAR issues each financial-audit report to the funding agency that made the award(s). The funding agency is responsible for making the final determination on **questioned amounts** identified in the report’s audit findings. Since the program’s inception, SIGAR’s financial audits have identified over \$292.3 million in **questioned costs** and \$292,182 in unremitted interest on advanced federal funds or other revenue amounts payable to the government. As of July 30, 2016, funding agencies had reached a management decision on 51 completed financial audits and over \$16.8 million in questioned amounts are subject to collection. It takes time for funding agencies to carefully consider audit findings and recommendations. As a result, agency-management decisions remain to be made for several of SIGAR’s

TABLE 2.1

SIGAR’S FINANCIAL AUDIT COVERAGE (\$ BILLIONS)	
77 Completed Audits	\$4.6
24 Ongoing Audits	3.8
Total	\$8.4

Note: Numbers have been rounded. Coverage includes auditable costs incurred by recipients of U.S.-funded Afghanistan reconstruction contracts, grants, and cooperative agreements.

Source: SIGAR Audits and Inspections Directorate.

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issued financial audits. SIGAR's financial audits have also identified and communicated 271 compliance findings and 301 internal-control findings to the auditees and funding agencies.

SIGAR's financial audits have four specific objectives:

- Express an opinion on whether the **Special Purpose Financial Statement** (SPFS) for the award presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. government, and balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.
- Evaluate and obtain a sufficient understanding of the audited entity's internal control related to the award; assess control risk; and identify and report on significant deficiencies including material internal-control weaknesses.
- Perform tests to determine whether the audited entity complied, in all material respects, with the award requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations.
- Determine and report on whether the audited entity has taken adequate corrective action to address findings and recommendations from previous engagements.

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

Financial Audits Published

This quarter, SIGAR completed six financial audits of U.S.-funded contracts and cooperative agreements to rebuild Afghanistan. These financial audits identified \$9,232,696 in questioned costs as a result of internal control deficiencies and noncompliance issues. These deficiencies and noncompliance issues included exceeding the approved budget without prior agency approval, failure to adhere to policies on payroll records, failure to adhere to federal regulations related to government-owned equipment and travel expenses, failure to properly monitor subcontractors, inadequate oversight of overtime and timekeeping policies, and inadequate documentation for invoices and nonpayroll costs.

Financial Audit 16-36-FA: Construction of the Afghan Defense University

Audit of Costs Incurred by Amec Foster Wheeler Environment & Infrastructure Inc.

On September 11, 2008, the Air Force Center for Engineering and the Environment—reorganized in 2012 as the Air Force Civil Engineer Center (AFCEC)—awarded a 33-month, \$70.2 million task order to AMEC Earth & Environment Inc., which was renamed Amec Foster Wheeler Environment

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

Questioned costs: costs determined to be potentially unallowable. The two types of questioned costs are ineligible costs (violation of a law, regulation, contract, grant, cooperative agreement, etc., or an unnecessary or unreasonable expenditure of funds) and unsupported costs (those not supported by adequate documentation or proper approvals at the time of an audit).

Special Purpose Financial Statement: a financial statement that includes all revenues received, costs incurred, and any remaining balance for a given award during a given period.

COMPLETED FINANCIAL AUDITS

- Financial Audit 16-36-FA: Construction of the Afghan Defense University
- Financial Audit 16-41-FA: Afghan National Police Construction Project
- Financial Audit 16-42-FA: Construction of Facilities for the 1st Special Forces, 1st Commando Brigade, and Transient Kandak
- Financial Audit 16-43-FA: Construction of the 4th Special Forces Kandak Facilities and Renovation of the 2nd Commando Brigade Headquarters
- Financial Audit 16-44-FA: USAID's Afghanistan Electoral Reform and Civic Advocacy Program
- Financial Audit 16-45-FA: Construction of the Afghan District Headquarters Uniform Police Stations in Helmand Province

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& Infrastructure Inc. (AmecFW) in 2015. The project was intended to plan and construct the Afghan Defense University in Qarghah, Kabul Province, Afghanistan. After 18 modifications, the total cost of the task order was increased to \$94,672,773, and the period of performance was extended to February 26, 2013. SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe), reviewed \$94,637,719 in expenditures charged to the task order from September 11, 2008, through February 26, 2013.

Crowe identified four significant deficiencies in AmecFW's internal controls and four instances of noncompliance with the terms and conditions of the task order. Specifically, Crowe found that AmecFW could not provide sufficient documentation to support \$25,067 in inventory, including receipts and property management records. Additionally, AmecFW improperly charged the government for \$410 of general-purpose office equipment. When applicable, general and administrative overhead is added to these questioned amounts, and the total questioned amount equals \$27,621 (see table below). Finally, AmecFW did not complete required performance evaluations for subcontractors and did not comply with federal requirements to pay four subcontractor invoices within seven days.

As a result of these internal control weaknesses and instances of non-compliance, Crowe identified \$27,621 in questioned costs, consisting of \$27,176 in **unsupported costs** and \$445 in **ineligible costs**.

In addition, Crowe determined that AmecFW invoiced and received payment for a portion of the fixed fee prior to performing work under the task order, resulting in a \$593 loss in interest to the U.S. government. Crowe identified two prior audit reports that were pertinent to AmecFW's activities under the construction project and could have a material impact on the Special Purpose Financial Statement. Crowe followed up on three findings in these reports that were related to the scope of this audit. After reviewing and assessing documentation, Crowe determined that AmecFW had taken adequate corrective actions to address these findings.

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

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

- Determine the allowability of and recover, as appropriate, \$27,621 in questioned costs identified in the report.
- Collect \$593 in interest from AmecFW.
- Advise AmecFW to address the report's four internal control findings.
- Advise AmecFW to address the report's four noncompliance findings.

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

Ineligible costs: costs prohibited by the award, applicable laws, or regulations.

Financial Audit 16-41-FA: Afghan National Police Construction Project

Audit of Costs Incurred by Gilbane Company Inc.

On January 10, 2011, the 772nd Enterprise Sourcing Squadron, in support of the Air Force Center for Engineering and the Environment—reorganized in 2012 as the Air Force Civil Engineer Center (AFCEC)—awarded a 19-month, \$20.4 million task order to Innovative Technical Solutions Inc. (ITSI). In 2010, Gilbane Company Inc. (Gilbane) acquired ITSI. The purpose of the task order was to design and construct headquarters facilities for two Afghan National Police units in Marjah and Lashkar Gah, Helmand Province, Afghanistan. After 13 modifications, the total cost of the task order increased to \$44,070,650, and the period of performance was extended to May 9, 2014. SIGAR’s financial audit, performed by Crowe Horwath LLP (Crowe), reviewed \$43,370,891 in expenditures charged to the task order from January 10, 2011, through May 9, 2014.

Crowe identified one material weakness and seven significant deficiencies in Gilbane’s internal controls, and seven instances of noncompliance with the terms and conditions of the task order. Crowe noted in its audit report that when internal control and compliance findings pertained to the same matter, the auditors consolidated them into a single finding. Specifically, Crowe found that Gilbane did not maintain adequate systems or records to provide expenses reported in the SPFS by contract line item number. Further, Gilbane could not provide adequate supporting documentation for purchased labor, equipment costs, and inventory. Crowe also noted that Gilbane charged AFCEC for costs incurred outside the task order’s period of performance.

As a result of these internal control deficiencies and instances of noncompliance, Crowe identified \$6,658,399 in total questioned costs, consisting of \$6,344,938 in ineligible costs and \$313,461 in unsupported costs.

