

**AFGHANISTAN RECONSTRUCTION CONTRACTS:
LESSONS LEARNED AND ONGOING PROBLEMS**

HEARING

BEFORE THE

AD HOC SUBCOMMITTEE ON CONTRACTING
OVERSIGHT

OF THE

COMMITTEE ON
HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

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CONTRACTS: LESSONS LEARNED AND
ONGOING PROBLEMS**

THURSDAY, JUNE 30, 2011

U.S. SENATE,
AD HOC SUBCOMMITTEE ON CONTRACTING OVERSIGHT,
OF THE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:01 a.m., in Room SD-342, Dirksen Senate Office Building, Hon. Claire McCaskill, Chairman of the Subcommittee, presiding.

Present: Senators McCaskill and Portman.

Senator MCCASKILL. I am going to go ahead and call the hearing to order and begin my opening remarks. I know that Senator Portman is on his way and when he gets here, assuming he gets here before I finish, he will have a chance for his opening statement, and if the witnesses have begun, I will ask your indulgence to interrupt you long enough to give him a chance to make an opening statement.

OPENING STATEMENT OF SENATOR MCCASKILL

Senator MCCASKILL. I have a formal opening statement that has been prepared, but I have decided to not give a formal opening statement and just express the reason for this hearing. This is not the first hearing we have had in this Subcommittee on contracting in our contingency operations, and I began working on this problem almost the day I arrived in the Senate.

I traveled to Iraq to do nothing but look at contracting oversight because I could not figure out how in the world things have gotten so out of control in terms of contracting in Iraq. I went over to Iraq and I realized why they had gotten out of control. Contracting representatives in each unit were just the low man on the totem pole that had been handed a clipboard.

There was no training. There was not sufficient effort made on sustainability. There were decisions made that, frankly, were made with an almost myopic look at the mission and not a realistic look at security and sustainability and competency in terms of available personnel to continue whatever money we were spending on reconstruction.

I always point out the Logistics Civil Augmentation Program (LOGCAP) contract is probably, if you look up an example, the initial LOGCAP contract, and look up everything wrong with con-

tracting, that would be the poster child. People may not remember that the estimates for that contract for the first year were supposed to be under a billion dollars. In the first year, that contract cost our country \$20 billion. It is just one example.

I want to try to focus today on reconstruction contracting, and the sad thing about this hearing is, I had been hopeful back in 2007 that by this year, we would have done a lot to overcome some of the problems in reconstruction contracting in theater. This hearing does not make me feel good about the progress we have made. There has been some progress, but the American people cannot afford this anymore.

In next year's budget, the President has requested \$17.3 billion for reconstruction contracting in Afghanistan. Now, that is a big number if the United States of America was humming along. That is a big number if our roads were not crumbling because we do not have the money to fix them. That is a big number if we are not looking at cutting many programs that are essential to the health and welfare of this Nation.

But in light of the fact that we are facing the fiscal problems we are in this country, that is an enormous number that is going to go into the country of Afghanistan to build roads, to build public structures, whether they are schools or other public structures, and I think it has now become an urgent matter for this Congress to look seriously at whether or not that kind of reconstruction money is absolutely essential to our mission in Afghanistan.

I think if you look at the lessons that we have learned in the past in Afghanistan and Iraq, that the government has been very slow to apply those lessons, and I am not sure that the implementation of Afghan First is leading to the kind of outcomes that would make any American proud.

I am not sure that the government and contractors have taken the steps necessary to provide the transparency and accountability that we have to demand in light of the incredibly difficult decisions that we are faced with in the U.S. Congress in terms of our fiscal picture in this country.

This is the tenth year and we have spent over \$61 billion total already on reconstruction, and the vast majority of the spending has been through contractors. The Defense Department (DOD) and the U.S. Agency for International Development (USAID) are primarily responsible for this and part of our problem that we will talk about today is that no one is totally responsible. There is no one that I can really find that wants to say, I am responsible.

In fact, I will be surprised if I do not hear testimony today from people that say, I am not really responsible. It is time that somebody is responsible for money that is spent on roads that will not ever be sustained and for buildings and electrical power facilities that are built that no one there even knows how to use, much less access the power that supposedly we are going to provide.

It is time for someone to step forward and say, I am responsible, I am the one that is planning these projects, I am the one that is certifying sustainability. The Department of Defense is not even certifying sustainability, and we all know that the Commander Emergency Response Program (CERP) funds which originally—I

remember at the beginning we talked about CERP and here is what CERP was supposed to be.

