

2 SIGAR OVERSIGHT



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Construction and maintenance of Afghan roads, like this section of the Maidan-to-Ghazni highway, are the topics of a new SIGAR audit. (SIGAR photo)

SIGAR OVERSIGHT ACTIVITIES

This quarter, SIGAR issued 23 audits, inspections, alert letters, and other products. SIGAR work to date has identified about \$2 billion in savings for the U.S. taxpayer.

SIGAR published one alert letter expressing concern over the continuation and significant expansion of a cooperative agreement between the USAID Mission for Afghanistan (USAID/Afghanistan) and Democracy International. SIGAR published another alert letter regarding noncertified fire doors installed in 25 buildings on the newly constructed Ministry of Interior (MOI) compound in Kabul. SIGAR also published two performance audit reports this period. One performance audit examined the sustainment challenges and risks to the significant U.S. investment in Afghanistan's road infrastructure. The other examined how USAID's lack of a geospatial-data policy and standards affected its implementation of the Measuring Impacts of Stabilization Initiatives (MISTI) program.

SIGAR completed six financial audits and one alert letter of U.S.-funded contracts, grants, and cooperative agreements to rebuild Afghanistan. These financial audits identified nearly \$85.2 million in questioned costs as a result of internal-control deficiencies and noncompliance issues. To date, SIGAR's financial audits have identified more than \$395 million in questioned costs.

This quarter, SIGAR published four inspection reports, including one that examined USAID's cooperative agreement with the International Organization for Migration for construction of a 100-bed hospital in Gardez, Paktiya Province, and a follow-up inspection that examined the construction and furnishing of a 20-bed hospital in the Salang District of Parwan Province.

SIGAR's Office of Special Projects issued seven products, including fact sheets, reviews, and inquiry letters, expressing concern on a range of issues including: eliminating "ghost" personnel in the Afghan National Defense and Security Forces (ANDSF), the creation of the new Anti-Corruption Justice Center in Kabul, the Afghanistan Independent Joint Anti-Corruption Monitoring and Evaluation Committee's assessment of pervasive corruption at the Afghan Ministry of Public Health, the limited operational capacity of the Afghan High Office of Oversight anticorruption body, and the scope of funds spent by the U.S. Department of Agriculture on the Afghan reconstruction effort.

ALERT LETTERS

- Alert Letter 17-1: Response to Inquiry Letter on USAID's Cooperative Agreement
- Alert Letter 17-2: Fire Doors at the MOI Compound in Kabul

COMPLETED PERFORMANCE AUDITS

- Audit 17-10-AR: USAID Measuring Impacts of Stabilization Initiatives Program
- Audit 17-11-AR: U.S. Efforts to Sustain Afghanistan's Road Infrastructure

COMPLETED FINANCIAL AUDITS

- Financial Audit 16-53-FA: DOD Contract with Mission Essential Personnel LLC for Translation/Linguist Support Services
- Financial Audit 16-54-FA: DOD Contract with PRI/DJI, A Construction JV for Runway Renovation at Shindand Air Base
- Financial Audit 16-61-FA: DOD Contract with DynCorp, International LLC for Mentoring and Trainings Service in Support of the ANDSF
- Financial Audit 17-05-FA: USAID Contract with Counterpart International for the Promoting Afghan Civic Education (PACE) Program
- Financial Audit 17-06-FA: State Grants for Afghanistan Media Production and Outreach Program
- Financial Audit 17-07-FA: DOD Contract with AECOM for Construction of Nimroz Border Patrol Facilities

COMPLETED INSPECTION REPORTS

- Inspection Report 16-56-IP: Gardez Hospital
- Inspection Report 17-03-IP: Special Mission Wing Facilities at Kandahar Airfield
- Inspection Report 17-08-IP: Herat University Women's Dormitory
- Inspection Report 17-09-IP: Salang Hospital

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COMPLETED SPECIAL PROJECT PRODUCTS

- Special Project Inquiry Letter 16-50-SP: DOD Efforts to Eliminate Ghost Personnel from ANDSF Systems
- Special Project Inquiry Letter 16-51-SP: Anti-Corruption Justice Center
- Special Project Inquiry Letter 16-52-SP: Anti-Corruption Justice Center
- Special Project Inquiry Letter 16-55-SP: Afghanistan Independent Joint Anti-Corruption Monitoring and Evaluation Committee (MEC) Ministry of Public Health
- Special Project Inquiry Letter 16-57-SP: USAID Implementing the MEC Report Recommendations on the Afghan Ministry of Public Health
- Special Project Review 16-60-SP: Afghanistan's High Office of Oversight: Personal Asset Declarations of High-Ranking Government Officials are Not Consistently Registered and Verified
- Special Project Fact Sheet 17-04-SP: Department of Agriculture Funds Obligated for Afghanistan Reconstruction

COMPLETED LESSONS LEARNED PRODUCTS

- Lessons Learned 16-58-LL: Corruption in Conflict: Lessons from the U.S. Experience in Afghanistan
- Lessons Learned 16-59-LL: Lessons from the Coalition: International Experiences from the Afghanistan Reconstruction

ALERT LETTERS

- Alert Letter 17-1: Response to Inquiry Letter on USAID's Cooperative Agreement
- Alert Letter 17-2: Fire Doors at the MOI Compound in Kabul

During the reporting period, SIGAR criminal investigations resulted in one indictment, two convictions, and two sentencing. SIGAR recouped more than \$800,000 in cost savings and recoveries for the U.S. government. SIGAR initiated 13 new investigations and closed 28, bringing the total number of ongoing investigations to 254.

This quarter, SIGAR's suspension and debarment program referred 46 individuals and one company 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 803, encompassing 447 individuals and 356 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 two alert letters, two performance audits, six financial audits, and four inspection reports. This quarter, SIGAR has 11 ongoing performance audits.

Alert Letters

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 two alert letters: one expressed concern over the continuation and significant expansion of a cooperative agreement between USAID/Afghanistan and Democracy International; the other regarded noncertified fire doors installed in 25 buildings on the newly constructed MOI compound in Kabul.

Alert Letter 17-1: Response to Inquiry Letter on USAID's Cooperative Agreement with Democracy International for AERCA

On October 3, SIGAR wrote to USAID Administrator Gayle E. Smith and USAID Mission Director for Afghanistan Herbert B. Smith to request information about a cooperative agreement between USAID/Afghanistan and Democracy International, an organization that advises U.S. government agencies on implementing democracy and governance projects internationally.

The agreement was originally intended to support the International Election Observation Mission for the 2009 Presidential and Provincial

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Council Elections in Afghanistan program. Signed on July 13, 2009, it was valued at \$5 million and had an estimated completion date of November 30, 2009. However, USAID/Afghanistan went on to modify the agreement more than 30 times, extending the period of performance by over seven years and increasing the agreement's value to over \$51 million.

The numerous modifications to the agreement and the resulting increase in its scope, duration, and cost to U.S. taxpayers raise questions concerning whether USAID should have used a competitive process, rather than extending the existing agreement without inviting offers from other interested and qualified organizations. USAID/Afghanistan changed the name of the program to “Afghanistan Electoral Reform and Civic Advocacy” (AERCA) to reflect the additional work Democracy International would conduct under the expanded agreement.

According to USAID's Automated Directives System (ADS) Chapter 303 (ADS 303), Grants and Cooperative Agreements to Non-Governmental Organizations, USAID encourages a competitive process for the award of grants and cooperative agreements to best achieve the agency's objectives. Although a follow-on cooperative agreement or extension to an existing award is a recognized exception to the usual competitive process, USAID is required to provide specific justification (per ADS 303.3.6.5) as to why the benefits of continuing the award exceed the benefits of the competitive process established by law and the agency's policy.

SIGAR asked USAID in an inquiry letter to provide justifications for restricting eligibility for a competitive process for the AERCA cooperative agreement to better understand how the noncompetitive expansion of the agreement between USAID/Afghanistan and Democracy International exceeded the benefits of a competitive process.

On August 16, USAID responded to the inquiry letter by providing copies of its justification for the 10 follow-on awards and extensions that either increased the cost or extended the duration of the original award. The documents USAID submitted were responsive to SIGAR's request, and showed that USAID relied on ADS 303.3.6.5 and its predecessor provisions, which permit noncompetitive follow-on awards and extensions. However, SIGAR noted that the justifications provided by USAID did not seem to contain specific explanations of why the benefits of continuing the assistance activity with Democracy International outweighed the benefits of a competitive process.

Instead, some of the justifications appear to be premised on Democracy International's “distinct capability” to conduct the work based on that organization's established presence in Afghanistan since 2009. USAID's reference to the distinct capability that Democracy International developed in Afghanistan since 2009 suggests that the agency may have justified the continuation of its agreement with Democracy International on the basis of the capabilities Democracy International developed while implementing

the original award from 2009. However, this justification appears to conflict with a prohibition on this type of award in ADS 303.3.6.5, which states that an exception to competition based on an award recipient's exclusive or predominant capability may not be used to continue a relationship when the applicant developed this capability during performance of any USAID award. The documents USAID provided did not justify approving officials' conclusion that the prohibition contained in ADS 303.3.6.5 did not apply to this cooperative agreement extension.

SIGAR encouraged USAID to be sure that all future justifications for non-competitive follow-on awards and extensions include language that directly and clearly explains why the benefits of continuing assistance with the same recipient exceed the benefits of a competitive process. Additionally, SIGAR encouraged USAID to consider revising ADS 303 to state expressly whether noncompetitive follow-on awards or extensions may be justified based on a recipient's predominant capability developed during the performance of any USAID award.

Alert Letter 17-2: Fire Doors at the MOI Compound in Kabul

On October 5, 2016, SIGAR wrote to the Secretary of Defense, the commander of U.S. Central Command, the commander of U.S. Forces-Afghanistan, the commanding general of the Chief of Engineers, U.S. Army Corps of Engineers (USACE), and the commander of the Combined Security Transition Command-Afghanistan (CSTC-A) about serious safety concerns surrounding the installation of noncertified fire doors in 25 buildings on the recently constructed MOI compound in Kabul.

CSTC-A funded the construction of the compound and USACE administered the contracts. The use of noncertified fire doors, despite contract requirements calling for certified fire doors for specific rooms, corridors, and stairwells, raises concerns about the safety of the buildings, whether the government overpaid for inferior products, and whether the contractors defrauded the government when they installed doors that did not meet contract requirements. Although the letter focused on the MOI compound, SIGAR's concerns extended to all completed and ongoing USACE construction projects in Afghanistan that required the installation of certified fire doors.

Fire doors protect the main paths occupants may use to exit a building when a fire occurs and are designed to limit the spread of smoke and flames. Lack of such protection increases the occupants' risk of injury or death in the event of a fire.

Independent laboratories, such as the Underwriters Laboratory (UL), Factory Mutual Engineering and Research (FM), or Warnock Hersey-Intertek (WHI), use National Fire Protection Agency and UL standards to test and certify doors, frames, hardware, and other components of a fire door assembly to ensure they are manufactured to fire resistant

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specifications. USACE's contracts for the MOI compound required the use of certified fire doors with a metal label permanently attached to the door and door frame at the factory. According to the contract, the label must bear the UL, FM, or WHI logo and relevant fire-rating information.

The MOI compound was constructed in three phases, and each phase had a different prime contractor. The MOI compound's contract drawings and technical specifications required that 25 buildings have certified fire doors installed in specified locations. Phase 1 required the installation of one fire door. Phase 2 required the installation of 153 certified fire doors in 3 buildings. Phase 3 required the installation of 780 certified fire doors in 21 buildings. The prime contractor for Phase 1 was Abdulhai Gardezi Construction, an Afghan company; the prime contractor for Phase 2 was Yuksel Insaat (Yuksel), a Turkish company; and the prime contractor for Phase 3 was Macro Vantage Levant (MVL), a Dubai-based company.

SIGAR reviewed the fire door submissions that Yuksel and MVL provided to USACE for review and approval and found that USACE reviewers approved the installation of fire doors manufactured by a Turkish company, Ankara Celik Kapi, for the Phase 2 fire doors, and three Afghan manufacturers—Omran Steel Tech (OST), Ayanda Sazan Productive & Industrial Company, and Akhtairzada Metallurgy & Engineering Company (AMC)—for the Phase 3 fire doors. However, neither the Turkish nor Afghan companies are registered as certified fire door manufacturers by UL, FM, or WHI.

While reviewing submissions, SIGAR saw no evidence that the contractors informed USACE that they were deviating from the contract's requirement for certified doors. SIGAR also saw no evidence that USACE reviewers made any effort to question the contractor's submission about this requirement. The approval also raises concerns that the government may have overpaid for the doors installed, given that noncertified doors presumably cost less than certified fire doors.

During SIGAR's site visits to the MOI compound, investigators observed conditions that raised questions about who actually manufactured the fire doors, whether the doors were fire-resistant, and whether USACE conducted sufficient contract oversight.

Specifically, SIGAR observed that:

- None of the 153 fire doors installed under Phase 2 had a manufacturer's label.
- Under Phase 3, OST's labels displayed a certifying agency logo—in each case, a UL logo. UL officials confirmed that they never certified OST's doors and that the inclusion of the UL logo on the door labels was unauthorized. The officials also said they directed OST to remove the logo from the doors it installed.
- During a October 26, 2015, site visit, SIGAR saw MVL staff attaching metal AMC labels to doors after the doors arrived at the MOI

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compound. Presumably, if AMC had actually manufactured those doors, it would have installed the labels at the factory in accordance with standard practices.