Crowe reviewed a prior Defense Contract Audit Agency report applicable to the scope of this audit (see Defense Contract Audit Agency, Independent Audit Report on Gilbane Federal’s (formerly Innovative Technical Solutions Inc.) Direct Costs Under Contract No. FA8903-06-D-8513, Task Orders 0030 and 0049, Audit Report No. 04281-2014110180001 (Revised), March 25, 2015). Crowe identified three prior audit findings and determined that Gilbane had properly addressed two of the findings. The third finding related to unreasonable subcontract and material costs. Crowe found similar matters in this audit.

Crowe issued a disclaimer of opinion on the SPFS due to Crowe being unable to obtain sufficient and appropriate audit evidence to determine if costs incurred under the award, as reported on the SPFS, were materially accurate. Further, Crowe noted that Gilbane management was unable to support the amounts presented on the SPFS. Based on the results of the audit, SIGAR recommends that the responsible contracting officer at AFCEC:

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1. Determine the allowability of and recover, as appropriate, \$6,658,399 in questioned costs identified in the report.
2. Advise Gilbane to address the report's eight internal-control findings.
3. Advise Gilbane to address the report's seven noncompliance findings.

Financial Audit 16-42-FA: Construction of Facilities for the 1st Special Forces, 1st Commando Brigade, and Transient Kandak Audit of Costs Incurred by the Gilbane Company Inc.

On March 15, 2011, the 772nd Enterprise Sourcing Squadron, in support of the Air Force Center for Engineering and the Environment—reorganized in 2012 as the Air Force Civil Engineer Center—awarded a 20-month, \$25,716,166 task order to Innovative Technical Solutions Inc. (ITSI). In 2010, Gilbane Company Inc. (Gilbane) acquired ITSI. The purpose of the task order was to support the construction of facilities for the Afghan National Army's 1st Special Forces, 1st Commando Brigade, and Transient Kandak in Gardez, Afghanistan. A kandak consists of approximately 800 soldiers and is equivalent to a U.S. Army battalion. After 18 modifications, the total cost of the task order increased to \$31,588,250, and the period of performance was extended to July 8, 2014. SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe), reviewed \$31,529,663 in expenditures charged to the task order from March 15, 2011, through July 8, 2014.

Crowe identified one material weakness and six significant deficiencies in Gilbane's internal controls, and six instances of noncompliance with the terms and conditions of the task order. Specifically, Crowe found that Gilbane could not provide supporting documentation for subcontractor and professional-service costs. Crowe noted weaknesses in Gilbane's internal controls over its procurement processes and review of allowable costs. Further, Crowe identified deficiencies and noncompliance related to the improper allocation of payroll and business taxes, a lack of control over the budgeting and billing process, and the procurement of unallowable equipment. Moreover, Gilbane did not maintain adequate documentation for multiple contract-line-items numbers, which encompassed, but were not limited to, equipment, subcontractor costs, labor payments, and rebilled costs.

As a result of these internal control weaknesses and instances of noncompliance, Crowe identified \$1,321,242 in total questioned costs, consisting of \$428,126 in ineligible costs and \$893,116 in unsupported costs.

Crowe reviewed a prior Defense Contract Audit Agency report applicable to the scope of this audit (see Defense Contract Audit Agency, Independent Audit Report on Gilbane Federal's (formerly Innovative Technical Solutions Inc.) Direct Costs Under Contract No. FA8903-06-D- 8513, Task Orders 0030 and 0049, Audit Report No. 04281-2014110180001 (Revised), March 25, 2015). Crowe identified three prior findings that were material to this audit's SPFS and determined that Gilbane had properly addressed one of the findings. The two other findings concerned unreasonable costs, procurement

procedures, and subcontract costs. Crowe identified similar issues in this audit.

Crowe issued a disclaimer of opinion on Gilbane's SPFS because Crowe was unable to verify the data presented in the SPFS. Gilbane could not provide supporting documentation for the SPFS and provided several versions of the SPFS throughout the audit that had material differences from previous versions. Crowe also noted Gilbane's weaknesses in internal controls concerning its procurement processes and review of allowable costs.

Based on the results of the audit, SIGAR recommends that the responsible contracting officer at the Air Force Civil Engineer Center:

1. Determine the allowability of and recover, as appropriate, \$1,321,242 in questioned costs identified in the report.
2. Advise Gilbane to address the report's seven internal control findings.
3. Advise Gilbane to address the report's six noncompliance findings.

Financial Audit 16-43-FA: Construction of the 4th Special Forces Kandak Facilities and Renovation of the 2nd Commando Brigade Headquarters

Audit of Costs Incurred by PRI/DJI, A Construction JV

On April 18, 2011, the 772nd Enterprise Sourcing Squadron, in support of the Air Force Center for Engineering and the Environment—reorganized in 2012 as the Air Force Civil Engineer Center (AFCEC)—awarded an 18-month, \$15.6 million cost-plus-fixed-fee task order to PRI/DJI, A Construction JV (PRI/DJI). The joint venture comprises Project Resources Inc. and Del-Jen Inc. The purpose of the task order was to design and construct facilities for the Afghan National Army's 4th Special Forces Kandak, and renovate existing facilities for the 2nd Commando Brigade Headquarters, both located at Shindand Airfield in Herat Province, Afghanistan. Through seven modifications to the task order, the period of performance was extended to September 14, 2013, and the total award amount increased to \$28.1 million. SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe), reviewed \$28,179,391 in expenditures charged to the task order from April 18, 2011, through September 14, 2013.

Crowe identified three material weaknesses and two significant deficiencies in PRI/DJI's internal controls, and five instances of noncompliance with the terms of the task order. Specifically, Crowe found that neither PRI/DJI nor its subcontractor, Tetra Tech EC Inc. (TtEC), could provide sufficient documentation to support the receipt, disposition, or transfer of \$6,177 in equipment and property used during the project. Additionally, Crowe noted that PRI/DJI and TtEC could not provide supporting documentation for \$53,800 in subcontractor costs. Also, TtEC did not provide adequate support for competitive procurement processes for four vendors/subcontractors, resulting in \$14,116 of potential overpayments for services. Finally, Crowe

found that PRI/DJI incorrectly calculated its fixed-fee amount. However, this mathematical error did not prompt any questioned costs.

As a result of these internal control weaknesses and instances of noncompliance, Crowe identified \$74,093 in unsupported costs. Crowe identified no ineligible costs.

PRI processed payments to its subcontractors beyond the seven-day FAR requirement, thus PRI/DJI effectively received an advance from the U.S. government, resulting in \$1,427 in interest due to the U.S. government. Crowe did not identify any prior audit reports or other assessments that pertained to PRI/DJI's activities under the construction project.

Crowe issued a qualified opinion on PRI/DJI's Special Purpose Financial Statement because PRI/DJI and TtEC did not maintain adequate records for property acquired during the task order. As a result, Crowe was unable to obtain sufficient appropriate audit evidence to conclude that the value of property presented in the statement was accurate and complete.

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

1. Determine the allowability of and recover, as appropriate, \$74,093 in questioned costs identified in the report.
2. Collect \$1,427 in interest from PRI/DJI.
3. Advise PRI/DJI to address the report's five internal-control findings.
4. Advise PRI/DJI to address the report's five noncompliance findings.

Financial Audit 16-44-FA: USAID's Afghanistan Electoral Reform and Civic Advocacy Program

Audit of Costs Incurred by Democracy International Inc.