It was supposed to be almost like walking around with money. It was supposed to be money that was used by various units that were on the ground in Iraq to—the example I was given, I will never forget, in one of my very first Armed Services hearings. Well, Senator, this is if one of our sergeants is on the ground in a community and he knows there is a really good guy who is stabilizing the neighborhood and the window of his store is broken, and we need that sergeant to be able to say to that store owner, I have the money right here to fix your window.

That provides goodwill, it provides stability, it is the kind of thing that wins the hearts and minds, it gives people a sense of community. We have gone from broken store windows to hundreds of millions of dollars of construction projects in CERP.

And meanwhile, no one has really taken ownership of what is the difference between the responsibilities of AID, which traditionally has done big construction, and the responsibilities of the Department of Defense that is now engaged in seriously large projects for construction.

Sustainability is going to be the key issue that we are going to talk about today, and it is going to be something that I think is very important that we get our arms around. Inadequate contracting and program management practices, once again, we are going to cover that ground. Contractors overseeing contractors, and obviously transparency, and insufficient contract personnel, which is another key problem that we have not yet dealt with.

Are the contracting officer representatives (CORs) within the units getting better training now? Yes, they are, and I congratulate General Caldwell and others that have worked on doing better training. But we are still not where we need to be. Poor coordination of interagency efforts. I do not think anybody in this room is going to have a strong argument that the coordination has not been what it should be.

Continual personnel turnover. We are getting a 1-year turnover on AID right now, and I know that is probably because it is very difficult to get folks that want to go to Afghanistan for 2 to 4 years. But when we embrace a constant turnover like we have in theater, we are going to have bad things happen. We are going to have problems that are going to occur because the beginning of the project is not going to have any idea what the end of the project looks like and vice versa.

Security challenges obviously remain a big problem. And I think that we are going to have to try to dig through all those problems today. And I will tell you that if we do not get some strong substantive answers that every dime that is being spent in Afghanistan on reconstruction is being spent wisely and being spent with the kind of oversight that we would expect if we were building a highway down the road in the United States of America, then I think it is time that we focus on the mission where we are training security forces and we are working to provide stability against the Taliban and the kind of structure that we need to support going after al-Qaeda on the border of Pakistan and Afghanistan.

Perhaps it is time to shut down \$17 billion worth of money going for reconstruction projects when our track record really stinks when it comes to reconstruction projects.

Now, I hope that you all are going to convince me that I have become cynical and angry and frustrated about the way we are spending money in theater, and I want to tell you, I am looking for good news and I hope we hear some today. But I think it is really time for a gut check because I have too many people in Missouri saying, why can't we fix this road?

And then I look at the projects that we are building in Afghanistan and it is very hard to explain to them why we cannot fix that road, because we cannot afford it. But yet, we can throw money away in Afghanistan on projects that are clearly not sustainable, and if anybody would have spent any time thinking about it in the first place, they would have realized that. And that kind of planning has to begin happening and that kind of accountability has to be present.

I am pleased that we have a number of witnesses today that are going to testify to contracting in theater. Senator Portman is here. I will give him time to get settled. We will continue to do these hearings and continue to provide oversight in this arena. I think that it is a place we need to draw the country's attention.

I think we need to draw Congress's attention. I think we need to certainly bring the attention of the Department of Defense and the Department of State to these problems and we need to begin to do one of two things. Do it right or stop doing it. I will turn it over to Senator Portman for his opening statement.

OPENING STATEMENT OF SENATOR PORTMAN

Senator PORTMAN. Thank you, Madam Chairman. I appreciate your holding the hearing today. It is an incredibly important topic given the resources that we are devoting to Afghanistan. I was there about a month or so ago and had the opportunity to meet not just with some of our brave soldiers and Marines, but also with some of the Federal Government agencies that are onsite and some of the contractors.

I know this Subcommittee, under your leadership, has done some of the most diligent and searching oversight of Afghan reconstruction and development over the last several years, and again, it is critical work and I am pleased to now join you as your Ranking Member.

The hearing is especially timely as it comes on the heels of a major announcement last week concerning the U.S. mission in Afghanistan. The President announced, as you all know, his intention to withdraw the full complement of the 30,000 so-called surge troops by September 2012, with the first 10,000 coming out by the end of this year.