- 736 doors installed under Phase 3 had “field labeled” tags, which appeared to have been installed to make the doors look more official. SIGAR confirmed that these labels provided misleading information. For example, the labels refer to the Hollow Metal Manufacturers Association, a division of the National Association of Architectural Metal Manufacturers. This trade organization provides advisory opinions and guidance on the use and installation of fire doors, but is not a certifying body like UL, FM, and WHI.

SIGAR is continuing to examine these issues as part of an ongoing inspection of the MOI compound. However, the inspection alert letter served as a preliminary notice so that USACE can conduct a review and begin taking corrective action, where necessary, to ensure the safety of building occupants at the MOI compound and safeguard the expenditure of U.S. funds.

These actions should include:

1. Taking immediate steps to identify all noncertified fire doors in the 25 MOI buildings that do not meet the fire-rating standards required in the contracts and replace them with certified fire doors that do meet those standards.
2. Identifying the USACE official(s) who approved the installation of noncertified fire doors instead of the required certified fire doors and take appropriate disciplinary action.
3. Taking steps to identify other completed and ongoing USACE construction projects in Afghanistan that required the installation of certified fire doors, and if noncertified doors were installed, take appropriate action to replace those doors.

Performance Audit Reports Published

SIGAR published two performance audit reports this quarter. One examined how USAID’s lack of a geospatial-data policy and standards affected its implementation of the MISTI program. The other examined the sustainability challenges and risks to the significant U.S. investment in Afghanistan’s road infrastructure.

Performance Audit 17-10-AR: USAID’s Measuring Impacts of Stabilization Initiatives (MISTI)

Program Generally Achieved Its Objectives, but USAID’s Lack of a Geospatial Data Policy and Standards Affected Its Implementation

From September 2003 through December 2015, USAID spent more than \$2.3 billion on more than two dozen stabilization activities and programs

COMPLETED PERFORMANCE AUDITS

- Audit 17-10-AR: USAID Measuring Impacts of Stabilization Initiatives Program
- Audit 17-11-AR: U.S. Efforts to Sustain Afghanistan’s Road Infrastructure

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in Afghanistan. The stabilization programs were intended to support at-risk populations, extend the reach of the Afghan government to unstable areas, provide job opportunities, build trust between citizens and their government, and encourage local populations to take an active role in their development.

Beginning in 2011, with the drawdown of coalition troops throughout Afghanistan, USAID faced increasing challenges in overseeing its stabilization programs. To address these challenges, in March 2012, USAID awarded Management Systems International Inc. (MSI) a contract to implement the MISTI program to monitor and evaluate eight ongoing stabilization programs costing approximately \$762 million. The agency estimated that MISTI would last three years and cost approximately \$15 million. The contract ended in October 2015 and ultimately cost \$19.3 million.

SIGAR found that although early monitoring and evaluation (M&E) challenges caused USAID to make multiple modifications to the MISTI contract, MSI met its contract requirements and USAID generally performed contract oversight in accordance with agency regulations. USAID modified the MISTI contract multiple times to address the agency's inability to verify directly whether the contractors implementing the stabilization programs were meeting their contract requirements, and to assess the quality of the data being collected from them. The modifications to and expansions in MISTI's scope added to the cost of the contract with MSI. Within the first year, the contract's maximum value increased from approximately \$15 million to \$21 million, though USAID ultimately spent \$19.3 million on the program. Despite this increased cost, SIGAR determined that USAID's decisions appropriately followed contract requirements, helped ensure oversight of its stabilization activities, and potentially benefitted the agency's overall understanding of the impact of its stabilization efforts.

USAID generally followed Federal Acquisition Regulation (FAR) and USAID requirements for contract oversight by performing quality assurance and technical performance monitoring functions on the MISTI contract. For example, the contracting officer's representatives (COR) generally maintained adequate files to document correspondence with the contractor and actions or decisions taken related to the contract, as required. However, USAID could not provide documentation supporting MSI's request and the agency's approval for MSI to compare the Stability in Key Area programs to the World Bank's National Solidarity Program when the two operated in the same areas.

SIGAR found that MSI met MISTI program objectives to complete independent evaluations and impact assessments of USAID's eight stabilization programs and develop recommendations for improving them. For example, by March 2015, MSI had conducted six mid-term evaluations and made 82 recommendations to USAID, most of which USAID accepted. USAID also received information from MSI that could have influenced its decisions about the direction and design of the stabilization programs.

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MSI also met program objectives to track stabilization trends and provide best practices for stabilization programs. For example, MSI reached several conclusions and identified trends from its tracking of the programs' performance and impacts.

SIGAR identified two significant issues that MSI faced in conducting third-party monitoring under the MISTI contract: (1) the lack of accurate geospatial data and (2) the lack of sharing of existing geospatial data with MSI. USAID and MSI officials told SIGAR that the geospatial data they received from the stabilization programs' contractors were of poor quality. MSI also reported that the implementers did not have standardized collection platforms or methods for using geospatial data, and that they used different formats and Global Positioning System devices for recording coordinates and storing geospatial data.

Because of the inaccurate data it received, MSI told us it could not properly locate where USAID conducted stabilization activities, and, as a result, it could not begin conducting verification work in February 2014, as the contract required. In order to meet the contract requirement, MSI officials had to first create their own geospatial database and work closely with the stabilization program implementers to address errors. MSI officials said they initially spent up to 60% of their time addressing these errors instead of performing verification work.

In addition to these problems, MSI did not have access to existing government geospatial data, as specified in the contract. MSI officials stated that they understood this would include geospatial information from DOD's databases and USAID's Afghan Info database, which had information on village locations and naming conventions. MSI did not gain access to existing DOD geographic data, and USAID officials did not provide an explanation for not getting this data from DOD. Moreover, although MSI had access to Afghan Info, MSI employees told SIGAR they had concerns about its accuracy.

Since 1990, the Office of Management and Budget's (OMB) Circular A-16 has required agencies—including USAID—to issue agency standards for the collection and reporting of geospatial data. Officials from USAID's Bureau for Policy, Planning, and Learning and the GeoCenter confirmed that OMB Circular A-16 applies to USAID. However, USAID officials told SIGAR that they do not have any agency or mission-level—for example, USAID/Afghanistan—policies to govern or guide the collection, maintenance, use, or sharing of geospatial data. When SIGAR asked why the agency has not followed OMB Circular A-16, the officials could not provide an explanation.

These challenges with data are not new to USAID or limited to Afghanistan. Over the past decade, USAID and SIGAR have repeatedly identified problems with the agency's ability to use accurate geospatial data and inability to standardize a practice and process for collecting, managing,

and reporting that data. Without an established policy and standards for how USAID and its implementers should collect, maintain, use, and share geospatial data, the agency will continue to face problems with inaccuracies and inconsistencies in the data, and, therefore, maintain a limited understanding of the locations, and visual verification, of its activities being conducted in Afghanistan.

To enhance USAID/Afghanistan's ability to monitor, evaluate, and oversee its development efforts, SIGAR recommends that the USAID Administrator, as soon as possible, establish an agency policy implementing OMB Circular A-16 requirements that institute agency-wide standards for collecting, using, and sharing geospatial data both within USAID and with other U.S. government agencies and nongovernmental entities, including those conducting reconstruction efforts in Afghanistan.

Performance Audit 17-11-AR: Afghanistan's Road Infrastructure Sustainment Challenges and Lack of Repairs Put Nearly

\$3 Billion U.S. Investment at Risk

Since 2002, the United States, through programs initiated by the Department of Defense (DOD) and the U.S. Agency for International Development (USAID), has spent at least \$2.8 billion building and maintaining Afghanistan's road infrastructure, while working to implement more than \$154 million in other road-related programs to improve the Afghan Ministry of Public Works' (MOPW) management of road construction and maintenance.

The objectives of this audit were to determine the extent to which (1) U.S. agencies have fully accounted for the road construction they funded in Afghanistan; (2) selected U.S.-funded roads have been maintained and what the current condition of a subset of those roads is; (3) U.S.-funded road construction and capacity-building programs achieved program goals and are sustainable; and (4) challenges, if any, exist to the Afghan government's ability to perform and self-fund road maintenance.

SIGAR conducted independent assessments of the condition of 1,640 kilometers of U.S.-funded national and regional highways, or approximately 22% of all paved roads in Afghanistan. The results indicate that most of these highways need repair and maintenance. For example, SIGAR performed inspections of 20 road segments and found that 19 segments had road damage ranging from deep surface cracks to roads and bridges destroyed by weather or insurgents. Moreover, 17 segments were either poorly maintained or not maintained at all, resulting in road defects that limited drivability. MOPW officials acknowledged that roads in Afghanistan are in poor condition. In August 2015, an MOPW official stated that 20% of the roads were destroyed and the remaining 80% continue to deteriorate. The official added that the Kabul to Kandahar highway is beyond repair

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and needs to be rebuilt. USAID estimated that unless maintained, it would cost about \$8.3 billion to replace Afghanistan's road infrastructure, and estimated that 54% of Afghanistan's road infrastructure suffered from poor maintenance and required rehabilitation beyond simple repairs.

In November 2013, in an effort to continue capacity building at the MOPW, USAID initiated the Road Sector Sustainability Program (RSSP). RSSP focuses on capacity-building activities through the creation of new entities within the MOPW and does not concurrently financing road maintenance activities. The success of the RSSP will ultimately be contingent on USAID receiving and maintaining buy-in and tangible commitment from the Afghan government to implement necessary reforms. So far, the MOPW has demonstrated its commitment to reforms by proposing legislation that would establish a road authority, a road fund, and a transportation institute, all of which were recommended under RSSP, through the introduction of three new laws. However, there is no guarantee that the Afghan parliament will pass legislation to create these entities or that the proposed road authority will be independent as intended.

As demonstrated by the failure of Task Order 14, continuing to fund Afghan road maintenance could be a disincentive for the MOPW to implement reforms. When discussing the road maintenance needs for Afghanistan, one MOPW official stated that Afghanistan was working to conduct and fund its own road maintenance, but also insisted that donors would fund and perform necessary road maintenance if it could not. Without the firm commitment from all relevant elements of the Afghan government, the reforms proposed under RSSP may be unsustainable, waste taxpayer dollars, and ultimately prove unsuccessful in developing the Afghan government's capacity to maintain its roads.

Corruption continues to be a problem that hampers the ministry's ability to maintain roads. A February 2012 USAID assessment of the MOPW found that employees were hired based on nepotism and personal connections, noting that high-paying positions were offered to people with personal connections. Another USAID assessment completed in January 2015 noted that nepotism and favoritism were still apparent in the appointment of managers and staff, and that donors lacked confidence in the MOPW's ability to be effective, efficient, transparent, lawful, and professional. Corruption has had a direct impact on the activities and financing of MOPW activities. For example, according to a senior MOPW official, the MOPW stopped collecting tolls on the roads due to high levels of corruption. The official explained that since the tolls were collected in cash, drivers would pay bribes to the toll collectors in exchange for reduced tolls. A similar type of bribe was being paid at weigh stations, where drivers of overweight trucks would pay bribes to avoid fines. In response to these problems, the official stated that the MOPW implemented new controls, such as random checks of stations, the use

of undercover employees, and increased tracking of vehicle weights as they exit and enter different weigh stations, the implementation of which increased revenues at one weigh station 400–600%.

The MOPW also does not have adequate funding to perform necessary road maintenance. MOPW officials stated that it would cost \$100 million annually to carry out the necessary emergency, routine, periodic, and winter maintenance on Afghanistan's road infrastructure. However, according to data provided by the ministry officials, between 2011 and 2016, it received, on average, \$21.3 million annually from the Afghan Ministry of Finance (MOF). In December 2015, USAID reported that the MOF had raised concerns about the MOPW's ability to manage its budget and operate in an effective, efficient, and transparent matter. The MOPW's continued inability to maintain Afghanistan's road infrastructure threatens to waste the billions of dollars that the U.S. government has already invested in Afghanistan's road infrastructure since 2002.

Finally, in addition to being maintained to a drivable standard, Afghanistan's roads must be safe enough from insurgent attack to allow for travel and maintenance. MOPW officials told SIGAR that security conditions vary throughout the country, and the ministry could perform maintenance only where security conditions allowed. SIGAR noted that 6 of the 20 road segments it inspected had insurgent activity and identified 13 insurgent checkpoints. The ministry officials stated that to address maintenance needs, the MOPW is beginning to use local Afghan contractors to perform road work, because they have fewer problems with insurgents than international contractors. They noted that Afghanistan's road infrastructure plays an important role in the country's development and governance, and if the Kabul to Kandahar highway were to become impassable, the central government would collapse. However, the same MOPW officials were confident that the Afghan National Defense and Security Forces would increase security if the situation got worse.

To ensure the remaining activities of the RSSP, as well as any future road programs, address the shortcomings of previous programs and increase the MOPW's capacity to maintain Afghanistan's roads, we recommend that the USAID Administrator link future RSSP and MOPW funding to the successful creation of an independent road authority, road fund, and transportation institute.

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

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TABLE 2.1

SIGAR'S FINANCIAL AUDIT COVERAGE (\$ BILLIONS)	
83 Completed Audits	\$6.6
17 Ongoing Audits	\$0.9
Total	\$7.5

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

Source: SIGAR Audits and Inspections Directorate.

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

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

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.

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. 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. The total number of ongoing financial audits is 17 with nearly \$7.5 billion in auditable costs, as shown in Table 2.1.