On July 13, 2009, USAID awarded a \$5.0 million, 140-day cooperative agreement to Democracy International Inc. (Democracy International) to fund the International Election Observation Mission for the 2009 Presidential and Provincial Council Elections in Afghanistan. The program's initial goals were to conduct a preliminary assessment, election observations, and a post-election reporting. On January 24, 2012, the program was renamed the Afghanistan Electoral Reform and Civic Advocacy (AERCA) program, and the scope of the program was expanded to include strengthening Afghan organizations to advocate for electoral reform and supporting research on electoral reform. After 31 modifications, the total cost of the agreement was increased to \$51.3 million, and the period of performance was extended to June 30, 2017. SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe), reviewed \$7,205,022 charged to the cooperative agreement from July 1, 2014, through December 31, 2015.

Crowe did not identify any material weaknesses or significant deficiencies in Democracy International's internal controls, or instances of noncompliance with the terms and conditions of the AERCA program

cooperative agreement. As a result, Crowe did not identify any questioned costs or ineligible costs.

Crowe obtained and reviewed prior audit reports related to Democracy International's implementation of the AERCA program and that could have a material impact on the Special Purpose Financial Statement. Crowe identified five prior audit findings and one additional matter from three prior audits, including SIGAR 15-84-FA, *USAID's Afghanistan Electoral Reform and Civic Advocacy Program: Audit of Costs Incurred by Democracy International Inc.*, September 2, 2015. After reviewing and assessing information on the applicable findings, Crowe concluded that Democracy International took adequate corrective actions that addressed these findings.

Crowe issued an unmodified opinion on Democracy International's Special Purpose Financial Statement, noting that it presents fairly, in all material respects, revenues received, costs incurred, and the balance for the indicated period audited. SIGAR is not making any recommendations to USAID regarding this cooperative agreement.

Financial Audit 16-45-FA: Construction of the Afghan District Headquarters Uniform Police Stations in Helmand Province **Audit of Costs Incurred by PRI/DJI, A Construction JV**

On September 1, 2011, the 772nd Enterprise Sourcing Squadron, in support of the Air Force Center for Engineering and the Environment—reorganized in 2012 as the Air Force Civil Engineer Center—awarded a 21-month, \$8.8 million cost-plus-fixed-fee task order to PRI/DJI, A Construction JV (PRI/DJI). The joint venture comprises Project Resources Inc. and Del-Jen Inc. The purpose of the task order was to design and construct two District Headquarters Uniform Police stations for the Afghan National Police in Marjah and Balakina in Helmand Province, Afghanistan. Construction of the Balakina police station was terminated for convenience on February 23, 2012, so only the police station in Marjah was completed. Through seven modifications to the task order, the period of performance was extended to December 20, 2013, and the total award amount increased to \$14.3 million. SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe), reviewed \$14,318,329 in expenditures charged to the task order from September 1, 2011, through December 20, 2013.

Crowe identified three material weaknesses, three significant deficiencies, and two deficiencies in PRI/DJI's internal controls, and seven instances of noncompliance with the terms of the task order. Specifically, Crowe found that neither PRI/DJI nor its subcontractor, Tetra Tech EC Inc. (TtEC) could provide sufficient documentation to support the receipt, disposition, or transfer of property acquired under the task order. Crowe noted that PRI/DJI did not properly account for \$2,184 of task order property that had been damaged or destroyed, and did not have adequate supporting

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documentation related to the disposition of \$65,337 in equipment. PRI/DJI and TtEC also could not provide supporting documentation for \$1,076,762 in subcontractor costs. Finally, TtEC did not provide adequate support for competitive procurement processes for six subcontractors, resulting in \$7,058 of potential overpayments for services.

As a result of these internal control weaknesses and instances of non-compliance, Crowe identified \$1,151,341 in unsupported costs. Crowe did not identify any ineligible costs. Additionally, because PRI/DJI drew down more funds than required to meet immediate cash needs, this resulted in a \$282 loss in interest to the U.S. government. Crowe did not identify any prior audit reports or other assessments that pertained to PRI/DJI's activities under the construction project.

Crowe issued a qualified opinion on PRI/DJI's Special Purpose Financial Statement because PRI/DJI and TtEC did not maintain adequate records for property acquired during the task order. As a result, Crowe was unable to obtain sufficient, appropriate evidence to conclude the value of the property presented in the statement is accurate and complete.

Based on the results of the audit, SIGAR recommends that the responsible contracting officer at Air Force Civil Engineer Center:

1. Determine the allowability of and recover, as appropriate, \$1,151,341 in questioned costs identified in the report.
2. Collect \$282 in interest from PRI/DJI.
3. Advise PRI/DJI to address the report's eight internal-control findings.
4. Advise PRI/DJI to address the report's seven noncompliance findings.

INSPECTIONS

Inspection Report Published

This quarter, SIGAR published one inspection report that examined whether the construction of the Bagrami Industrial Park in Kabul Province was completed in accordance with contract requirements and construction standards.

Inspection Report 16-48-IP: Bagrami Industrial Park

Lack of Adherence to Contract Requirements Left This \$5.2 Million Park Without Adequate Water Supply and Sewer Systems

On May 24, 2004, the U.S. Agency for International Development (USAID) awarded a \$10 million contract to Technologists Inc. (TI), a U.S. company, for the development of three industrial parks in Afghanistan: Bagrami Industrial Park in Kabul Province, Gorimar Industrial Park in Balkh Province, and Shorandam Industrial Park in Kandahar Province. These industrial parks were being built to promote economic growth and to create employment opportunities for the local population. After 11 modifications, the contract's value increased to \$21.1 million.

COMPLETED INSPECTION REPORT

- Inspection Report 16-48-IP: Bagrami Industrial Park

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TI's contract called for it to oversee the solicitation and bids for the design and construction of the three industrial parks. However, the third contract modification added a requirement for TI to build the infrastructure for the parks, rather than just oversee the solicitations and bids. The infrastructure at the parks included (1) a power plant and electrical distribution system, (2) a water supply system, (3) a sewer system, (4) paved roads, (5) a communications system, and (6) flood channels.

SIGAR reported on its inspections of Gorimar Industrial Park and Shorandam Industrial Park in January and April 2015, respectively. This inspection focuses on Bagrami Industrial Park, which sits on 22 acres of government-owned land and is located about 7.5 kilometers east of Kabul on the road to Bagrami Village. Bagrami Industrial Park was designed as a secure location with 34 sites for Afghan entrepreneurs to establish businesses. The park cost \$5.2 million and opened in October 2005. As a result of some missing documents, including the record of final payment, USAID could not tell SIGAR when the park was completed or when it was transferred to the Afghanistan Investment Support Agency (AISA), the Afghan government agency responsible for managing all industrial parks in Afghanistan.

The objectives this inspection of Bagrami Industrial Park were to determine whether (1) construction was completed in accordance with contract requirements and applicable construction standards, and (2) the industrial park was being used.

More than 10 years have passed since Bagrami Industrial Park opened as a secure site for Afghans to establish businesses. Although the contractor, TI, properly constructed some of the park's infrastructure components, such as the electrical distribution, water distribution, and telecommunications systems, SIGAR found that it did not construct other components, specifically the water supply and sewer systems, as the contract required. Further, although missing project documentation prevented SIGAR from assessing the extent to which USAID provided oversight of the project, it appears that the agency did not provide adequate oversight and paid TI for these systems even though they were not completed or properly constructed.

Despite the missing and deficient systems, the park flourished in 2011 and 2012, employing 2,200 people or almost three-fourths of its 3,000 employee goal. However, at the time of SIGAR's July 2015 site inspection, the number of employees had decreased to about 700 among the 27 out of 32 possible businesses operating in the park. During a follow-up site inspection in June 2016, nearly a year later, 27 businesses were still operating, but the number of Afghans employed had decreased to about 500 workers.