I have noted my concerns about the lack of clarity regarding some of the strategic objectives in Afghanistan, but what is clear is that we are now in a critical planning window with respect to our military and our civilian mission in Afghanistan. Today we have over 154,000 private contractors working for the Defense Department, State Department, AID in Afghanistan.

The issue of effective and efficient use of those contractors assumes a new urgency as we near both the surge drawdown that I have talked about, and also the planned 2014 transition to Afghan-led security. It is also, of course, a timely discussion given our fiscal problems and the fiscal crisis at our doorstep.

Over the past 9½ years, our military service men and women have done everything they have been asked to do and more in Afghanistan. They have performed remarkably well, and again, with bravery and extraordinary skill under some very tough conditions.

Given our reconstruction efforts in Afghanistan, which are incredibly important to the sustainability of this effort, we need to be sure that what we are doing is right, be sure that we are consolidating some of the hard-earned gains that we have achieved.

The counterinsurgency strategy that was outlined by President Obama has been to clear, hold, and build, and ultimately transfer. And as we have reached the transfer stage in many areas of the country, the objective, I think, has to be leave behind a more functioning society and economy, more resilient local governing structure, and a stable, more constitutional and stable government in Afghanistan, one that is capable of withstanding the radical Taliban and other elements.

So one of my questions, Madam Chairman, in this hearing today is going to be talking about that and the sustainability of some of the efforts. We have invested heavily, as Americans, to achieve this goal of building up Afghan institutions and fostering economic development and job creation since 2002.

Congress has appropriated over \$60 billion for relief and reconstruction in Afghanistan, the great majority of which has been channeled through private contractors. Now we know from experience in Bosnia in the 1990's and more recently in Iraq that a reduction in troop levels does not mean a drop in contractor activity.

In fact, sometimes it has been an increase. In fact, there has been an increased reliance on contractors to fill some of the support and logistical roles once performed by the military in those two instances.

Eventually, however, the contractor presence will also decrease as we move our support from large scale off-budget spending to more direct on-budget aid to the Afghan government directly. And this is why, again, our reconstruction strategy must focus now more than ever on ensuring that Afghans are prepared to sustain what we have helped to build.

This means we must consider not only, for example, how many additional schools and health clinics we construct, but also whether Afghanistan will have teachers and medical professionals to sustain those institutions. It means we have to consider not only the megawatt output of a new power plant, but whether Afghans have the resources and expertise to manage the long-term operation and maintenance of those power plants.

On a related note, as we encourage more contracting with local Afghan firms under the Afghan First Policy, we must consider seriously revamping the process for vetting contractors to ensure that they do not pose security risks. Reconstruction is a critical component of our counterinsurgency strategy and reconstruction dollars must never be diverted to support terrorists or insurgent elements,

and that is one of the concerns that I have as we go through this Afghan First Policy.

We should have no illusions that Afghanistan will immediately be prepared to stand alone, unsupported by friends and allies when the large scale U.S. military does conclude. According to a World Bank estimate, as much as 97 percent of Afghanistan's gross domestic product (GDP) is currently derived from spending related to international military and donor community presence.

Think about that. Ninety-seven percent of their GDP. That reliance will not simply disappear with the drawdown of troops. But our reconstruction efforts must be directed to empowering Afghans to regain responsibility and control over their own future. So we have plenty of challenges and I look forward to the hearing today, and specifically, the discussion, Madam Chairman, about reconstruction contracts, lessons we have learned and some ongoing problems. Thank you.

Senator MCCASKILL. Thank you, Senator Portman.

Let me introduce—if we could have both of our witnesses, Mr. Hakki.

Mr. HAKKI. Hakki.

Senator MCCASKILL. Hakki. Yes. Would you mind taking a seat? We are ready to begin. Did I pronounce it correctly? Is it Hakki?

Mr. HAKKI. Hakki.

Senator MCCASKILL. Hakki. That will be easy for me to remember. Hakki.

Let me introduce the two witnesses. Larry Walker is the President of the Louis Berger Group, an international consulting company which holds large contracts with USAID in Afghanistan. In that capacity, Mr. Walker is responsible for providing strategic direction for the firm and ensuring the company has adequate resources and support for the successful completion of its programs.

He also oversees the development of strategic operating plans for each business unit, and oversees the implementation of company-wide initiatives. Thank you very much for being here, Mr. Walker.