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 \$395 million in **questioned costs** and \$363,135 in unremitted interest on advanced federal funds or other revenue amounts payable to the government. As of September 30, 2016, funding agencies had reached a management decision on 58 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 issued financial audits. SIGAR's financial audits have also identified and communicated 309 compliance findings and 333 internal-control findings to the auditees and funding agencies.

SIGAR's financial audits have four specific objectives:

- Express an opinion on whether the **Special Purpose Financial Statement** for the award presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. government, and balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.
- Evaluate and obtain a sufficient understanding of the audited entity's internal 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.

SIGAR OVERSIGHT ACTIVITIES

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, grants, and cooperative agreements to rebuild Afghanistan. These financial audits identified \$85,165,851 in questioned costs as a result of internal control deficiencies and noncompliance issues and \$70,953 in unremitted interest on advanced federal funds or other revenue amounts payable to the government. These deficiencies and noncompliance issues included, noncompliance with the terms of delivery orders, failure to obtain prior authorization from a contracting officer before awarding subcontracts, receiving excess funding that was not supported by allowable expenditures or costs incurred, unreasonable subcontract and material costs, and failure to provide supporting documentation for subcontractor- and professional-service costs as well as property and equipment used for projects.

Financial Audit 16-53-FA: Department of Defense's Translation and Interpretation Management Services

Audit of Costs Incurred by Mission Essential Personnel LLC

On September 7, 2007, the Department of the Army's Intelligence and Security Command (INSCOM) awarded an indefinite delivery/indefinite quantity contract to Mission Essential Personnel LLC (MEP). Under this contract, INSCOM issued delivery order 0093 on February 7, 2012, for \$296.8 million, and delivery order 0108 on June 29, 2012, for \$276.2 million, for a combined total value of \$573 million. The delivery orders funded translation and interpretation management services from February to November 2012. Specifically, the orders required MEP to recruit, screen, and deploy approximately 8,000 linguists in support of contingency operations in Afghanistan. After 11 modifications, the total value of the delivery orders decreased to \$572.7 million. SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe), reviewed \$492,134,739 in expenditures charged to the delivery orders from February 9, 2012, through November 20, 2012.

Crowe identified six material weaknesses and two significant deficiencies in MEP's internal controls, and nine instances of noncompliance with the terms of the delivery orders. Specifically, Crowe found that MEP did not obtain prior authorization from the INSCOM contracting officer before awarding 14 subcontracts, resulting in \$53,536,881 in **unsupported costs**. Additionally, MEP could not provide adequate supporting documentation to verify that the linguists hired cleared the security screening process. Crowe also noted that MEP overcharged the government \$177,378 as a result of currency-conversion errors. Furthermore, MEP hired an unlicensed

COMPLETED FINANCIAL AUDITS

- Financial Audit 16-53-FA: DOD Contract with Mission Essential Personnel LLC for Translation/Linguist Support Services
- Financial Audit 16-54-FA: DOD Contract with PRI/DJI, A Construction JV for Runway Renovation at Shindand Air Base
- Financial Audit 16-61-FA: DOD Contract with DynCorp, International LLC for Mentoring and Trainings Service in Support of the ANDSF
- Financial Audit 17-05-FA: USAID Contract with Counterpart International for the Promoting Afghan Civic Education (PACE) Program
- Financial Audit 17-06-FA: State Grants for Afghanistan Media Production and Outreach Program
- Financial Audit 17-07-FA: DOD Contract with AECOM for Construction of Nimroz Border Patrol Facilities

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

SIGAR OVERSIGHT ACTIVITIES

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

private security company that may have overcharged the government for security costs.

As a result of these internal-control weaknesses and instances of noncompliance, Crowe identified \$58,952,358 in total questioned costs, consisting of \$312,696 in **ineligible costs** and \$58,639,662 in unsupported costs.

Crowe evaluated five prior audit reports pertinent to MEP's financial performance under the delivery orders and identified two prior findings applicable to the scope of this audit. Crowe determined that MEP had not adequately addressed one of these findings, which discussed inadequacies in MEP's review of subcontractor billings. Crowe repeated this finding in its audit.

Crowe issued a disclaimer of opinion on MEP's Special Purpose Financial Statement (SPFS) because Crowe was unable to obtain sufficient and appropriate audit evidence to verify the data presented in the statement. Crowe noted that MEP could not provide supporting documentation for certain subcontractor costs.

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

1. Determine the allowability of and recover, as appropriate, \$58,952,358 in questioned costs identified in the report.
2. Advise MEP to address the report's eight internal-control findings.
3. Advise MEP to address the report's nine noncompliance findings.

Financial Audit 16-54-FA: Runway Renovation at Shindand Air Base Audit of Costs Incurred by PRI/DJI, A Construction JV Results in Nearly \$5 million in Questioned Costs

On March 26, 2010, the Air Force Center for Engineering and the Environment—reorganized in 2012 as the Air Force Civil Engineer Center—awarded a 21-month, \$34.2 million cost-plus-fixed-fee task order to PRI/DJI, A Construction JV (PRI/DJI). The joint venture comprised Project Resources Inc. and Del-Jen Inc. The purpose of the task order was to renovate the runway at Shindand Air Base in Herat Province, Afghanistan. After nine modifications to the task order, the total award amount increased to \$35.8 million, and the period of performance was extended to February 29, 2012. SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe), reviewed \$35,869,185 in expenditures charged to the task order from March 26, 2010, through February 29, 2012.

Crowe identified five material weaknesses and seven instances of non-compliance with the terms of the task order. Specifically, Crowe found that neither PRI/DJI nor its subcontractor, Tetra Tech EC Inc. (TtEC), could provide adequate supporting documentation to support the reasonableness of two subcontractors' costs. As a result, Crowe estimates that the government was potentially overcharged \$4,361,481 for these services. In addition, TtEC did not maintain sufficient documentation

to support the receipt, disposition, or transfer of property acquired under the task order. Crowe estimated that TtEC could not account for \$205,023 of missing property items. Furthermore, Crowe found that TtEC did not have adequate procedures in place to review and approve transactions with its subsidiary companies, which resulted in \$132,368 of unsupported costs.

As a result of these internal-control weaknesses and instances of non-compliance, Crowe identified \$4,698,872 in unsupported costs. Crowe did not identify any ineligible costs. Additionally, \$3,404 in combined imputed interest and interest penalties were calculated. Of that amount, \$3,004 is payable to the U.S. government and \$400 is payable to PRI/DJI's teaming partner, TtEC. 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 SPFS because PRI/DJI and TtEC did not maintain adequate records for property acquired during the task order and used for the contract, and due to the identification of a material amount of questioned costs. As a result, the potential impact on the SPFS could not be fully determined.

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, \$4,698,872 in questioned costs identified in the report.
2. Collect \$3,004 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 seven noncompliance findings.

Financial Audit 16-61-FA: U.S. Department of the Army's Support for the Afghan Ministries of Defense and Interior

Audit of Costs Incurred by DynCorp International LLC

In 2010, the Army Contracting Command (ACC) awarded two contracts to DynCorp International LLC (DynCorp). These contracts were intended to assist the Afghan government in assuming full responsibility for its security needs and to support efforts to build and sustain an effective and professional army and police force. On February 12, 2010, ACC awarded a \$232 million contract to support the Afghan Ministry of Defense. As of April 29, 2014, the contract had been modified 26 times, and project funding had increased to \$285 million. On December 20, 2010, ACC awarded a \$718 million contract to support the Afghan Ministry of Interior. As of April 29, 2014, the contract had undergone 33 modifications, and project funding had increased to \$1.1 billion.

SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe), covered \$813,090,406 charged to the MOD contract and \$230,684,001 charged to the MOI contract between February 12, 2010, and April 29, 2014.

SIGAR OVERSIGHT ACTIVITIES

Crowe identified four material weaknesses and one significant deficiency in DynCorp's internal controls, and four instances of noncompliance with terms of the contracts. Specifically, Crowe found that DynCorp was unable to provide adequate documentation to support the reasonableness of costs incurred under a competitive subcontract awarded to Alpha Omega Services (Alpha Omega) for support services at the Afghan National Police Training Facility at the Adraskan National Training Camp. Additionally, neither DynCorp nor Alpha Omega could provide the required receiving reports or inventory listings for six invoices for consumable goods, such as food, cleaning supplies, repair materials, and water deliveries. Crowe also noted that DynCorp failed to adequately support and document contract prices before awarding the subcontract to Alpha Omega.

As a result of these internal-control weaknesses and instances of non-compliance, Crowe identified \$17,747,226 in unsupported costs. Crowe did not identify any ineligible costs.

Crowe did not identify any prior reviews or assessments relevant to the contracts under audit or material to the SPFS. Crowe issued an unmodified opinion on DynCorp's SPFS, noting that it presents fairly, in all material aspects, revenues earned, 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 ACC:

1. Determine the allowability of and recover, as appropriate, \$17,747,226 in questioned costs identified in the report.
2. Advise DynCorp to address the report's five internal-control findings.
3. Advise DynCorp to address the report's four noncompliance findings.

Financial Audit 17-05-FA: USAID's Afghan Civic Engagement Program Audit of Costs Incurred by Counterpart International Inc.

On December 4, 2013, USAID awarded a \$70 million, five-year cooperative agreement to Counterpart International Inc. (Counterpart) to fund the Promoting Afghan Civic Education program. The program budget also required Counterpart to provide almost \$2.5 million in cost share funds. The program was intended to promote Afghan civil society and media engagement to enable Afghan citizens to influence public policy, monitor government accountability, and serve as advocates for political reform. In 2013, the program was renamed the Afghan Civic Engagement Program (ACEP), and Counterpart's cost-share requirement was reduced to \$2.4 million.

SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe), reviewed \$23,796,585 charged to the cooperative agreement from December 4, 2013, through September 30, 2015.

Crowe identified three deficiencies in Counterpart's internal controls and three instances of noncompliance with the terms and conditions of the ACEP cooperative agreement. Specifically, Crowe found that Counterpart could not provide adequate supporting documentation for travel costs of

\$610 and for \$745 in cost-share expenses. Crowe also noted that a subrecipient used an incorrect overhead rate, which resulted in an overcharge for general and administrative expenses. However, the subrecipient reimbursed the overcharge to the government, so Crowe did not question these costs.

As a result of the internal-control deficiencies and instances of non-compliance, Crowe identified \$1,355 in unsupported costs. Crowe did not identify any ineligible costs.

Crowe obtained and reviewed two prior audit reports, which included SIGAR financial audit (SIGAR 14-15-FA, *USAID's Initiative to Promote Afghan Civil Society Project: Audit of Costs Incurred by Counterpart International Inc.*, January 3, 2014), pertinent to Counterpart's financial performance under the agreement. Crowe identified and followed up on five audit findings. After reviewing and assessing information on the applicable findings, Crowe concluded that Counterpart took adequate corrective actions to address these findings.

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

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

1. Determine the allowability of and recover, as appropriate, \$1,355 in questioned costs identified in the report.
2. Advise Counterpart to address the report's three internal-control findings.
3. Advise Counterpart to address the report's three noncompliance findings.

Financial Audit 17-06-FA: Department of State Grants for Afghanistan Media Production and Outreach Program Audit of Costs Incurred by Recipient

Between March 2011 and October 2015, the Department of State (State) awarded four grants and four cooperative agreements to the recipient, which were intended to use media production and outreach to support the Afghanistan reconstruction effort. Activities conducted under the awards included producing television and radio programs to raise awareness of health issues, organizing presidential and parliamentary town-hall debates, and creating television episodes to promote the Afghan National Police. The eight awards were active from March 22, 2011, through October 1, 2015, with total obligated funding of \$4,551,719. SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe), reviewed \$4,551,719 in expenditures charged to the grants and cooperative agreements from March 22, 2011, through October 1, 2015.

Crowe identified seven material weaknesses and two significant deficiencies in the recipient's internal controls. In addition, Crowe found 10 instances of noncompliance with the terms and conditions of the grants and cooperative agreements. Specifically, Crowe found that the recipient

received \$2,624,976 in excess funding that was not supported by allowable expenditures or costs incurred. This was because State based the recipient's payments on budgeted amounts instead of actual cash needs. Crowe also questioned \$544,163 because the recipient was unable to provide the required approval from the State grants officer for four sub-agreements the company awarded. In addition, the recipient could not produce supporting documentation for five transactions worth a total of \$261,449.

As a result of these internal-control deficiencies and instances of noncompliance, Crowe identified \$3,759,339 in total questioned costs, consisting of \$98,331 ineligible costs and \$3,661,008 in unsupported costs. Crowe also calculated that the recipient received excess payments of \$2,624,976, resulting in \$67,949 in imputed interest.

Crowe evaluated one prior compliance review relevant to the recipient's work under these awards. This report contained four observations that may be material to the SPFS or financial data significant to the audit objectives. Crowe concluded that adequate corrective action had not been taken for two of the four observations regarding noncompliance with the terms of the cooperative agreement regarding financial reporting and ensuring subrecipients are not on the excluded-parties list.

Crowe issued a modified opinion on the recipient's SPFS due to the amount of questioned costs related to inadequate supporting documentation, unapproved subawards, and ineligible and unsupported transactions. In addition, the \$2,624,976 in excess funds is not represented on the SPFS because the recipient did not present the corresponding adequate supporting documentation.

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

1. Determine the allowability of and recover, as appropriate, \$3,759,339 in questioned costs identified in the report.
2. Collect \$67,949 in unremitted interest from the recipient.
3. Advise the recipient to address the report's nine internal-control finding.
4. Advise the recipient to address the report's ten noncompliance findings.