Afghan women trainees at the Bagrami Industrial Park's garment factory on July 15, 2015. (SIGAR photo)

NEW INSPECTIONS

- Inspection of Renovations and Construction at the Kabul Military Training Center
- Inspection of the Northeast Power System Project

New Inspections Announced This Quarter

This quarter SIGAR announced two new inspections. One will examine the renovations and construction work done at the Kabul Military Training Center. The other is an inspection of the Northeast Power System project.

Inspection of Renovations and Construction at the Kabul Military Training Center

On July 18, 2013, the U.S. Army Corps of Engineers (USACE) awarded a \$17.6 million firm-fixed-price contract—number W5J9JE-13-C-0034—to Mega Tech Construction Services for building renovations as well as the design and construction of new permanent facilities for the Afghan National Army located throughout the Kabul Military Training Center (KMTC), located in Dih Sabz district, Kabul Province. The project includes renovations to existing facilities and the design, material, labor, and equipment needed to construct new buildings, parking areas, paving, utility tie-ins, and other infrastructure for approximately 800 personnel. Since July 2013, the contract has been modified several times.

In 2011, SIGAR reported on the Combined Security Transition Command-Afghanistan's \$140 million project to support the construction of facilities at KMTC. SIGAR found that the costs for the project increased by \$12.5 million and that construction was nearly two years late. Further, while it was not possible to determine all reasons for cost increases or schedule delays due to incomplete or contradictory documentation regarding contract modifications, SIGAR found that poor contractor performance and inaccurate site information were contributing factors. SIGAR recommended that project planning be more detailed, that contract and task order files contain complete and consistent information regarding modifications, and that repair costs related to poor contract performance be reimbursed by the contractor.

SIGAR plans to inspect select KMTC facilities renovated or constructed under the July 2013 contract. Specifically, SIGAR plans to assess whether (1) the renovations and construction were completed in accordance with contract requirements and applicable construction standards, and (2) the facilities are being used and maintained.

Inspection of the Northeast Power System Project

On September 27, 2013, the U.S. Army Corps of Engineers (USACE) awarded a \$112.8 million firm-fixed-price contract—number W912ER-13-C-0034—to Zwakman Nabizai Construction Company to construct facilities for the Northeast Power System (NEPS). NEPS is the largest power-transmission network in Afghanistan and extends from Mazar-e Sharif and Kunduz in the northern provinces of Balkh and Kunduz, respectively, south to Kabul Province. Once completed, NEPS will include 55 kilometers of electrical transmission line from Pul-e Alam in Logar Province to Gardez in Paktiya

Province, and a power substation at Gardez for future connection. Since September 2013, the contract has been modified several times; the cost is now approximately \$117.1 million.

In July 2012, SIGAR reported on challenges in implementing programs under the Afghanistan Infrastructure Fund (AIF), including NEPS, to build infrastructure aimed at providing power to critical areas. SIGAR conducted this audit early in the life of the AIF program to identify opportunities for improvement prior to the impending drawdown of U.S. troops and transfer of security responsibility to the Afghan government at the end of 2014.

SIGAR found that acquisition and funding delays postponed the project-execution schedules for power-sector projects between six and 15 months. The inspection also found that the DOD and State did not ensure the sustainability of these projects. For example, although these agencies produced project-sustainment plans, these plans did not define sustainment costs, and this cost information was not conveyed to the Afghan government. SIGAR recommended, among other things, that roles and responsibilities for lead and secondary agencies be better defined, that systems be developed to monitor project implementation, and that lead agencies develop comprehensive sustainment plans for projects.

SIGAR plans to inspect NEPS facilities and infrastructure to assess whether (1) construction was completed in accordance with contract requirements and applicable construction standards, and (2) the facilities are being used and maintained.

Status of SIGAR Recommendations

The Inspector General Act of 1978, as amended, requires SIGAR to report on the status of its recommendations. This quarter, SIGAR closed nine recommendations contained in five audit and inspection reports. One of the reports contained recommendations that resulted in the recovery of \$133,285 in ineligible or unsupported contract costs paid by the U.S. government.

From 2009 through June 2016, SIGAR published 220 audits, alert letters, and inspection reports and made 661 recommendations to recover funds, improve agency oversight, and increase program effectiveness. SIGAR has closed over 82% of these recommendations. Closing a recommendation generally indicates SIGAR's assessment that the audited agency has either implemented the recommendation or otherwise appropriately addressed the issue. In some cases, a closed recommendation will be the subject of follow-up audit work.

The Inspector General Act of 1978, as amended, also requires SIGAR to report on any significant recommendations from prior reports on which corrective action has not been completed. In this quarter, SIGAR continued to monitor agency actions on recommendations in 40 audit and five inspection reports. In this quarter, there were no recommendations over 12 months old

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where the agency had yet to produce a corrective-action plan that SIGAR believes would resolve the identified problem or otherwise respond to the recommendations. However, there are 37 audit reports over 12 months old where SIGAR is waiting for the respective agencies to complete their agreed-upon corrective actions.

COMPLETED SPECIAL PROJECTS

- Inquiry Letter 16-33-SP: USAID Support to Develop and Implement the Afghan Railway
- Inquiry Letter 16-34-SP: Department of State Support to Develop and Implement the Afghan Railway
- Inquiry Letter 16-35-SP: DOD Support to Develop and Implement the Afghan Railway
- Inquiry Letter 16-37-SP: Department of Labor Reconstruction Spending
- Alert Letter 16-38-SP: Structural Damage at Educational Facility in Herat Province
- Inquiry Letter 16-39-SP: Department of Transportation Support to Develop and Implement the Afghan Railway
- Review 16-40-SP: USAID-Supported Health Facilities in Badakhshan Province

SPECIAL PROJECTS

SIGAR's Office of Special Projects was created to examine emerging issues and deliver prompt, actionable reports to federal agencies and the Congress. The team conducts a variety of assessments, producing reports on all facets of Afghanistan reconstruction. The directorate is made up of auditors, analysts, investigators, lawyers, subject-matter experts, and other specialists who can quickly and jointly apply their expertise to emerging problems and questions.

This quarter SIGAR's Office of Special Projects produced seven products addressing a range of issues, including: one alert letter on structural damage at a USAID-funded educational facility in the Kushk district of Herat Province; four inquiry letters to DOD, USAID, State, and the Department of Transportation (DOT) about their efforts in developing and implementing the rail infrastructure in Afghanistan; a fact sheet on U.S. Department of Labor (Labor) reconstruction spending in Afghanistan; and conducted a review of USAID-supported health facilities in Badakhshan Province.

Inquiry Letter 16-33-SP: USAID Support to Develop and Implement the Afghan Railway

On May 5, 2016, SIGAR sent an inquiry letter to the USAID Mission Director for Afghanistan requesting information regarding U.S. support for the development, construction, operation, or promotion of rail infrastructure in Afghanistan.

The Afghan government's July 2013 Afghanistan National Railway Plan (ANRP) highlights the important role that an expanded national railway could play in reducing Afghanistan's dependence on foreign assistance. The ANRP is an Afghan government document that was developed in coordination with representatives from multiple U.S. government agencies. The plan notes that much attention is focused on expanding the national railway as a means to haul significant tonnages of commodities and resources from mines to markets. The ANRP also suggests that, without an expanded national railway, some of Afghanistan's largest mineral deposits would not be economically viable for private-sector investment. Additionally, a SIGAR audit also noted the importance of rail infrastructure to the development of the Afghan mining sector. As stated in SIGAR's audit, Afghanistan's lack of rail networks is a key factor contributing to slow extractive industry development. The report also found

that Afghanistan's rail network is almost nonexistent and the few railroad lines that do exist use gauges (track spacings) that are incompatible with each other.