Mr. Hakki is currently the Chief Executive Officer (CEO) of Contrack International, Inc., which holds millions of dollars of contracts with the Defense Department in Afghanistan. Since joining Contrack in 1994, Mr. Hakki has been responsible for overseeing operations at the U.S. headquarters office.

His responsibilities include oversight of U.S. material procurement, engineering review and quality control, shipping logistics and monitoring the staff of engineers and administrative personnel. Mr. Hakki holds a Master's in structural engineering from Penn State and has been in the construction business for nearly 30 years.

I look forward to both of you coming today. I am glad you are both here and I look forward to your testimony. It is the custom of the Subcommittee to swear in all witnesses that appear before us, so if you do not mind, I would like you to stand and raise your right hands.

Do you swear the testimony you will give before the Subcommittee will be the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. WALKER. I do.

Mr. HAKKI. I do.
 Senator McCASKILL. Thank you both. Mr. Walker.

**TESTIMONY OF LARRY D. WALKER,¹ PRESIDENT, THE LOUIS
 BERGER GROUP, INC.**

Mr. WALKER. Chairman McCaskill, Ranking Member Portman, Members of the Subcommittee, I am Larry Walker, President of the Louis Berger Group (LBG). I appreciate the opportunity to provide our firm's perspectives on the Gardez-Khost Highway project and our observations regarding reconstruction projects in Afghanistan.

The Louis Berger Group is an international consulting firm of approximately 3,000 employees worldwide. We provide diverse, multi-disciplinary expertise including engineering, program and construction management, and economic development services. Many of our projects are carried out in some of the most fragile and challenging regions of the world.

LBG first began working in Afghanistan in the 1970's, and in December 2001, the company was the first engineering firm to enter Afghanistan after the September 11th attacks. Our work in Afghanistan has consisted mainly of reconstructing and rehabilitating Afghanistan's physical infrastructure.

We have successfully reconstructed more than 2,000 kilometers of paved roads, provided nearly 40,000 jobs to Afghans, and trained thousands more. LBG's USAID-funded projects have irrigated more than 90,000 acres of land and constructed more than 90 schools and clinics to seismic 4 standards.

The improved road network has dramatically decreased transit times, which has spurred economic development along the road corridors and improved access to education and health care. I have traveled these roads myself and I can truly say that the work has improved the quality of life in Afghanistan.

The Gardez-Khost Highway is a critical commercial link between Pakistan and Afghanistan. The road provides a reliable transportation route from the border province of Khost to the capital city of Kabul providing improved access to government, trade, health care, and education.

I want to say a few words about the circumstances surrounding the reconstruction of this road. As the picture² accompanying my written statement shows, the topographical and geological features of this area where our reconstruction work has occurred is some of the most challenging we have faced in Afghanistan.

The degraded security environment has made this the most dangerous project our company has attempted. On this project alone, we have suffered 21 killed, 51 injured, and 4 missing. Security as a percentage of the overall project cost is around 30 percent. To compare, in other parts of Afghanistan, security costs average oftentimes 8 to 10 percent of overall project cost.

On the Gardez-Khost road alone, our project has experienced 147 direct attacks, 108 IEDs, and 40 mine and other ordnance explosions. My point is that the traditional metrics by which the government measures the efficacy of projects and contract performance do

¹ The prepared statement of Mr. Walker appears in the appendix on page 53.

² The picture referenced by Mr. Walker appears in the appendix on page 58.

not paint the full picture. The lack of existing infrastructure or technical capacity, the inexperience of Afghan companies, the need for capacity building, and the defacto war zone all work against measuring success just against scope, schedule, and budget.

Sustainability is critical to ensuring the long-term benefits of construction projects for the Afghan people and to protecting the significant investment made by the American taxpayer and other donors. Even before the Afghan-First policy existed, the Louis Berger Group made a significant effort to hire locally and incorporate sustainability concerns into the training we provide our sub-contractors and their employees and we continue to do so.

This approach has been at the heart of LBG's work in the developing world for more than 40 years. In the long run, the ultimate sustainability of many projects in Afghanistan will turn on the ability of the Afghan economy to generate enough revenue to provide the workers and materials that will be needed in order to maintain and sustain projects we and other companies have completed.

The security environment increases the importance of communications between the contractor and the government. We at LBG have worked hard to communicate with the contracting officers, technical staff, as well as the U.S. military to properly address security-related issues as they arise.