Financial Audit 17-07-FA: Construction of Nimroz Province Border Patrol Facilities

Audit of Costs Incurred by AECOM Technical Services

On August 22, 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, \$26.8 million task order to URS Group Inc. (URS). In 2014, URS was acquired by AECOM Technology, which was later reorganized to become AECOM Technical Services (AECOM). In consideration of this change, SIGAR's recommendations refer to AECOM, which is now responsible and accountable for addressing any findings related to URS's work.

SIGAR OVERSIGHT ACTIVITIES

The purpose of the task order was to design and construct facilities and infrastructure in Nimroz Province: three border-patrol company headquarters at Kang, Burjas, and Taba-e Talib; and one border crossing point at Zarang. After 14 modifications, the total cost of the task order decreased to \$26.7 million, and the period of performance was extended to February 14, 2014.

SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe), reviewed \$26,711,594 in expenditures charged to the task order from August 30, 2011, through February 14, 2014.

Crowe identified two material weaknesses and five instances of non-compliance with the terms and conditions of the task order. Specifically, AECOM did not allocate costs by specific tasks, technically known as contract line item numbers (CLIN), as required by the task order. AECOM also exceeded CLIN funding limits by \$3,278,588. By exceeding the amounts allocated to specific task order requirements without formal approval, the Air Force Civil Engineer Center may have paid more for those tasks than necessary or authorized. The amounts are not reflected as questioned costs since the 772nd Enterprise Sourcing Squadron indicated that the Contracting Officer at the time may have allowed the contractor to exceed funding limits for specific task order requirements. Crowe noted that the rationale for the decision was unclear, and neither the Squadron nor AECOM was able to provide documentary evidence.

Additionally, Crowe noted that AECOM improperly charged the government for an information technology purchase and for general purpose office equipment. Further, AECOM could not provide adequate supporting documentation for the disposition of equipment and property, such as power generators and diesel. Crowe also found that AECOM charged the task order for travel costs incurred under a different task order.

As a result of these internal-control weaknesses and instances of noncompliance, Crowe identified \$6,701 in total questioned costs, consisting entirely of ineligible costs. Crowe did not identify any unsupported costs.

Crowe did not identify any prior audits or assessments that pertained to AECOM's construction of the Nimroz Province border-patrol facilities or were material to the SPFS. Accordingly, there were no corrective actions required for follow up by Crowe.

Crowe issued a disclaimer of opinion on AECOM's Special Purpose Financial Statement because AECOM did not fully and accurately allocate costs incurred by contract line item number. As a result, Crowe could not determine whether adjustments to the SPFS were necessary.

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, \$6,701 in questioned costs identified in the report.
2. Advise AECOM to address the report's two internal-control findings.
3. Advise AECOM to address the report's five noncompliance findings.

COMPLETED INSPECTION REPORTS

- Inspection Report 16-56-IP: Gardez Hospital
- Inspection Report 17-03-IP: Special Mission Wing Facilities at Kandahar Airfield
- Inspection Report 17-08-IP: Herat University Women's Dormitory
- Inspection Report 17-09-IP: Salang Hospital

INSPECTIONS

Inspection Reports Published

This quarter, SIGAR published four inspection reports, including one that examined USAID's cooperative agreement with the International Organization for Migration for construction of a 100-bed hospital in Gardez, Paktiya Province, and a follow-up inspection that examined the construction and furnishing of a 20-bed hospital in the Salang District of Parwan Province.

Inspection Report 16-56-IP: Gardez Hospital

\$14.6 Million and Over Five Years to Complete, Yet Construction Deficiencies Still Need to be Addressed

On January 19, 2008, USAID entered into a three-year, \$57 million cooperative agreement with the International Organization for Migration (IOM) to implement the Construction of Health and Education Facilities program. This program supported the construction of a 100-bed hospital in Gardez, Paktiya Province, which was intended to replace an existing 70-bed hospital. When completed and equipped, the hospital was expected to fulfill basic and advanced medical needs of local residents.

This is a follow-up to SIGAR's prior inspection of the Gardez hospital. In October 2013, SIGAR reported that construction of the hospital was significantly behind schedule, and that IOM overpaid Sayed Bilal Sadath Construction Company (SBSCC), an Afghan firm, by at least \$507,000 for diesel fuel and a temperature control device that ensured heating, ventilation, and air conditioning systems did not overheat or overcool spaces. SIGAR recommended in that report that USAID complete a detailed financial audit of IOM's incurred costs associated with building the hospital.

The objectives of this follow-up inspection were to assess whether (1) construction was completed in accordance with contract requirements and technical specifications, and (2) the hospital was being used as intended and maintained. SIGAR conducted its work at the Gardez hospital in Paktiya Province and in Kabul, Afghanistan, from November 2014 through August 2016, in accordance with the Quality Standards for Inspection and Evaluation, published by the Council of the Inspectors General on Integrity and Efficiency.

In response to a recommendation in SIGAR's October 2013 inspection report, USAID completed a detailed financial audit of IOM's incurred costs associated with building the Gardez hospital. USAID also provided SIGAR with documentation showing that, on August 1, 2015, it recouped \$694,863 from IOM, which included the \$507,000 in overpayments for the diesel fuel and a temperature-control device, and an additional \$187,863 that was identified as unallowable, based on the full audit of IOM's incurred costs.

In this follow-up inspection, SIGAR found that more than five years after construction began, the \$14.6 million Gardez hospital was mostly complete,

SIGAR OVERSIGHT ACTIVITIES



Construction deficiencies are already visible at a USAID-funded hospital in Gardez, Paktiya Province, completed in early 2016. (SIGAR photos)

with minor “punch list” items remaining. The building had multiple wings containing separate wards for male and female surgery, an administrative area, conference rooms, an emergency ward, a rehabilitation ward, a pharmacy, and a laboratory. We also observed that the hospital had a parking lot, a potable water system, two water towers, a water well, a wastewater-treatment system, and two diesel generators.

However, SIGAR found that not all work was completed according to contract requirements and technical specifications. Most notably, SIGAR found deficiencies with the hospital’s fire safety system, including the lack of an emergency lighting system, exit signs pointing in the wrong direction, and missing fire alarms.

SIGAR also found other construction requirements that the contractor did not fulfill and additional deficiencies. These included: equipment and acoustical ceilings not installed to withstand the effects of seismic activity; concrete pads for the boiler’s fuel tanks were constructed, but the fuel tanks had not been installed; fuel storage tanks were not installed and tested according to required standards; the water towers’ tanks, one of which had a leak, had not been tested for leaks; some roof sections did not have waterproof membranes correctly installed, allowing water to seep into the hospital’s interior; and the automatic fire-suppression sprinkler system was only partially completed.

SIGAR also found instances of poor workmanship that resulted in parts of the hospital experiencing deterioration that required repair before it was transferred to the Afghan government. These included cracks in the roadways and parking areas, crumbling sidewalk curbing, leaking roofs, cracked exterior plaster and peeling paint, and rusted hardware and hinges on the entry and exit gate. SIGAR brought 42 deficiencies involving poor workmanship to USAID’s attention in June 2015. USAID provided IOM with the list of deficiencies.

SIGAR OVERSIGHT ACTIVITIES

On July 31, 2015, IOM responded to SIGAR, and in some cases included photographs, detailing the corrective actions it was taking to correct those deficiencies. Based on the information provided, SIGAR determined that IOM had rectified 13 of the 42 deficiencies identified, and as of July 2015, was still working on 21 and had not yet started correcting four. For the remaining four deficiencies, IOM did not agree with SIGAR's assessment that corrective action was necessary.

SIGAR expressed concern about the contractor's poor performance and the project's delays in its previous inspection and audit reports on the Gardez hospital. For example, in SIGAR's October 2013 inspection report, it was noted that the hospital was about 23 months behind its original completion date, and at that time, the hospital was estimated only to be about two-thirds complete. USAID did not formally transfer the hospital to the Ministry of Public Health (MOPH) until March 2016. USAID stated that, as of April 2016, the hospital was mostly complete with some minor punch list items needing to be completed by IOM.

Now that the Gardez hospital has been transferred to the MOPH, SIGAR is concerned about whether the Afghan government will be able to provide adequate funding to operate and maintain the hospital at full capacity. The Afghan government estimates it will cost \$2.3 million annually to operate and maintain the Gardez hospital, which is almost four times the \$600,000 annual cost to operate the hospital it is replacing.

SIGAR recommended that the USAID Mission Director for Afghanistan: (1) monitor and document IOM's continued actions to correct construction work that did not adhere to contract requirements and technical specifications, and deficiencies involving poor workmanship (This includes installing the hospital emergency lighting system; installing lateral bracing required for seismic activity on all ceiling-, wall-, and floor-mounted equipment; and repairing those sections of the hospital's roof that are missing protective membrane or contain standing water and are leaking.); (2) continue consulting with the MOPH until it assesses the need for completing the automatic fire-suppression sprinkler system; (3) provide to SIGAR the contract modification that authorized SBSCC to substitute a standby generator for a prime generator, as well as documentation showing that the U.S. government was not charged for a higher-priced prime generator; and (4) in coordination with MOPH, determine whether there is an adequate funding plan in place to operate and maintain Gardez hospital at full capacity.

Inspection Report 17-03-IP: Special Mission Wing Facilities at Kandahar Airfield

Construction Generally Met Contract Requirements, but Instances of Noncompliance with the Contract and Quality Assurance Procedures Need to be Addressed

On December 13, 2012, U.S. Army Corps of Engineers (USACE) awarded a \$26.3 million firm-fixed-price contract to Environmental Chemical

SIGAR OVERSIGHT ACTIVITIES

Corporation (ECC), a U.S. company, to construct facilities and infrastructure for the Special Mission Wing's (SMW) 3rd Air Squadron at Kandahar Airfield. The SMW, headquartered in Kabul, Afghanistan, established the 3rd Air Squadron in 2014. The project included the design, materials, labor, and equipment to construct the facilities, which included a command headquarters building, an administration building, a vehicle-maintenance building, and multiple barracks buildings.

On January 17, 2013, USACE modified the contract to decrease the scope of work, which caused the contract's price to decrease by \$2.5 million to \$23.8 million. On September 30, 2014, USACE transferred the SMW 3rd Air Squadron facilities CSTC-A. In October 2015, the Afghan government reorganized the SMW, and the 2nd Air Squadron now occupies the Kandahar facilities.

The objectives of this inspection were to determine whether (1) construction was completed in accordance with contract requirements and applicable construction standards, and (2) the facilities are being used and maintained.

SIGAR found that the SMW 2nd Air Squadron's facilities and infrastructure were generally constructed in accordance with contract requirements and technical specifications. For example, the command headquarters, administration, and barracks buildings, along with other facilities, were well constructed. Generally, these buildings contained all of the required systems, such as heating and air conditioning and fire protection. None of the facilities showed signs of structural cracks or peeling paint.



The wastewater treatment plant at the Special Mission Wing facilities at Kandahar Airfield on February 10, 2016, with one nonoperational tank and the other tank overflowing, was examined as part of a SIGAR inspection. (SIGAR photo by Javed Khairandish)

SIGAR OVERSIGHT ACTIVITIES

SIGAR found five instances in which ECC did not fully comply with contract requirements and technical specifications, some of which have health and safety implications. These instances included (1) the absence of fire extinguishers in the security building and passenger terminal; (2) the lack of spill containment and spill treatment systems at the vehicle fuel point; (3) the failure to install a gasoline fuel pump in the motor pool service yard; (4) the placement of fuel-storage tanks at the power-generation plant too close together and without required water draw-off lines and nameplates to identify the tanks' contents; and (5) an improperly constructed vehicle wash rack for which USACE paid ECC approximately \$78,000.

USACE did not fully comply with its own quality-assurance procedures. Although USACE engineers filed daily quality-assurance reports during most of the 607-day construction period, SIGAR found that for 102 of 114 days in the middle of construction period, the daily quality-assurance report consisted of a blank page. Quality-assurance reports are important because they provide information on safety inspections, contractor quality control, and the results of quality-control tests. Further, SIGAR found no evidence that there was a four-month warranty inspection, and although there was a nine-month warranty inspection, CSTC-A, the project's customer, was not present to help identify deficiencies.

The SMW 2nd Air Squadron's facilities at Kandahar Airfield were being used to support SMW training and operations, but some facilities were not being used at full capacity. However, as the squadron continues to grow from its current size of about 100 personnel, usage is likely to increase. SIGAR also found that with a few exceptions, such as the partially functioning wastewater-treatment plant, the facilities were being reasonably well maintained.

SIGAR made three recommendations. First, SIGAR recommended that the commander of CSTC-A, in coordination with the commanding general and chief of engineers of USACE, correct all health and safety hazards identified in this report, specifically: (a) install the fire extinguishers in the security building and passenger terminal, (b) remove the propane tanks and combustible materials near the cooking building, (c) install the water draw-off lines in the power-generation plant, (d) repair the wastewater-treatment plant's nonworking tank and ensure the plant is fully operational, and (e) repair the heating system in the maintenance hangar. Second, SIGAR recommended that CSTC-A, in coordination with USACE, pursue a refund from ECC for infrastructure that USACE paid for, but did not receive, including the (a) spill-containment and spill-treatment systems for the vehicle fuel point, (b) vehicle wash rack with all required features, and (c) gasoline fuel pump in the motor pool service yard. Third, SIGAR recommended that CSTC-A, in coordination with USACE, determine why CSTC-A officials were not present at the nine-month warranty inspection and take steps as appropriate to reinforce the importance of including all required

parties in warranty inspections for other USACE-constructed projects in Afghanistan.