In a letter dated May 17, 2016, the USAID Mission Director for Afghanistan responded that the U.S. Government's participation in this sector was led by the Department of Transportation (DOT). Given USAID's statement concerning DOT's leadership on this important Afghan industry, SIGAR requested information regarding DOT's efforts to support the development of the Afghan railway sector.

Inquiry Letter 16-34-SP: Department of State Support to Develop and Implement the Afghan Railway

On May 5, 2016, SIGAR sent an inquiry letter to U.S. Ambassador to Afghanistan Michael McKinley requesting information regarding U.S. support for the development, construction, operation, or promotion of rail infrastructure in Afghanistan.

In a letter dated June 14, 2016, the Deputy Special Representative for Afghanistan and Pakistan responded that the State Department searched their files and found no record of State assistance in support of the Afghan National Railway or promotion of rail infrastructure in Afghanistan since 2010.

Inquiry Letter 16-35-SP: DOD Support to Develop and Implement the Afghan Railway

On May 5, 2016, SIGAR sent an inquiry letter to Secretary of Defense Ashton Carter requesting information regarding U.S. support for the development, construction, operation, or promotion of rail infrastructure in Afghanistan.

In a letter dated June 21, 2016, the Acting Deputy Assistant Secretary of Defense for Afghanistan, Pakistan, and Central Asia stated that SIGAR was correct that the ANRP was developed with the assistance of the U.S. Central Command (USCENTCOM), which helped develop the ANRP at the request of the Department of State in support of its New Silk Road Initiative. After an initial review of their records, DOD found no other additional railway-sector projects in Afghanistan. The Deputy Assistant Secretary added that developing Afghanistan's railway sector is not within the scope of DOD's current missions and that the Department therefore has no plans to provide additional railway-sector assistance to the Afghan government at this time.

Fact Sheet 16-37-SP: Department of Labor Reconstruction Spending

On May 9, 2016, SIGAR sent a fact sheet to several congressional committees regarding the Department of Labor's (Labor) reconstruction spending

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in Afghanistan from 2002–2015. As of December 31, 2015, the United States had appropriated approximately \$113 billion since FY 2002 for relief and reconstruction in Afghanistan. SIGAR has reported that \$96 billion of that amount has been appropriated for reconstruction funds managed by DOD, the State, and the USAID, and \$17 billion was distributed to multiple other U.S.-government entities for reconstruction projects in Afghanistan. The fact sheet summarizes the funds appropriated to Labor that were used for projects or programs supporting Afghanistan reconstruction. After analyzing the information provided by Labor, SIGAR determined that it obligated \$11.05 million for reconstruction assistance between September 2002 and November 2015.

Labor obligated these funds to support a variety of efforts, including projects to provide vocational training, protect workers' rights through capacity building with the Afghan government, and remove child soldiers from the battlefield and reintegrate them into civil society. SIGAR had not previously reported on Labor's use of its appropriated funds for Afghanistan reconstruction.

Labor worked with implementing partners and awarded six cooperative agreements worth a total of \$10.45 million and one task order under a blanket purchase agreement worth \$600,000 to carry out its reconstruction efforts in Afghanistan. The seven awards were given to seven different implementing partners conducting work in Afghanistan. The leading recipient was the International Rescue Committee (IRC), which received \$3.4 million to provide skills and vocational training to vulnerable Afghans to improve their social and economic conditions. UNICEF received the second-largest award, \$3 million to remove child soldiers from the battlefield and provide them with reintegration support services such as education in literacy and life skills. Labor awarded the for-profit corporation ICF International with a \$600,000 task order under a blanket purchase agreement to collect and analyze data regarding child labor and raise awareness of the issue. The remaining four organizations received \$4.05 million in awards that ranged from \$300,000 to \$2 million for activities that included training Afghan women to produce school uniforms for Afghan girls; assisting the Ministry of Labor, Social Affairs, Martyrs, and Disabled to improve protection of workers' rights; and reforming labor laws and regulations.

Of the total awards between September 2002 and November 2015, six of the seven projects have been completed.

Alert Letter 16-38-SP: Structural Damage at Educational Facility in Herat Province

On May 19, 2016, SIGAR alerted USAID Administrator Gayle E. Smith that an educational facility USAID refurbished in the Kushk district of Herat Province appears to have serious electrical issues and structural damage that could endanger students, teachers, and other occupants. While the

site inspection on November 26, 2015, focused on assessing the overall operating conditions at the facility, inspectors also completed a basic safety review of the structural integrity of classroom buildings at facility S145A that included the collection of photographic documentation. Following the site visit, SIGAR engineers examined photographs of facility S145A and found damage that is both substantial and potentially life-threatening. They identified several structural deficiencies including deteriorating and failing roofs, cracked and crumbling walls, improper installation of masonry, and serious electrical hazards.

Structural failures observed in photos taken at the facility indicate that the roofing and walls at educational facility S145A cannot withstand heavy loads, such as snowfall, heavy rains, and other natural events. It appears that the continued lack of proper maintenance paired with improper construction methods likely caused these deficiencies. Continued roof and wall deterioration could endanger students and staff.

In 2006, the Afghan Ministry of Education (MOE) provided standard designs for schools including details for foundation stability, durability, and structural construction requirements. Although USAID renovated S145A before the ministry standards were put in place, SIGAR found that plans used in its construction do not meet current MOE standards, and is concerned with the quality of the renovation funded by USAID and the extent to which the agency ensured that International Organization for Migration adhered to acceptable construction standards.

SIGAR urged USAID to contact partners at MOE regarding the damage at facility S145A so that corrective actions and repairs may occur. USAID told SIGAR that it will make the MOE aware of the issues raised in this alert letter.

Inquiry Letter 16-39-SP: Department of Transportation Support to Develop and Implement the Afghan Railway

On June 27, 2016, SIGAR sent an inquiry letter to Secretary of Transportation Anthony Foxx to address USAID's response to SIGAR's May 5, 2016, inquiry letter regarding U.S. support for the development, construction, operation, or promotion of rail infrastructure in Afghanistan. In response to that request, USAID stated that the U.S. participation in this sector was led by the Department of Transportation (DOT). Given USAID's statement concerning DOT's leadership on this important Afghan industry, SIGAR requested information regarding DOT's efforts to support the development of the Afghan railway sector.

In a letter dated July 12, 2016, the Deputy Assistant Secretary for Aviation and International Affairs responded that DOT maintained a small technical team of 10 advisors in Afghanistan from 2011 to 2013 focusing on highway, rail, aviation, and urban transportation. These advisors helped draft the Afghanistan National Railway Plan (ANRP) and provided other

expert advice related to the development of transportation safety standards, good governance of Afghanistan's railway system, and operations, planning, and organizational structure for improved function. The Deputy Assistant Secretary added that DOT did not have funding for contracts, projects, or programs beyond these advisory services, and they did not directly fund programs that specifically addressed the challenges to railway development as outlined in the ANRP. DOT's engagement in Afghanistan ended in 2013, and they do not have plans to implement programs or projects to address the challenges and issues raised in the ANRP.