Inspection Report 17-08-IP: Herat University Women's Dormitory Dormitory is Generally Well-Constructed, but There are Instances of Non-Compliance with the Contract That Should be Addressed

On June 24, 2013, USFOR-A provided \$7.1 million in Commander's Emergency Response Program funding to USACE to build a women's dormitory at Herat University in Herat, Afghanistan. On July 26, 2013, USACE awarded a \$5.28 million firm-fixed-price contract to Poushang Construction Company, an Afghan firm, to design and construct a three-story dormitory for 372 female students. Poushang Construction started building the dormitory on August 10, 2013, and the dormitory was to be completed 490 days later, on December 13, 2014.

On February 14, 2015, USACE turned over the dormitory, operation and maintenance (O&M) manuals, and as-built drawings to USFOR-A, who transferred it to the Afghan Ministry of Higher Education (MOHE) on March 1, 2015. As part of the transfer, USFOR-A agreed to complete additional work outlined in two approved modifications that USACE requested and issued to Poushang Construction, increasing the contract award amount to \$5.59 million.

In addition, on May 15, 2015, the U.S. Embassy Kabul's Public Affairs Section (PAS) awarded Barikab Durani Logistic Service, an Afghan company, a \$276,479 firm-fixed-price contract to procure, deliver, and install new dormitory furnishings. On August 25, 2015, the PAS entered into a \$1.08 million cooperative agreement with Binazeer Construction Company, an Afghan firm, to provide O&M for the women's dormitories at Herat and Balkh Universities. The agreement required Binazeer Construction Company to procure labor, materials, and equipment to support O&M of the Herat University women's dormitory for two years, from August 2015 to August 2017.

A February 2015 memorandum of understanding between the PAS, the MOHE, and Herat University requires the university, with assistance from the MOHE, to take over responsibility for the dormitory's O&M in August 2017. A 2012 memorandum of agreement between USFOR-A and the MOHE estimated the O&M costs at \$220,000 annually. The objectives of this inspection were to determine whether (1) construction of the dormitory was completed in accordance with contract requirements and applicable construction standards, and (2) the dormitory was being used and maintained.

SIGAR found that Poushang Construction generally constructed a well-built women's dormitory and supporting facilities at Herat University. The fact that university officials and the 200 female student occupants are generally satisfied with the dormitory speaks well for the project. However,

SIGAR OVERSIGHT ACTIVITIES



This new women's dormitory, a U.S.-funded project at Herat University, was generally well built, SIGAR inspectors found, but lacked fire alarms, among other contract-compliance issues. (SIGAR photo)

SIGAR found some instances of contract noncompliance, such as the absence of a lightning-protection system and flashing-light fire alarms. These instances of contract noncompliance could pose safety risks for students and visitors. Finally, of the 29 fire extinguishers installed in the dormitory, SIGAR found that one had no embossed manufacture date and two did not have manufacturer name plates on them, which raised concerns about whether they would work in the event of a fire. Most of these deficiencies require immediate attention because the contract warranty period expires in December 2016.

To help protect the U.S. taxpayers' investment in the Herat University women's dormitory, and to reduce the health and safety risks to dormitory occupants, SIGAR recommends that the commanding general of USFOR-A, in coordination with the commanding general and chief of engineers of USACE, take the following actions and report the results back to SIGAR within 90 days: (1) direct Poushang Construction to correct all instances of contract non-compliance identified in this report, such as the failure to install flashing-light fire alarms, before the contract warranty period expires in December 2016; and (2) conduct an examination of the dormitory's fire extinguishers to determine whether they are faulty and, if so, replace them.

Inspection Report 17-09-IP: Salang Hospital Unaddressed Construction Deficiencies, Along with Staffing and Equipment Shortages, Continue to Limit Patient Services

On September 11, 2009, the Bagram Regional Contracting Center awarded a \$597,929 firm-fixed-price contract to Shafi Hakimi Construction Company, an Afghan company, to construct and furnish a 20-bed hospital in the Salang District of Parwan Province. The contract required the company to build a hospital that included, among other things, surgical and x-ray areas, a laboratory, and separate wards for men and women; install electrical, water, and septic systems; and construct a separate building with patient toilet facilities and a separate guard shack. The hospital was expected to serve the approximately 50,000 inhabitants of the Salang District and employ about 150 staff. U.S. Forces-Afghanistan (USFOR-A) transferred the hospital to the governor of Parwan Province on September 12, 2012, and it began accepting patients in January 2013.

SIGAR first inspected Salang hospital in November 2013 and reported its results in January 2014. SIGAR found that Salang hospital was poorly constructed and the contractor did not meet all of the contract's requirements. The hospital also had other construction deficiencies that raised health and safety concerns. SIGAR determined that USFOR-A's ineffective oversight contributed to these construction deficiencies. Based on the inspection, SIGAR made four recommendations to USFOR-A to address the oversight shortfalls and assess the structural integrity of the hospital.

The objectives of this follow-up inspection were to assess whether (1) progress has been made in addressing the deficiencies we previously identified, and (2) whether the hospital is being used.

SIGAR conducted a follow-up site visit to Salang hospital on December 12, 2015, and found that none of the construction deficiencies identified in its January 2014 report had been corrected by the Afghan government. In response to a recommendation in SIGAR's prior report, a U.S. Army Corps of Engineers support team conducted an inspection of the hospital to assess its resistance to seismic activity and reported on its results in April 2014. While the team found that the entire facility was free of structural cracks and did not observe any structural defects, it could not determine the adequacy of the building's resistance to seismic activity because the required contract documents were not available for analysis. As a result, no corrective action was taken to address the structural deficiency that could put the hospital at risk during an earthquake.

SIGAR also found that:

- The hospital still did not have a separate building with toilet facilities for patients, a separate guard shack, a water well, or a solar power system to generate electricity, all of which were required by the contract.
- Hospital staff continues to use a small generator to pump non-potable, untreated water from the nearby river into a steel holding tank in

SIGAR OVERSIGHT ACTIVITIES

the hospital's attic. The staff uses this water to treat patients, thus increasing the risk of disease for those patients. For example, this water is being used to clean and bathe newborn babies.

- The water-storage tank continues to leak water into the first and second floors, causing mold to form on the ceiling and walls in the corridors on the first and second floors, and various rooms, including the hospital waiting area and the maternity room.
- The stairway leading from the first to the second floor still lacks handrails, and the excessive slope of the wheelchair ramp has not been corrected, both of which create safety hazards for patients, staff, and visitors.

MOPH officials told SIGAR that these deficiencies have not been corrected due to a lack of funding. Finally, the hospital does not have sufficient funds to pay for fuel to operate the generator provided by the contractor. A hospital official told SIGAR that the MOPH is now providing about 100 liters of diesel fuel per month to the hospital, but that is only enough to operate a separate, smaller generator during emergencies.

Although Salang hospital continues to provide health services, hospital personnel stated that they lack adequate staff, furniture, and equipment. During SIGAR's December 2015 site visit, a hospital official stated that the hospital accepts patients 24 hours per day, seven days a week. Hospital staff also stated the hospital is now seeing about 100 patients per day, up from about 70 patients per day when SIGAR visited the facility in November 2013. However, the number of hospital personnel has dropped from 25 during SIGAR's prior visit to 19.

The MOPH has only provided Salang hospital with some basic furniture and equipment for its operations. For example, a hospital official told SIGAR that the hospital does not have computers, which makes completing reports a labor-intensive process. As another example, the hospital does not have a nebulizer, which is used to treat respiratory diseases that are common in the Salang District. As a result, hospital staff must send patients to Parwan hospital, a two-hour round-trip drive, to obtain treatment.

SIGAR did not make any new recommendations in this report.

Status of SIGAR Recommendations

The Inspector General Act of 1978, as amended, requires SIGAR to report on the status of its recommendations. This quarter, SIGAR closed 36 recommendations contained in 15 audit and inspection reports. Six of these reports contained recommendations that resulted in the recovery of \$1,017,841 in ineligible or unsupported contract costs paid by the U.S. government.

From 2009 through June 2016, SIGAR published 239 audits, alert letters, and inspection reports and made 696 recommendations to recover funds, improve agency oversight, and increase program effectiveness. SIGAR has

closed over 83% of these recommendations. Closing a recommendation generally indicates SIGAR's assessment that the audited agency has either implemented the recommendation or otherwise appropriately addressed the issue. In some cases, a closed recommendation will be the subject of follow-up audit work.

The Inspector General Act of 1978, as amended, also requires SIGAR to report on any significant recommendations from prior reports on which corrective action has not been completed. In this quarter, SIGAR continued to monitor agency actions on recommendations in 43 audit and inspection reports. In this quarter, there were no recommendations over 12 months old 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 29 audit and inspection reports over 12 months old, for which SIGAR is awaiting the respective agencies' completion of their agreed-upon corrective actions.

SPECIAL PROJECTS

SIGAR's Office of Special Projects was created to examine emerging issues and deliver prompt, actionable reports to federal agencies and the Congress. The team conducts a variety of assessments, producing reports on all facets of Afghanistan reconstruction. The directorate is made up of auditors, analysts, investigators, lawyers, subject-matter experts, and other specialists who can quickly and jointly apply their expertise to emerging problems and questions. This quarter, SIGAR's Office of Special Projects wrote seven products, including fact sheets, reviews, and inquiry letters, expressing concern on a range of issues including: eliminating "ghost" personnel in the ANDSF, the creation of the new Anti-Corruption Justice Center in Kabul, the Afghanistan Independent Joint Anti-Corruption Monitoring and Evaluation Committee's assessment of pervasive corruption at the Afghan MOPH, the limited operational capacity of the Afghan High Office of Oversight anticorruption body, and the scope of funds spent by the U.S. Department of Agriculture on the Afghan reconstruction effort.

Inquiry Letter 16-50-SP: DOD Efforts to Eliminate Ghost Personnel from ANDSF Systems

On August 5, 2016, SIGAR sent an inquiry letter to the Secretary of Defense requesting information on the reliability of the ANDSF personnel accountability systems after reports of "ghost" soldiers and police, particularly in Helmand Province.

In January 2015 SIGAR reported that more than \$300 million in annual, U.S.-funded salary payments to the Afghan National Police were based on only partially verified or reconciled data, and that there was no assurance

COMPLETED SPECIAL PROJECTS

- Special Project Inquiry Letter 16-50-SP: DOD Efforts to Eliminate Ghost Personnel from ANDSF Systems
- Special Project Inquiry Letter 16-51-SP: Anti-Corruption Justice Center
- Special Project Inquiry Letter 16-52-SP: Anti-Corruption Justice Center
- Special Project Inquiry Letter 16-55-SP: Afghanistan Independent Joint Anti-Corruption Monitoring and Evaluation Committee (MEC) Ministry of Public Health
- Special Project Inquiry Letter 16-57-SP: USAID Implementing the MEC Report Recommendations on the Afghan Ministry of Public Health
- Special Project Review 16-60-SP: Afghanistan's High Office of Oversight: Personal Asset Declarations of High-Ranking Government Officials are Not Consistently Registered and Verified
- Special Project Fact Sheet 17-04-SP: Department of Agriculture Funds Obligated for Afghanistan Reconstruction

that personnel and payroll data were accurate. SIGAR found similar deficiencies during the course of the April 2015 audit of Afghan National Army personnel and payroll data. There are continuing reports of significant gaps between the assigned force strength of the ANDSF and the actual number of personnel serving. In response to SIGAR's past audit recommendations, DOD outlined actions it was taking to improve the systems used for ANDSF personnel management. These efforts are intended to help identify "ghost" soldiers and police and remove them from ANDSF payrolls.

In addition, DOD continues to place financial controls on U.S. funds provided to the ANDSF through a series of financial-commitment letters with the Ministry of Defense (MOD) and the Ministry of Interior (MOI). These letters establish expectations for the responsible management of ANDSF funds and conditions under which funding can be withheld if these expectations are not met. However, these systems will only be effective if accurate data are captured and maintained on ANDSF attendance and attrition.

In a letter dated October 3, 2016, the Deputy Assistant Secretary of Defense for the Department of Defense's (DOD) Asian and Pacific Security Affairs outlined five DOD efforts implemented by the Combined Security Transition Command-Afghanistan (CSTC-A) to strengthen the use of electronic tracking and biometrics systems to account for ANDSF personnel: (1) data "cleaning", or correcting errors and completing data fields in the automated system for tracking Afghan soldiers and police (Afghan Human Resource Information Management System (AHRIMS)); (2) Personnel Asset Inventory (PAI): in-person verification and AHRIMS enrollment/record review to ensure that each soldier is enrolled in the biometric database and has a valid identification card; (3) biometric enrollment: CSTC-A has provided MOD and MOI with biometric enrollment capabilities and is scheduled to finish establishing them at training locations to ensure enrollment of new personnel by July 2017; (4) Afghan Pay and Personnel System (APPS): with the goal of improving transparency and accountability in the pay process, personnel will have to be in authorized billets in the APPS to be paid; and (5) commitment letters: these letters outline the conditions the Afghan government must meet to receive U.S. funding.

Inquiry Letter 16-51-SP: Anti-Corruption Justice Center

On August 10, 2016, SIGAR sent an inquiry letter to Secretary of Defense Ashton Carter regarding the extent of the Department of Defense's support for the newly established Anti-Corruption Justice Center (ACJC). SIGAR sent the inquiry to DOD because of its involvement in supporting the development of ACJC operations.

On June 30, 2016, President Ghani signed a decree creating the ACJC and tasking it with combating high-level corruption within the Afghan government. The center will comprise investigators from Afghanistan's Major Crimes Task Force, prosecutors from the Attorney General's Office,

and judges presiding over newly established courts, and is intended to be free from political pressures that hindered similar efforts in the past. The establishment of the ACJC appears to be a promising step toward improving Afghanistan's ability to investigate and prosecute high-level corruption cases. However, both the Independent Joint Anti-Corruption Monitoring and Evaluation Committee (MEC) and the High Office of Oversight and Anti-Corruption (HOOAC) in Afghanistan have expressed concern about the establishment of the ACJC, saying that the Afghan government's efforts are only a symbolic gesture of cooperation with the international community ahead of international summits on the issue. The concerns expressed by these anticorruption institutions raise questions regarding the timing of the ACJC's establishment and whether the ACJC will have the support and resources necessary to achieve its mission.

In a letter dated October 7, 2016, Acting Deputy Assistant Secretary of Defense (DASD) Jedidiah Royal replied that because DOD's mission is to fund and advise the Afghan MOI and MOD, funding and advising the ACJC is typically outside of DOD's mission. As examples, DASD Royal said the DOD would only be authorized to consider funding ACJC investigators detailed from the MOI, DOD is not advising the ACJC on jurisdictional thresholds because DOD does not directly advise the Afghan legal system, and DOD has no authority to fund ACJC facilities' construction requirements since that would not be for the direct benefit of MOD or MOI.

Inquiry Letter 16-52-SP: Anti-Corruption Justice Center

On August 10, 2016, SIGAR sent an inquiry letter to Ambassador McKinley at Embassy Kabul regarding the extent of his department's support for the newly established Anti-Corruption Justice Center (ACJC). SIGAR sent the inquiry to U.S. Embassy Kabul because of its involvement in supporting the development of ACJC operations.

In a September 7, 2016, letter, Ambassador McKinley responded that while State is supportive of anticorruption efforts in general, Embassy Kabul's position is that the ACJC must be an Afghan-led initiative. The ACJC is still in a developmental phases, and Embassy Kabul's role has been very limited; Ambassador McKinley said the most important factor in the ACJC's success would be the will of the Afghan government to prosecute high-level officials fairly in order to combat corruption.

Inquiry Letter 16-55-SP: Afghanistan Independent Joint Anti-Corruption Monitoring and Evaluation Committee Ministry of Public Health Assessment

On August 24, 2016, SIGAR sent an inquiry letter to Naseem Akbar, Executive Director of the Afghanistan Independent Joint Anti-Corruption Monitoring and Evaluation Committee (MEC), requesting a meeting between Akbar and Inspector General John Sopko regarding MEC's June

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2016 Special Report, “Vulnerability to Corruption Assessment in the Afghan Ministry of Public Health.”

IG Sopko praised the report and expressed surprise for the nature and extent of the corruption found by MEC in the MOPH. He suggested discussing the following issues in a meeting with Akbar in order to achieve MEC and SIGAR’s mutual goals of promoting transparency and detecting and deterring waste, fraud, and abuse in Afghanistan: (1) whether the MOPH responded to the MEC report and if MEC staff were satisfied with the MOPH response; (2) whether MEC plans to monitor the MOPH’s efforts to implement the 115 recommendations of the report or to assist the MOPH in implementing the recommendations; and (3) whether MEC plans to examine and produce similar reports on other ministries within the Afghan government, and if so, which ministries would be reviewed and in what timeframe.

In a letter dated August 31, 2016, Akbar responded to IG Sopko and stressed the Minister of Public Health’s eagerness to solve these issues and his cooperation in the process. He said that MEC is working closely with the MOPH to implement its new development of a comprehensive work plan to address the MEC report’s findings. Akbar also reported that other ministerial-level institutions within the Afghan government have asked MEC to conduct similar ministry-wide vulnerability to corruption assessment, which include the Afghan Attorney General’s Office, the Ministry of Education and the Ministry of Commerce and Industry. Additionally, Breshna Electrical Corporation, the traffic and vehicle registration departments and the Ministry of Transportation’s Directorate General, Private Sector Ground Transport office have requested that MEC conduct vulnerability to corruption assessments for their organizations. Akbar concluded by saying he would look forward to meeting IG Sopko in Kabul to discuss these issues further.

IG Sopko is scheduled to meet with MEC during his trip to Kabul in late October.

Inquiry Letter 16-57-SP: USAID Implementing the MEC Report Recommendations on the Afghan Ministry of Public Health

On August 29, 2016, SIGAR sent an inquiry letter to USAID Administrator Gayle E. Smith requesting information about USAID’s perception of MEC’s MOPH corruption assessment given USAID’s longstanding direct and indirect support of the MOPH. IG Sopko specifically wanted to understand whether USAID concurred with the MEC’s MOPH assessment in terms of the level and pervasiveness of corruption in the Afghan public-health system, and if so, whether USAID is considering placing additional conditions on MOPH for any funds it receives in the future.

IG Sopko also asked USAID whether it is considering revising any of its own policies or procedures related to the MOPH as a result of the MEC’s

findings. Because of USAID's partnership with the World Bank to implement the System Enhancing for Health Actions in Transition (SEHAT) program, part of which builds capacity in the MOPH, IG Sopko asked whether USAID requested that the World Bank (WB) make any changes to the administration of the SEHAT program as a result of the MEC report, or if the WB has suggested or made any changes. Last, IG Sopko asked if USAID is planning, or has taken, any specific actions to assist the MOPH in combatting corruption, promoting transparency, or implementing any of the 115 recommendations included in the MEC MOPH assessment.

In a letter dated September 20, 2016, the Mission Director of USAID/Afghanistan responded that USAID does not currently provide direct funding to the MOPH, and that USAID's existing policies and procedures are sufficient for safeguarding its funds for health projects in Afghanistan. USAID reported that the WB recently completed a mid-term review of the SEHAT program and identified key areas of SEHAT to strengthen in keeping with the MEC report's recommendations. WB also said that MOPH is taking decisive actions to clarify its operating procedures, build its staff's capacity to oversee and manage the Afghan health sector, and improve regulation and oversight of pharmaceuticals. In order to help MOPH combat corruption and implement the MEC report's recommendations, USAID has both publicly and privately expressed support for the Ministry, identified and suggested projects that can support MEC's recommendations to the MOPH, and helped the MOPH form an Anti-Corruption Strategy Working Group to prepare an action plan.

Review 16-60-SP: Afghanistan's High Office of Oversight: Personal Asset Declarations of High Ranking Government Officials Are Not Consistently Registered and Verified

On September 19, 2016, SIGAR released a review of the of the High Office of Oversight (HOO), which was established in 2008 to combat corrupt practices within the Afghan government. In December 2009, SIGAR reported that, in the year after its establishment, the HOO had undertaken a number of anticorruption initiatives with limited progress, including the development of an asset declaration process. SIGAR also found that the HOO suffered from significant gaps in operational capacity, lacked the authority and independence required to become an effective anticorruption institution, was greatly understaffed, and that many of its employees lacked basic computer skills and information-gathering abilities.

This review was conducted in Washington, DC, and Kabul, Afghanistan, from December 2015 to June 2016. It followed up on SIGAR's 2009 audit and reexamined the HOO's effectiveness in fighting corruption, with a specific focus on the office's ability to register, verify, and publish the asset declarations of Afghanistan's top government officials under the two Karzai administrations and the early stages of the Ghani administration.

SIGAR found that the HOO still suffers from a lack of independence and authority to fulfill its mandate, lacks enforcement power, and, in some instances, has failed to register and verify asset declarations. Moreover, the asset declarations that were verified by the HOO contained errors and omissions that would have hindered robust verification efforts. Because the HOO has been unable to provide SIGAR with supporting documentation showing how it verified asset declarations and the outcomes of verification efforts, those errors in and omissions from verified declaration forms raise questions regarding the efficacy of the process.

To conduct this review, SIGAR reviewed relevant documentation, such as the asset declaration filings of top Afghan government officials, and interviewed key officials and advisors from the HOO, the Department of State, the Department of Defense, the U.S. Agency for International Development (USAID), and international organizations, including the United Nations Development Programme and United Nations Office of Drugs and Crime.

SIGAR provided a draft of this report to the Department of Defense, the Department of State, and USAID for review on August 23, 2016. We received comments from USAID on September 8, 2016, which concurred with our overall assessment of the HOO. SIGAR did not receive comments from the Department of Defense or the Department of State.

Fact Sheet 17-04-SP: Department of Agriculture Funds Obligated for Afghanistan Reconstruction

On October 17, 2016, SIGAR released a factsheet with a summary analysis of the funds obligated and used for projects related to Afghanistan's reconstruction by the U.S. Department of Agriculture (USDA) and the Commodity Credit Corporation (CCC), a federal corporation established within USDA subject to the supervision and direction of the Secretary of Agriculture. This special project was conducted in Washington, DC from October 2015 to July 2016, in accordance with SIGAR's quality control standards.

Between FY 2003 and FY 2014, USDA and the CCC obligated \$275,123,910 for reconstruction projects in Afghanistan. USDA and the CCC used these funds to support a variety of efforts, including food assistance, strengthening animal disease diagnostics, and small business development. Data provided by USDA showed that of the \$275,123,910 in total obligations by USDA and the CCC for Afghanistan, roughly \$274,908,500 was used for reconstruction projects focused on food assistance. This included school food and market-development projects between FY 2003 and FY 2014 implemented through 20 cooperative agreements with eight different implementing partners.

USDA's reconstruction activities, including those receiving CCC funds, primarily fell under the broad category of food assistance, and can be further broken down into three primary projects: Food for Progress, McGovern-Dole International Food for Education and Child Nutrition, and Section 416(b) projects. These three projects provided \$274,908,500, in

food assistance for Afghanistan. A fourth program, the Cochran Fellowship program, administered five projects in Afghanistan that SIGAR identified as reconstruction activities because they mainly involved funding veterinary and livestock-husbandry training courses. The five Cochran Fellowship projects provided an additional \$215,410, bringing total USDA and CCC obligations to \$275,123,910.

Between FY 2003 and FY 2014, USDA obligated approximately \$68,790,540 in non-CCC funds for reconstruction projects that supported school feeding and maternal and child nutrition projects. These funds were obligated to the USDA's Food for Education McGovern-Dole program. World Vision implemented the five separate Food for Education McGovern-Dole agreements.

USDA also reported that the CCC was active in Afghan reconstruction. The CCC receives funding through the same appropriations legislation as USDA, but, according to a USDA official, the CCC also has funding sources that are distinct from other USDA appropriations. The CCC contributed roughly \$206 million towards reconstruction projects in Afghanistan through a series of cooperative agreements with eight different implementing partners. The CCC funded reconstruction activities in Afghanistan through Section 416(b) projects and the Food for Progress program. The largest recipient of funds from the CCC was the Afghan government, which received approximately \$71 million (roughly 35% of all funds).

LESSONS LEARNED

SIGAR's Lessons Learned Program was created to identify and preserve lessons from the U.S. reconstruction experience in Afghanistan and make recommendations to Congress and executive agencies on ways to improve our efforts in current and future operations. The program currently has six projects in development: interagency strategy and planning, coordination of international donor aid, counternarcotics, private-sector development and economic growth, security-sector reconstruction, and stabilization.

This quarter, SIGAR published its first lessons-learned report, *Corruption in Conflict: Lessons from the U.S. Experience in Afghanistan*, and the report of the joint SIGAR and United States Institute of Peace conference, "Lessons from the Coalition: International Experiences from the Afghanistan Reconstruction."

Lessons Learned Report 16-58-LL: Corruption in Conflict: Lessons from the U.S. Experience in Afghanistan

On September 14, 2016, SIGAR released its first lessons-learned report, *Corruption in Conflict*. The report examines how the U.S. government—primarily the Departments of Defense, State, Treasury, and Justice, and the U.S. Agency for International Development—understood the risks of

COMPLETED LESSONS LEARNED PRODUCTS

- Lessons Learned 16-58-LL: Corruption in Conflict: Lessons from the U.S. Experience in Afghanistan
- Lessons Learned 16-59-LL: Lessons from the Coalition: International Experiences from the Afghanistan Reconstruction

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corruption in Afghanistan, how the U.S. response to corruption evolved, and the effectiveness of that response.

SIGAR's research and analysis revealed that corruption substantially undermined the U.S. mission in Afghanistan from the beginning of Operation Enduring Freedom. SIGAR found that corruption cut across all aspects of the reconstruction effort, jeopardizing progress made in security, rule of law, governance, and economic growth. The report concluded that failure to effectively address the problem meant U.S. reconstruction programs, at best, would continue to be subverted by systemic corruption and, at worst, would fail.

The report identified five main findings:

1. Corruption undermined the U.S. mission in Afghanistan by fueling grievances against the Afghan government and channeling material support to the insurgency.
2. The United States contributed to the growth of corruption by injecting tens of billions of dollars into the Afghan economy, using flawed oversight and contracting practices, and partnering with malign powerbrokers.
3. The U.S. government was slow to recognize the magnitude of the problem, the role of corrupt patronage networks, the ways in which corruption threatened core U.S. goals, and that certain U.S. policies and practices exacerbated the problem.
4. Even when the United States acknowledged corruption as a strategic threat, security and political goals consistently trumped strong anticorruption actions.
5. Where the United States sought to combat corruption, its efforts saw only limited success in the absence of sustained Afghan and U.S. political commitment.