Review 16-40-SP: USAID-Supported Health Facilities in Badakhshan Province

On June 30, 2016, SIGAR sent a letter to USAID Administrator Gayle E. Smith to detail SIGAR's review of site inspections conducted by SIGAR to verify the locations and operating conditions at 29 public-health facilities in Badakhshan Province. This was the third in a series of health-facility reviews SIGAR is conducting in provinces throughout Afghanistan. These facilities in Badakhshan are supported by USAID through the World Bank-administered Afghanistan Reconstruction Trust Fund (ARTF). Previously, the Ministry of Public Health (MOPH) received funds through direct bilateral assistance from USAID to fund operations at these facilities.

All of the 29 facilities SIGAR inspected were supported by USAID's \$259.6 million Partnership Contracts for Health (PCH) program from July 2008 through June 2015. The PCH program provided funding to support the operations of approximately 600 health facilities in 13 Afghan provinces, including 79 in Badakhshan Province. A key component of the PCH program in Badakhshan was the use of detailed geospatial location information—in the form of global positioning system (GPS) coordinates—to ensure health facilities were in the appropriate locations and provided the local population with needed health services. Of the 79 facilities in Badakhshan, SIGAR conducted site inspections at 29, failed to locate one, and was prohibited from inspecting the 49 remaining facilities due to security conditions in Badakhshan.

SIGAR found substantial inaccuracies in the geospatial coordinates USAID previously provided for many of these 29 health facilities, 12 of which were more than 10 kilometers from the actual facility location. While all 29 facilities appeared to be open and operational, it was observed that not all facilities had access to electricity and drinking water, and most had basic structural concerns.

SIGAR encouraged USAID to work with the MOPH and the World Bank to confirm and update the coordinates for the 29 clinics inspected, particularly those facilities that were more than 10 kilometers away from the coordinates provided by USAID. SIGAR also encouraged USAID to urge the World Bank and the MOPH monitoring teams and implementing partners

to use cameras that are capable of producing photos with embedded geospatial data and to conduct more robust site inspections that include descriptions of facility condition and operations. USAID's commitment to requesting and maintaining this information will help ensure that its funding to improve the health of specific populations is reaching the intended communities. USAID says it has informed the MOPH and World Bank about the issues raised in this letter.

LESSONS LEARNED

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

This quarter the LLP announced a project that will review the U.S. stabilization strategy in Afghanistan and its associated military and civilian-stabilization programs.

Stabilization

Since 2001, the U.S. government has sought to deny transnational terrorist networks the ability to use Afghanistan as a safe haven for planning and launching global attacks. The United States has directed tremendous resources toward stabilizing Afghanistan through programs that were meant to improve security and governance from the bottom up—at the district and even village level—thus helping to expel the insurgents, protect the population, and build credible and legitimate institutions at the subnational level.

Stabilization was at the center of U.S.-security and development policy in Afghanistan and is still integral to how the U.S. government fights asymmetric wars and supports governments mired in conflict around the world; yet there has been no rigorous, interagency, and holistic examination of stabilization's multi-billion dollar execution, much less its impact on future programming.

This project will examine U.S. reconstruction efforts from 2001 to 2014 that were meant to stabilize Afghanistan. More specifically, it will (1) define stabilization as a strategy and policy, specifically addressing how it was conceived, by whom, and how it fit into other U.S. and coalition policies and strategies, including counterinsurgency; (2) identify the main U.S.-sponsored programs that fell under a stabilization heading, the resources they received, and where stabilization was prioritized and by which agencies; (3) delineate the theories of change implied by stabilization policies and programs; (4) assess the degree of effectiveness of stabilization

NEW LESSONS LEARNED PROJECT ANNOUNCED

· SIGAR-LL-07 Stabilization

SIGAR OVERSIGHT ACTIVITIES

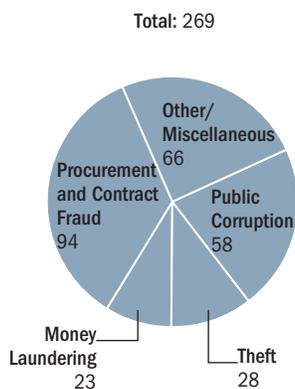
programs; and (5) distill key lessons and recommendations for U.S. policy and practice in future stabilization and reconstruction missions.

INVESTIGATIONS

During this quarter's reporting period, there was one criminal information, one indictment, one conviction, and one sentencing. Fines and restitutions totaled \$10,000. SIGAR initiated 13 new investigations and closed 33, bringing the total number of ongoing investigations to 269, see Figure 2.1.

FIGURE 2.1

SIGAR INVESTIGATIONS: NUMBER OF OPEN INVESTIGATIONS, AS OF JUNE 30, 2016



Source: SIGAR Investigations Directorate, 7/13/2016.

Criminal Charges Filed Against U.S. Military Member

On May 16, 2016, a criminal information was filed in the U.S. District Court in Fairbanks, Alaska, against Sheldon J. Morgan, charging one count of conspiracy to receive bribes and defraud the United States.

From May 2010 until May 2011, Morgan, then a specialist in the U.S. Army, was deployed at Forward Operating Base (FOB) Fenty near Jalalabad, Afghanistan, which served as a hub for distribution of fuel to nearby military bases. Fuel would be brought to FOB Fenty in large fuel trucks, downloaded for storage, and then transported to other bases as needed in smaller trucks. Morgan's duties included assisting in overseeing the distribution of fuel to the bases.

According to the criminal information, a translator employed by an Afghan trucking company at FOB Fenty asked Morgan to allow him to steal fuel in exchange for money. On two occasions in December 2010, Morgan arranged for the Afghan to steal a truckload of fuel, which was accomplished by inserting an extra 5,000 gallon tanker truck onto an already scheduled mission without proper paperwork. In return, the Afghan promised Morgan \$5,000 per truck. Morgan had his wife, residing in the Philippines, open an account in her name so that the Afghan could wire the money to it. Morgan and his wife used the money, totaling \$10,000. The loss to the U.S. government occasioned by the conspiracy was approximately \$37,300.

Prosecutions of Former U.S. Government Officials

An investigation was initiated on August 15, 2013, upon receipt of a SIGAR hotline complaint from an individual requesting confidentiality. The investigation concerned matters associated with certain contracts handled by the Non-Standard Rotary Wing Aircraft (NSRWA) Program Office at Redstone Arsenal, a component of the U.S. Army's Program Executive Office (PEO) Aviation, which was responsible for contracts involving certain "non-standard" helicopters, including the Russian-made Mi-17.

On April 25, 2016, (former) Colonel Norbert Vergez, U.S. Army, was sentenced to eight months' home confinement, five years' probation, and ordered to pay a fine of \$10,000 and a special assessment of \$300. Vergez's sentence resulted from his having pled guilty to two counts of false

SIGAR OVERSIGHT ACTIVITIES

statements and one count of conflict of interest. From 2010 to 2012, Vergez served as the project manager for NSRWA.

In three instances Vergez made false statements and used false writings in communicating with the Department of Defense Office of Inspector General (DODIG) in connection with a DODIG audit of a Mi-17 overhaul contract administered in part by NSRWA. One aspect of the audit had to do with the role NSRWA played in certain contract disputes that involved various contractors and subcontractors in the contracting chain, including a third-tier subcontractor known as Avia Baltika Aviation Ltd. (AVB). Vergez admitted in his plea agreement that on two occasions he made or caused his office to make false representations to DODIG that his office had no direct contact with AVB concerning its subcontract on the Northrop Grumman contract, when, as Vergez then knew, he and his direct subordinates at NSRWA had significant direct contacts with AVB related to its subcontract.