From these findings, SIGAR identified six lessons that should inform U.S. policies and actions at the onset of and throughout a contingency operation:

1. The U.S. government should make anticorruption efforts a top priority in contingency operations to prevent systemic corruption from undermining U.S. strategic goals.
2. U.S. agencies should develop a shared understanding of the nature and scope of corruption in a host country through political economy and network analyses.
3. The U.S. government should take into account the amount of assistance a host country can absorb, and agencies should improve their ability to effectively monitor this assistance.
4. The U.S. government should limit alliances with malign powerbrokers and aim to balance any short-term gains from such relationships against the risk that empowering these actors will lead to systemic corruption.

5. U.S. strategies and plans should incorporate anticorruption objectives into security and stability goals, rather than viewing anticorruption as imposing tradeoffs on those goals.
6. The U.S. government should recognize that solutions to endemic corruption are fundamentally political. Therefore, the United States should bring to bear high-level, consistent political will when pressing the host government for reforms and ensuring U.S. policies and practices do not exacerbate corruption.

The report makes 11 recommendations for legislative and executive-branch action:

Legislative Recommendations:

1. Congress should consider enacting legislation that makes clear that anticorruption is a national security priority in a contingency operation and requires an interagency anticorruption strategy, benchmarks, and annual reporting on implementation.
2. Congress should consider enacting legislation that authorizes sanctions against foreign government officials or their associates who engage in corruption.
3. Congress should consider requiring DOD, State, USAID, and other relevant executive agencies to establish a joint vendor vetting unit or other collaborative effort at the onset of any contingency operation to better vet contractors and subcontractors in the field.

Executive Branch Recommendations:

4. The NSC should establish an interagency task force to formulate policy and lead strategy on anticorruption in contingency operations.
5. At the onset of any contingency operation, the Intelligence Community should analyze links between host government officials, corruption, criminality, trafficking, and terrorism. This baseline assessment should be updated regularly.
6. DOD, State, USAID, and the Intelligence Community should each designate a senior anticorruption official to assist with strategic, operational, and tactical planning at headquarters at the onset of and throughout a contingency operation.
7. DOD, State, and USAID should each establish an Office for Anticorruption to provide support, including advice on anticorruption methods, programming, and best practices, for personnel in contingency operations.
8. The President should consider amending Executive Order 13581, which authorizes the listing of transnational criminal organizations on Treasury's Office of Foreign Assets Control Specially

- Designated Nationals list, to include individuals and entities who have engaged in corruption and transferred the proceeds abroad.
9. In international engagements related to contingency operations, the U.S. government should bring high-level political commitment to bear against corruption to ensure anticorruption is a priority from the outset for the host government and international and regional partners.
 10. The State Department should place a high priority on reporting on corruption and how it threatens core U.S. interests, consistent with new anticorruption initiatives by the department and recommendations in the 2015 Quadrennial Diplomacy and Development Review.
 11. DOD, State, USAID, Treasury, Justice, and the Intelligence Community should increase anticorruption expertise to enable more effective strategies, practices, and programs in contingency operations.

Lessons Learned Conference Report 16-59-LL: “Lessons from the Coalition: International Experiences from the Afghanistan Reconstruction”

On September 28, 2016, LLP released its conference report from the joint SIGAR and United States Institute of Peace (USIP) conference, “Lessons from the Coalition: International Experiences from the Afghanistan Reconstruction.” The conference was held April 19–20, 2016, at USIP in Washington, DC.

The international effort to rebuild Afghanistan has been unprecedented in many respects, including its cost, duration, and diversity of donors. Since 2001, each of the more than 45 nations involved in the Afghanistan reconstruction has had unique experiences influenced by its own history and culture, as well as the specific geographic area and mission in which it focused. A wellspring of government and academic efforts have recently attempted to capture these nations’ best practices and lessons.

Recognizing that no one nation holds a monopoly on lessons and best practices from our shared experiences in Afghanistan, SIGAR and USIP convened a conference to gather policy makers and experts from major coalition donors to share their perspectives and gain insights into ways we can learn from our common reconstruction challenges. Participants included senior officials and experts from the nations and organizations involved in the reconstruction of Afghanistan, whose discussions provided many valuable insights.

Four themes emerged from the conference:

1. **Conflicting goals and actors:** In Afghanistan, where warfighting and development often shared the same space, there was a need to negotiate the tensions between short-term security and

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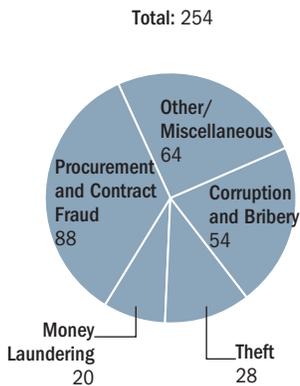
longer-term development goals. Trying to pursue both often led to discordant efforts. The United States Integrated Civilian-Military Plan and Denmark's interministerial strategy papers were two innovations that attempted to bridge the gap between these two sets of goals.

2. **Effective donor coordination:** Shared goals were the fundamental basis for effective coordination between donors. Without shared goals, coordination was little more than information sharing. There were several examples of donors with shared goals who engaged in robust coordination, including those involved with the Nordic Plus group on development assistance, those that funded the Afghanistan Independent Human Rights Commission, and those that contributed to international donor trust funds.
3. **Improving chances of success through local knowledge and buy-in:** The success of development efforts hinged on donors' knowledge of the local areas in which they worked and their ability to obtain the buy-in of Afghans living there. Donors' ability to gather information to tailor their efforts to local conditions and needs was often undermined by their focus on measuring progress through sometimes inappropriate metrics, their inability to freely move around the country due to worsening security, and their short tours and frequent rotations. Donors sought buy-in from the local population and Afghan government to sustain development efforts; however, donors struggled to find capable and reliable partners with whom to work in Afghanistan. To overcome this challenge, donors turned to on-budget assistance to help build Afghan capacity, and conditioned aid to incentivize Afghans to adopt policies favored by donors. Unfortunately, donors largely failed to use on-budget assistance effectively to build capacity of Afghan ministries, often embedding consultants who focused less on training Afghans and more on doing the work themselves. Similarly, conditionality was not effective in pressuring Afghans to adopt policies and take actions for which there was no existing Afghan support. Conditionality was further undermined by the number of donors who provided multiple sources of aid.
4. **Institutionalizing lessons from Afghanistan for the future:** To better deal with future reconstruction efforts, donors must find ways to avoid "business-as-usual" practices and instead support the establishment of flexible, adaptable, and integrated civilian and military entities that are allowed to take risks and change plans as needed. Institutionalizing this change may require funding and other initiatives designed to incentivize bureaucracies to embrace and learn lessons.

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FIGURE 2.1

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



Source: SIGAR Investigations Directorate, 10/15/2016.

INVESTIGATIONS

During the reporting period, SIGAR criminal investigations resulted in one indictment, two convictions, and two sentencing. SIGAR recouped more than \$800,000 in cost savings and recoveries for the U.S. government. Criminal fines and restitutions totaled over \$8,265. SIGAR initiated 13 new investigations and closed 28, bringing the total number of ongoing investigations to 254, see Figure 2.1.

To date, SIGAR investigations have resulted in a cumulative total of 142 criminal charges, 105 convictions and 93 sentencing. Criminal fines, restitutions, forfeitures, civil settlement recoveries and U.S. government cost savings total nearly \$952 million.

Federal Indictment Filed Against Afghan Contractor

On August 11, 2016, in the Eastern District of North Carolina, a federal grand jury issued a criminal indictment against Afghan contractor, Hikmatullah Shadman (aka Hikmat Shadman and Hikmatullah Sadullah), charging him with conspiracy and bribery.

Shadman is an Afghan national who owned and operated Hikmat Shadman Logistics Services Company (HSLSC) (aka Hikmat Shadman Supply and Construction Company). HSLSC was an Afghan construction company that provided trucking-transportation services of supplies to military units located throughout Afghanistan. Between January 2008 and April 2009, Shadman offered two U.S. military members gratuities in the form of cash in order to influence their involvement in the bidding and selection of his own company for military transportation-contract awards. Although contracting procedures technically did not permit the authorizing officer to specify the particular Afghan trucking company that would perform the transportation, in practice, the two were able to designate the Afghan company of their choice.

Both military members admitted to a conspiracy to accept two separate gratuities with a combined total of approximately \$190,000, and have pled guilty in federal court for their role in the conspiracy. One is awaiting sentencing while the other is currently serving a 10-month federal sentence arising from his conviction. This investigation is continuing both criminal and civil remedies.

The case was jointly investigated by SIGAR, the Defense Criminal Investigative Service (DCIS) and the Federal Bureau of Investigation (FBI).

British Executives Sentenced for Bribery in the United Kingdom

On September 28, 2016, in London, England, two executives of a British defense firm, Mondial Defence Systems Ltd., were sentenced for bribing an employee at U.S.-based Ronco Consulting Corporation.

Robert Gillam was sentenced to two years' incarceration (one year suspended), disqualified from being a director of a company for five years, and ordered to pay court costs of \$5,161.

SIGAR OVERSIGHT ACTIVITIES

Simon Davies was sentenced to 11 months' incarceration (5.5 months suspended), disqualified from being a director of a company for two years, and ordered to pay court costs of \$3,104.

Gillam, founder and director of Mondial, a UK-based company which has supplied military equipment such as bomb-disposal and demining apparatus to armed forces and NGOs around the world, appointed Davies as his finance director in August 2009. Gillam first contacted Ronco, a DOD contractor, in March 2009, after hearing rumors they were not happy with their existing supplier of military equipment for the Afghan National Army. He later met with Ronco's president as well as the director of operations, Robert Gannon, at the Ritz Hotel in London. Another meeting followed in Washington, DC, before Gillam submitted a bid for the contract. Gannon, whose responsibilities included identifying, evaluating, and monitoring contracts, provided inside pricing information allowing Gillam to undercut their commercial rival and win the contract. In August 2009, just after Mondial received its first payment from Ronco, Mondial transferred the first of a series of bribe payments to Gannon's private bank account.

On December 2, 2014, Gillam and Davies were arrested in Dorset, England. Officers seized computer hardware and documentation that provided evidence of the illegal activity between Gannon, Davies, and Gillam in the form of numerous email communications. One such email, sent from Gillam to Gannon after making the final bribe payment in December 2009, read "Santa popped over early." Throughout police interviews both Gillam and Davies acknowledged they had made the illegal payments; Gillam described them as "gifts" to show their appreciation. On June 3, 2016, Gillam and Davies notified the Crown Prosecution Service and the U.K. Central Criminal Court of England and Wales of their desire to each plead guilty to one count of Section 1 of the U.K. Bribery Act 2010 (Offenses of Bribing Another Person).

As reported in SIGAR's July 2016 *Quarterly Report to the United States Congress*, on February 4, 2016, in the Eastern District of Virginia, Gannon was sentenced to 12 months' and one day incarceration as well as two years' supervised probation, with the conditions that he depart the U.S. immediately following completion of his incarceration, not return to the U.S. without permission, and be prohibited from employment or contracting with the U.S. government during this time. Additionally, Gannon was ordered to pay a fine of \$193,665.

Special agents from SIGAR, the FBI, and DCIS jointly investigated this matter with the City of London Police. Participating agents were involved in the three associated search warrants at the request of the City of London Police. Their names were included in the affidavits provided by the City of London Police to a UK judge, and they were authorized to be present and participate in the arrests and subsequent interrogations.

"Today's ruling underscores the importance of international law enforcement coordination and cooperation, and demonstrates the impact it can have on our efforts in Afghanistan."

—Inspector General John Sopko

SIGAR OVERSIGHT ACTIVITIES

SIGAR Efforts Help Resolve Subcontractor Nonpayment Disputes

Since early 2014, SIGAR has been assisting Afghan subcontractors to recoup money owed to them by prime contractors. During the reporting period, SIGAR resolved two nonpayment disputes, resulting in the total recoupment of nearly \$90,000.

On June 30, 2016, the SIGAR hotline received a complaint from a subcontractor alleging nonpayment from a prime contractor of \$14,905 for work completed under a USACE contract for geologic work performed in support of the Kabul-Logar Transmission Line Project.

SIGAR contacted the complainant and requested documentation to support the allegation. The complainant advised that the prime contractor had become aware a complaint had been filed against them with SIGAR. As a result, the prime contractor agreed to pay the subcontractor by July 20, 2016, on condition that the subcontractor rescind his complaint with SIGAR. The subcontractor informed SIGAR that he would provide the requested supporting information if payment was not received on schedule. On August 25, 2016, the subcontractor informed SIGAR that the prime contractor had paid the subcontractor the full amount of \$14,905. He expressed his gratitude, emphasizing that he would never have been able to recoup the money without SIGAR's involvement.

As reported in SIGAR's July 2016 *Quarterly Report to the United States Congress*, a separate hotline complaint was received in April 2016 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 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 had yet to be paid. When SIGAR became involved, an agreement was finally reached and the prime contractor has made subsequent payments in monthly installments. During the reporting period, an additional \$75,000 was paid, bringing total recouped funds to \$100,000. Monthly payments of the remaining balance are fully anticipated.

To date, SIGAR has been instrumental in the recovery of nearly \$700,000 involving non-payment disputes.