Vergez also admitted that on February 1, 2012, he directed a subordinate official to create and sign a document bearing the typed date Dec. 5, 2011, representing that a \$3.67 million claim by AVB under the contract was reasonable. As a result of this backdating, it falsely appeared that the subordinate official had approved the \$3.67 million payment before directions were given to Northrop to make that payment. That document was then provided to DODIG in response to its requests for supporting documentation surrounding this attempt to have Northrop pay AVB.

Vergez admitted that he engaged in a criminal conflict of interest by taking official acts as a government official to assist a helicopter manufacturing company in negotiating a “foreign military sale” and adjusting a contract so that the company received payment faster than originally agreed upon at a time when Vergez was negotiating future employment with that company.

Finally, Vergez admitted that he made false statements in his “Confidential Financial Disclosure Report,” a government ethics form, for the year 2012, by not disclosing that his wife had received a Rolex wristwatch from the wife of a representative of AVB; that he had accepted an offer of employment with a private company; and that he had received a \$30,000 check from that company.

In connection with the same investigation, on June 8, 2016, following a two-and-a-half-day trial in the United States District Court for the Northern District of Alabama, a federal jury convicted Willis Epps on one count of signing a false tax return. The evidence at trial revealed that Epps, a former contracting official for the U.S. Army Contract Command who handled contract matters for NSRWA at Redstone Arsenal, knowingly signed and filed a false income tax return for calendar year 2013, in which he failed to report \$56,250 in income that he received in 2013.

The evidence at trial further revealed that after retiring from the Army as the Director of Contracts in January 2013, Epps and two other individuals were awarded a consulting contract under the business name of BioTech

from a helicopter manufacturing firm, MD Helicopters, in the amount of \$250,000. The evidence revealed that Epps worked with Vergez when the two men were in the government, and at the time the consulting contract was awarded, Vergez was serving as executive vice president for Patriarch Partners, the parent company for MD Helicopters, and played a role in causing MD Helicopters to issue the consulting contract to BioTech. The evidence at trial revealed that after MD Helicopters paid BioTech, BioTech in turn paid Epps in the form of a cashier's check, and Epps thereafter failed to report that income on his 2013 return.

The investigation was jointly conducted by SIGAR, the FBI, DCIS, and the U.S. Army Criminal Investigation Command (USCID), and the Internal Revenue Service.

SIGAR Efforts Help Resolve a Subcontractor Nonpayment Dispute

In April 2016, the SIGAR hotline received a complaint from an Afghan subcontractor alleging nonpayment of \$200,000 for work completed under a subcontract for repairs of the sprinkler and fire-alarm systems at the New Kabul Compound. The subcontract was executed in December of 2013, with work commencing the same month. In May 2014, all work was completed and accepted.

In July 2014, the subcontractor invoiced the prime contractor the full amount of \$200,000 but after a year's time had yet to receive payment. Eventually, both parties came to an agreement whereby payment would be made in monthly installments of \$50,000 from October 2015 until January 2016. Yet, after six months, not a single installment had been paid and subsequently the subcontractor submitted a complaint to the SIGAR hotline.

The hotline analyst requested all supporting documentation from the subcontractor and after assessing the information, determined the subcontractor was indeed due the total amount of \$200,000. Subsequently, SIGAR contacted the prime contractor and on May 28, 2016, the subcontractor received a payment of \$25,000, with the understanding there will be additional installment payments made until the \$175,000 balance is fully satisfied.

Since early 2014, SIGAR has been assisting Afghan subcontractors in recouping money owed to them by prime contractors. To date, SIGAR has been instrumental in the recovery of more than \$610,000.

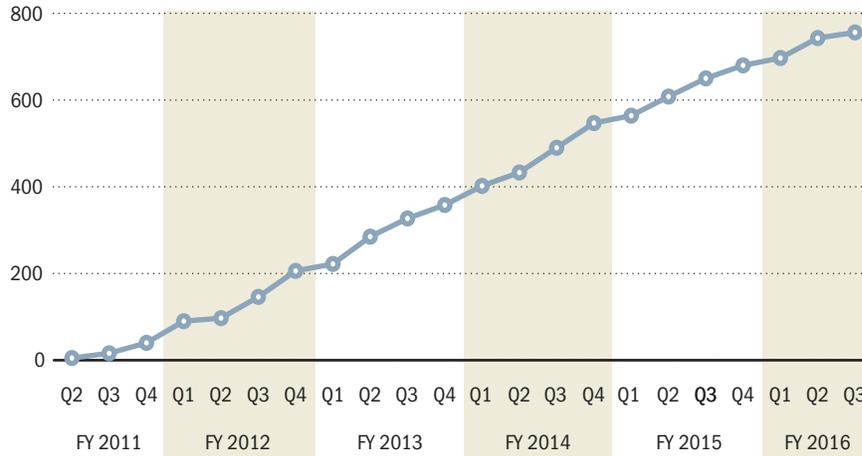
Suspensions and Debarments

This quarter, SIGAR's suspension and debarment program referred eight individuals and five companies for suspension or debarment based on evidence developed as part of investigations conducted by SIGAR in Afghanistan and the United States. These referrals bring the total number of individuals and companies referred by SIGAR since 2008 to 756, encompassing 401 individuals and 355 companies to date, see Figure 2.2.

SIGAR OVERSIGHT ACTIVITIES

FIGURE 2.2

SIGAR INVESTIGATIONS: CUMULATIVE REFERRALS FOR SUSPENSION AND DEBARMENT, Q3 FY 2011–Q3 FY 2016



Source: SIGAR Investigations Directorate, 6/30/2016.

As of the end of June 2016, the efforts of SIGAR to utilize suspension and debarment to address fraud, corruption, and poor performance in Afghanistan have resulted in a total of 132 suspensions, 441 finalized debarments, and 28 special-entity designations of individuals and companies engaged in U.S.-funded reconstruction projects. An additional 14 individuals and companies have entered into administrative compliance agreements with the government in lieu of exclusion from contracting since the initiation of the program. During the third quarter of 2016, SIGAR’s referrals resulted in 23 finalized debarments of individuals and entities by agency suspension and debarment officials.

Suspensions and debarments are an important tool for ensuring that agencies award contracts only to responsible entities. SIGAR’s program addresses three challenges posed by U.S. policy and the contingency contracting environment in Afghanistan: the need to act quickly, the limited U.S. jurisdiction over Afghan nationals and Afghan companies, and the vetting challenges inherent in the use of multiple tiers of subcontractors. SIGAR continues to look for ways to enhance the government’s responses to these challenges through the innovative use of information resources and investigative assets both in Afghanistan and the United States.

SIGAR makes referrals for suspensions and debarments—actions taken by U.S. agencies to exclude companies or individuals from receiving federal contracts or assistance because of misconduct—based on completed investigations in which SIGAR participates. In most cases, SIGAR’s referrals

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

SIGAR's emphasis on suspension and debarment is exemplified by the fact that of the 756 referrals for suspension and debarment that have been made by the agency to date, 729 have been made since the second quarter of 2011. During the 12-month period prior to July 1, 2016, referrals by SIGAR's suspension and debarment program resulted in the exclusion of 110 individuals and companies from contracting with the government. SIGAR's referrals over this period represent allegations of theft, fraud, poor performance, financial support to insurgents, and mismanagement as part of reconstruction contracts valued at \$526,840,132.71.

Two Afghan Trucking Company Representatives Debarred for Theft of Fuel and Bribery at FOB Fenty

On April 14, 2016, as a result of an investigation conducted by SIGAR and the Army Criminal Investigative Command's Major Procurement Fraud Unit (CID), Shafiullah Mohammad Zahir, a.k.a. "Shafiullah," a.k.a. "Shafie," and Mohammad Saber were debarred by the Department of the Army based on their participation in a conspiracy to steal fuel from FOB Fenty between February 2010 and June 2011.

Evidence developed during the investigation showed that Saber, an employee of an Afghan trucking contractor, provided cash payments to military and civilian personnel assigned to the FOB Fenty fuel storage facility in exchange for the creation of fraudulent documentation which purported to authorize fuel-transportation missions. Using these fraudulent documents, Saber arranged for the transport of 125 truckloads of fuel from the FOB Fenty to locations in the vicinity of Jalalabad, where it was sold to third parties. During the four months that Saber participated in this conspiracy, his actions resulted in the theft of 625,000 gallons of fuel valued at \$2,216,250.

Following the redeployment of Saber's military and civilian co-conspirators to the United States in October 2010, the Afghan trucking contractor assigned Shafiullah to work as its representative on FOB Fenty in place of Saber. Soon after assuming this position, Shafiullah attempted to provide payments to an Army officer in exchange for fraudulent documents that

would change the characterization of 55 fuel-transportation missions from no-show missions to completed missions. Shafiullah admitted to the Army officer, now acting as an informant, that the documents would be submitted to the Army in order to avoid his employer's being charged approximately \$600,000 for the 275,000 gallons of missing fuel in these 55 missions, none of which had reached their assigned destinations.

As part of his efforts to obtain these fraudulent documents, Shafiullah made payments of \$132,000 to a bank account set up by investigators in Florida, as well as \$3,000 in gold rings and other items directly to the Army officer at FOB Fenty. Saber and Shafiullah were debarred by the Army for a period of five years, ending on December 3, 2020, a period of time that takes into account the period that they were in proposed debarment status, beginning on December 3, 2015.

The debarments of Saber and Shafiullah represent an additional action taken as a result of an extensive investigation undertaken by SIGAR and CID investigators regarding the theft of fuel from FOB Fenty and other locations by contractors during the performance of the Host Nation Trucking contract during 2010 and 2011.

Explosive Ordnance Disposal Equipment Supplier Debarred for the Payment of Kickbacks

On June 20, 2016, the Department of the Army debarred Robert W. Gannon, Robert Gillam, Simon Davies, Mondial Defence Systems Ltd., Mondial Defense Systems USA LLC, and Mondial Logistics based on the payment of kickbacks in exchange for the award of subcontracts awarded by RONCO Consulting Corporation to procure for explosive ordnance-disposal equipment for use by the Afghan National Defense and Security Forces. Specifically, as part of an investigation conducted by SIGAR, the Federal Bureau of Investigation, and the City of London Police, it was determined that Gannon, a vice president at RONCO, had received payments of approximately \$190,000 from Davies, the owner of Mondial Defence Systems, and Gillam, the company's financial director, in exchange for information regarding pricing data received from other suppliers by RONCO. This information resulted in the award of three purchase orders, valued at \$5,997,151, to Mondial Defence Systems by RONCO on August 4, 2009.

Based on the financial and e-mail records obtained as part of this investigation, on December 2, 2014, both Gillam and Davies were arrested by the City of London Police based on allegations that they were in violation of the United Kingdom's anticorruption laws. On September 3, 2015, a criminal complaint was filed against Gannon in the U.S. District Court for the Eastern District of Virginia charging him with one count each in violation of 41 U.S.C. § 8702, solicitation and receipt of kickbacks and 18 U.S.C. § 371, conspiracy. On November 4, 2015, Gannon entered into a plea agreement with the Department of Justice, admitting to the allegations made against him and

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agreed to enter a plea of guilty. On February 4, 2016, a criminal judgement was entered against Gannon, sentencing him to confinement for 12 months and one day at the Federal Corrections Institute, Morgantown, West Virginia; a fine of \$193,665; two years' supervised release; and a \$100 special assessment. Gannon, Gillam, Davies, Mondial Defence Systems Ltd, Mondial Defense Systems USA LLC, and Mondial Logistics were all debarred for a period of six years, ending on February 4, 2022, a period of time that takes into account the period that they were in proposed debarment status, beginning on March 21, 2015, and the period of confinement imposed on Gannon as part of his criminal judgement.

OTHER SIGAR OVERSIGHT ACTIVITIES

Deputy Inspector General Aloise Speaks at the Audit and Fraud Roundtable

Deputy Inspector General Gene Aloise spoke at a group meeting of the Audit and Fraud Roundtable on May 23, 2016, in Copenhagen, Denmark. The Roundtable provides a forum for donor practitioners to discuss issues such as internal audit, fraud, risk management, anticorruption, due diligence, accountability, and assurance as related to development assistance and to seek areas of cooperation and coordination. Members of the group are from ministries of foreign affairs and bilateral donors of Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Netherlands, Norway, Sweden, the United Kingdom and the United States.

After summarizing SIGAR's mission, mandate, and successes, Aloise explained the five key challenges to the U.S. reconstruction effort in Afghanistan—namely, inadequate planning, poor quality assurance, questionable sustainability, corruption, and poor security. He addressed how SIGAR's work has found each of these issues to be major roadblocks for the U.S.-government agencies in better implementing, assessing, and sustaining the programs and facilities initiated as part of the Afghanistan-reconstruction effort. Failure to do so has resulted in large-scale waste of taxpayer dollars and regression on some important fronts of reconstruction progress.

In addition, Aloise discussed SIGAR's creation of its High-Risk List in 2014 (with an updated version forthcoming in 2016), a report highlighting the specific program areas and elements of the reconstruction effort in Afghanistan that are especially vulnerable to waste, fraud, and abuse. In its first version, the report focused U.S.-government agencies' failure to mitigate risks in areas under their purview where changes could still have a positive impact on the reconstruction effort. The program areas outlined for consideration by these agencies and Congress included: (1) corruption and rule of law; (2) sustainability; (3) ANDSF capacity and capabilities;

SIGAR OVERSIGHT ACTIVITIES

(4) on-budget support; (5) counternarcotics; (6) contract management and oversight access; and (7) strategy and planning. Aloise particularly emphasized the damaging effects of contract mismanagement.

The speech closed with Aloise laying out seven questions to guide U.S.-government officials as they assess their current programs and facilities as well as best practices for use of remaining reconstruction funds. He emphasized that a main takeaway from the U.S. government's experience in Afghanistan should be that "oversight cannot be an afterthought"; it must be a "core objective."

SIGAR BUDGET

SIGAR's annual appropriation (the Consolidated and Further Continuing Appropriations Act, 2016) provides the agency with \$56.9 million through September 30, 2016. The budget supports SIGAR's oversight activities and products by funding SIGAR's (1) Audits and Inspections, (2) Investigations, (3) Management and Support, and (4) Research and Analysis directorates, as well as the Special Projects Team and the Lesson Learned Program.

SIGAR STAFF

SIGAR's staff count remained steady since the last report to Congress, with 195 employees on board at the end of the quarter; 28 were at the U.S. Embassy Kabul and two others were at Bagram Airfield. SIGAR employed five local Afghans in its Kabul office to support the Investigations and Audits directorates. In addition, SIGAR supplements its resident staff with personnel assigned to short-term temporary duty in Afghanistan. This quarter, SIGAR had seven employees on temporary duty in Afghanistan for a total of 82 days.

“Afghanistan is not a perfect place. It remains one of the poorest countries in the world. It is going to continue to take time for them to build up military capacity that we sometimes take for granted. And given the enormous challenges they face, the Afghan people will need the partnership of the world—led by the United States—for many years to come. But with our support, Afghanistan is a better place than it once was.”

—*President Barack Obama*