SIGAR Recovers Over \$300,000 for U.S. Department of State

On March 3, 2011, the State's Bureau of International Narcotics and Law Enforcement awarded a grant totaling over \$5 million to Women for Afghan Women (WAW) to provide support for the promotion and protection of Afghan women's rights in Afghanistan.

The project was modified several times to include additional funding in order to establish and operate family-guidance and women's centers in various provinces of Afghanistan and to create a children's support center in

Kabul. Total additional funding was over \$1 million, and the project's period of performance was extended to June 3, 2014. A SIGAR audit determined that, while WAW never hired a full-time employee as an administrative coordinator, it charged the project a fixed monthly amount of \$4,167 for the administrative position from March 3, 2011, until June 3, 2014. The total amount charged for the administrative position was initially estimated at \$162,930, but was later determined to be \$65,861. Additionally, WAW overcharged State \$204,844 in ineligible costs for improper currency exchange rates and \$30,542 in ineligible costs for payment of fines in Afghan tax penalties. The total WAW ineligible costs charged to State were finalized at \$301,247.

On August 17, 2016, SIGAR's Investigations Directorate contacted WAW's general counsel (GC) requesting a review of the content of a March 28, 2016, State memorandum addressed to WAW's executive director, regarding WAW's compliance issues raised in a SIGAR audit report issued in October 2015. The memorandum directed WAW to reimburse State \$301,247 in ineligible costs.

In response, WAW's GC provided a WAW memorandum dated April 27, 2016, addressed to State, proposing an installment payment plan totaling \$301,247. According to the memorandum, monies were to be transferred into an Afghanistan National Bank account controlled by State. Additionally, WAW's GC provided proof of subsequent payments to State totaling \$301,247.

U.S. Government Contractor Indicted for Tax Evasion

On June 7, 2016, in the Northern District of Florida, Panama City Division, Patrick Shawn Kelley, a resident of Panama City Beach, was indicted on three felony tax counts for failing to file tax returns.

An investigation was initiated when a SIGAR financial transaction analysis of individuals who are deployed or have business interests in Afghanistan, uncovered suspicious information concerning Kelley, the owner of Florida-based construction company, American Construction Logistics Services (ACLS), which operated in Kabul, Afghanistan starting in 2008. The company managed various contracts in Afghanistan, performing construction work at the Kabul Airport, the American Embassy, and various outlying bases.

Kelley was indicted for evading approximately \$32,678 in taxes on approximately \$234,671 of taxable income for calendar year 2009, for evading approximately \$109,735 in taxes on approximately \$521,120 of taxable income for calendar year 2010, and for evading approximately \$74,380 in taxes on approximately \$434,886 of taxable income for calendar year 2011—a combined total of approximately \$216,793 in evaded taxes for years 2009 through 2011.

Suspensions and Debarments

This quarter, SIGAR’s suspension and debarment program referred 46 individuals and one company 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 803, encompassing 447 individuals and 356 companies to date, see Figure 2.2.

As of the end of June 2016, SIGAR’s efforts to utilize suspension and debarment to address fraud, corruption, and poor performance in Afghanistan have resulted in a total of 133 suspensions, 443 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 one suspension and two finalized debarments of individuals and entities by agency suspension and debarment officials. An additional 56 individuals and companies are currently in proposed debarment status, awaiting final adjudication.

Suspensions and debarments—actions taken by U.S. agencies to exclude companies or individuals from receiving federal contracts or assistance because of misconduct—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

FIGURE 2.2

SIGAR INVESTIGATIONS: CUMULATIVE REFERRALS FOR SUSPENSION AND DEBARMENT, Q3 FY 2011–Q4 FY 2016



Source: SIGAR Investigations Directorate, 10/14/2016.

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 based on its completed investigations. In most cases, a SIGAR referral is the only remedy for contractor misconduct, occurring after a contracting office fails to criminally prosecute or take remedial action against an allegation. In making referrals to agencies, SIGAR provides the basis for a suspension or debarment decision, as well as all of the supporting documentation needed 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, SIGAR has occasionally 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 803 referrals for suspension and debarment that have been made by the agency to date, 776 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 121 individuals and companies from contracting with the government. SIGAR's referrals over this period represent allegations of theft, fraud, poor performance, financial support to insurgents, and mismanagement as part of reconstruction contracts valued at approximately \$146,699,494.

Base Support Services Provider, Owner, and 44 Employees Proposed for Debarment for the Theft of Over 500,000 Gallons of Fuel

On September 15, 2016, the Army Suspension and Debarment Official proposed Fayaz Afghan Logistics Services for debarment, along with its owner and 44 employees based on the theft of 504,048 gallons of fuel, valued at \$1,888,551, over a two-year period while performing a contract to provide septic tank, laborer, laundry, water, and portable-toilet services, at Operating Base Fenty, Nangarhar Province, Afghanistan. Under this contract, Fayaz Afghan Logistics was authorized to draw 600 gallons of JP-8 fuel per month for the approximately 40 vehicles used to provide these services within the confines of OB Fenty.

The contractor and its employees used this contract clause to obtain 40 gallons of fuel per truck every other day from the OB Fenty fuel farm, utilizing fuel tanks intended only for transport purposes. Upon receiving the fuel, each truck would exit OB Fenty and proceed to a nearby Fayaz Afghan

Logistics yard where the fuel was downloaded for resale at a gas station. Using this method, Fayaz Afghan Logistics was able to improperly obtain and resell between 30,000 to 34,000 gallons of fuel per month.

As part of the investigation into Fayaz Afghan Logistics, SIGAR's Investigations Directorate was able to conduct a complete investigation and develop a referral package to the Army Procurement Fraud Division within 100 days of the detection of fuel theft by the contracting officer on June 2, 2016. This rapid response allowed the contracting officer and installation commander to take immediate steps to prevent further loss of fuel and to address the force protection issues associated with 40 or more vehicles leaving and reentering OB Fenty several times per week.

Furthermore, as a result of SIGAR's investigation, the U.S. Central Command's Expeditionary Contracting Command-Afghanistan, was able to terminate all of Fayaz Afghan Logistics' contracts at OB Fenty, valued at \$716,426, allowing them to be awarded to other contractors. Fayaz Afghan Logistics Services, its owner, and the 44 employees implicated in the theft of fuel from OB Fenty will remain in proposed debarment status pending a final debarment decision by the Army.

Transportation Contractor Returns Stolen Containers After Receiving Notice of Proposal for Debarment

On August 18, 2016, the Army Suspension and Debarment Official proposed Muhammad Nasir, Rohani Kakar, Abdullah Nazar Mohammad, Etihad Hamidi Logistics Company, Etihad Hamidi Group, and Wali Eshaq Zada Logistics Company for debarment based on the theft of two containers of metal-frame fabrication equipment, valued at \$425,866, from Copenhagen Contractors, a Danish NATO contractor.

Etihad Hamidi Logistics took possession of the two containers from the contractor on November 14, 2016, for the purpose of transporting them by truck from Kandahar Airfield in Afghanistan, to Karachi, Pakistan, and then by sea to Copenhagen, Denmark. During transportation, representatives of Etihad Hamidi Logistics changed the port used to ship the containers from Karachi to an undisclosed location in Iran. Neither container reached its stated destination in Denmark. Following the disappearance of the two containers, representatives of Etihad Hamidi Logistics made multiple statements that the company was not the shipping provider for the two containers, and that both had been destroyed in an insurgent attack on December 1, 2014, in Helmand Province, which also resulted in the death of the two drivers who picked up the containers. Etihad Hamidi Logistics provided what purported to be a report of the attack from the Afghan Public Protection Force (APPF) in support of this claim.

Upon receiving a complaint that the containers had been stolen, SIGAR investigators contacted the APPF and NATO's Train, Advise, and Assist Command-South to verify the report of the insurgent attack. This inquiry

found that no insurgent activity took place on December 1, 2014, in Helmand Province, and that the report had been created to conceal the theft of the containers by Etihad Hamidi Logistics and its owners. Copenhagen Contractors made multiple unsuccessful attempts to recover the containers and their contents, which were, unbeknownst to them, located in an Etihad Hamidi Logistics warehouse in Kandahar.

However, after receiving the notice of proposed debarment on August 23, 2016, Etihad Hamidi Logistics contracted Copenhagen Contractors and informed them that the containers were in Kandahar and that they wanted to return them. Copenhagen Contractors was able to recover both containers and their contents on September 7, 2016, although Etihad Hamidi Logistics maintained it had nothing to do with the disappearance.

Based on the timing of the offer to return the containers, following approximately 21 months of noncooperation by Etihad Hamidi Logistics, the proposal for debarment of the company and its owners can be seen as directly responsible for the recovery of \$425,866 in stolen property consisting of the two containers and their contents. Etihad Hamidi Logistics, its owners, and affiliates will remain in proposed debarment status pending a final debarment decision by the Army.

OTHER SIGAR OVERSIGHT ACTIVITIES

Inspector General John Sopko Speaks at the Carnegie Endowment for International Peace

On September 14, 2016, SIGAR Inspector General John Sopko announced the release of the first SIGAR Lessons Learned Program report, *Corruption in Conflict: Lessons from the U.S. Experience in Afghanistan*, at the Carnegie Endowment for International Peace. The report investigated corruption in Afghanistan from 2001 to 2014 and built on SIGAR's work to date, which has uncovered corruption in the form of bribery, extortion, theft, ghost soldiers, contract fraud, and poor construction.

IG Sopko described how corruption threatens the legitimacy of the Afghan government by alienating parts of the population, discrediting the government and security forces, preventing economic growth, and undermining international aid. Battling corruption is therefore a crucial step in Afghanistan's reconstruction. Despite our anticorruption efforts, IG Sopko reported, the U.S. government often unintentionally aided and abetted corruption while also fostering the perception among Afghans that the international assistance effort is itself corrupt. The danger, he said, is dealing with unsavory characters and accepting shoddy craftsmanship may serve short-term goals, but reward corruption. If the U.S. is to be drawn into future reconstruction missions, IG Sopko said, we must learn how to improve execution and outcomes when up against the challenges corruption poses.

OTHER SIGAR OVERSIGHT ACTIVITIES

- Inspector General John Sopko Speaks at the Carnegie Endowment for International Peace

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IG Sopko then discussed how Afghanistan's long history of instability and conflict has decimated government institutions, the economy, and society, allowing corruption to become deeply entrenched and widespread by the time of U.S. intervention in 2001. Then an influx of foreign assistance and poor oversight only increased corruption. SIGAR's report found that the U.S. government did not put a high priority on fighting corruption, focusing on security and rebuilding rather than good governance and rule of law, without realizing that fighting corruption is an essential part of creating lasting stability.

Additionally, the United States cooperated and collaborated with abusive and corrupt warlords, militias, and powerbrokers who made their way into positions of authority that gave them still more power. A desperation to fix problems as quickly as possible exacerbated the situation until, eight years into the reconstruction effort, U.S. officials became concerned that corruption was financing insurgent groups and stoking popular grievances. U.S. agencies developed and supported anticorruption organizations, only to work with the corrupt elites the United States had helped climb to power with a lack of oversight. At the same time, the U.S. presence in Afghanistan was greatly diminished, making oversight and anticorruption efforts even more difficult.

IG Sopko stressed that the lessons-learned report was not a criticism of the Americans who have served in-country over the past 15 years. Instead, he said, it is meant as a learning experience that can inform future reconstruction efforts. The report has a total of 11 recommendations, including making anticorruption a high priority with its own interagency taskforce, authorizing sanctions against corrupt officials, and expanding the Treasury's list of transnational criminal organizations to include those who have transferred the proceeds of corruption abroad. IG Sopko noted that the report does not cover Afghanistan's role in combatting corruption: "The United States cannot wage the Afghan government's anticorruption campaign for it."

SIGAR's meetings with President Ghani and Chief Executive Abdullah have persuaded IG Sopko that the National Unity Government is committed to fighting corruption, though he stressed that a sustained joint effort between the Afghan and American governments is crucial to achieving positive and sustainable results.

SIGAR BUDGET

SIGAR is funded through December 9, 2016, under the Continuing Appropriations and Military Construction, Veterans Affairs, and Related Agencies Appropriations Act, 2017, and the Zika Response and Preparedness Act, which provides the agency prorated funds based on the FY 2016 amount of \$56.9 million until the next appropriations law is signed. The budget supports SIGAR's oversight activities and products by funding

SIGAR OVERSIGHT ACTIVITIES

SIGAR's (1) Audits and Inspections, (2) Investigations, (3) Management and Support, and (4) Research and Analysis directorates, as well as the Special Projects Team and the Lessons Learned Program.

SIGAR STAFF

SIGAR's staff count remained steady since the last report to Congress, with 195 employees on board at the end of the quarter; 31 SIGAR employees were at the U.S. Embassy Kabul and one other was at Bagram Airfield. SIGAR employed five Afghan nationals in its Kabul office to support the Investigations and Audits directorates. In addition, SIGAR supplements its resident staff with personnel assigned to short-term temporary duty in Afghanistan. This quarter, SIGAR had 14 employees on temporary duty in Afghanistan for a total of 221 days.



SIGAR staff at the U.S. Embassy Kabul on September 6, 2016, during their fact-finding mission to interview Afghan women about gender issues in their country. (SIGAR photo by Tom Niblock)

“At this stage I think all my attention and focus is on serving the people in the framework of the National Unity Government. Taking into consideration that the people voted both for the president and me—and the circumstances were such that the votes were put together—our utmost attention should be focused on serving the people.”

—*Afghan Chief Executive Abdullah Abdullah*