The Louis Berger Group is honored to support USAID and other clients in the critical efforts to improve Afghanistan's physical, social, and economic infrastructure. We have met with the Commission on Wartime Contracting on four occasions to discuss reconstruction, and most recently, to discuss the recommendations found in their recent report.

We support several of the Commission's recommendations including integrating contract support into operational plans, expanding and improving the qualifications and experience level of government acquisition personnel, expanding competition requirements, and requiring improved contract administration and oversight of contingency contracts.

LBG believes these would all be constructive improvements in the contracting process. We applaud the efforts of the Commission and the Subcommittee to improve the manner in which the U.S. awards and oversees its contracts in overseas conflict environments, and its emphasis on sustainability of our reconstruction programs.

At the Louis Berger Group we strive to deliver quality construction in a timely fashion and within the funding parameters for each project. The company and our employees do this work because we have seen the tangible improvements in the lives of the Afghan people that result from our work.

Thank you.

Senator MCCASKILL. Thank you, Mr. Walker. Mr. Hakki.

**TESTIMONY OF WAHID HAKKI,¹ CHIEF EXECUTIVE OFFICER,
CONTRACT INTERNATIONAL, INC.**

Mr. HAKKI. Chairman McCaskill—

Mr. HAKKI. OK. Chairman McCaskill, Ranking Member Portman, distinguished Members of this Subcommittee. On behalf of Contract International, I thank the Subcommittee for the invitation to share some of our experiences and lessons learned as part of the reconstruction efforts in Afghanistan over the past 9 years.

We share your interest in examining how the government can bring greater efficiency, transparency, and accountability to the construction contracting process. We believe these goals can help everyone deliver projects that are on schedule, within budget, and sustainable.

Since 1985, Contract has operated as a privately owned U.S. corporation headquartered in McLean, Virginia. I joined the company in 1994 as Executive Vice President and was appointed CEO in December 2010.

Contract has offices in Egypt, Qatar, Bahrain, and Afghanistan. We provide engineering, procurement and construction services, as well as facilities operations and maintenance (O&M). Our focus primarily is on military, institutional, and infrastructure projects throughout Northern Africa, the Middle East, and Central Asia.

Over the past 9 years, Contract has completed more than \$1.5 billion worth of fast track design-build projects in Afghanistan for the U.S. Army Corps of Engineers (USACE) and the Air Force Center for Engineering and the Environment (AFCEE). Working as a prime contractor, we have constructed ANA Brigade camps, airfields, entry control points, ammunition supply points, bulk fuel storage and supply systems, forward operating bases, and other facilities.

We were also awarded a contract for the permanent operations and maintenance services required to perform O&M work in numerous ANA and ANP sites throughout Afghanistan. Contract's business model in Afghanistan is somewhat different than most contractors in that we self-perform the majority of our work, rather than acting purely as a construction manager of major subcontractors.

Contract has been a vital partner with the Corps of Engineers (COE) in accomplishing the AED's mission statement to provide sustainable development projects for the Afghan people that employ the populace, build skilled human capital, and promote the future stability of Afghanistan.

In order to utilize the local labor force, the majority of Afghans must be trained in a skill. To accomplish this task Contract set up a training center to train and educate the Afghans on a variety of construction trades. To date, we have graduated more than 3,000 students, most of whom are still employed by Contract.

As a prime contractor, we also try to foster relationships with local firms so they can succeed. This requires ongoing training and guidance concerning U.S. technical and contractual requirements and obligations. Under the challenges that we are still facing over there, we have here the contracting with foreign contractors.

¹The prepared statement of Mr. Hakki appears in the appendix on page 59.

Afghan and international contractors often receive contracts which are more than they can handle. Many of them are also not familiar with U.S. contract requirements. Unfortunately, we share the perception in the international community that there is an uneven playing field and that foreign contractors typically are not subjected to the same standards as U.S. contractors.

These include safety, ethics, bonding, and cost accounting requirements that are established both to protect workers and interests of the U.S. Government. We believe that the Corps of Engineers has begun recognizing the risks in awarding projects to foreign firms based on low price only.

For example, the government recently awarded a MATOC contract to 14 firms, all of which are American firms. Future task orders will be competed among these 14 firms only. This promotes full and open competition with qualified construction contractors to deliver the best value for taxpayers' dollars invested in Afghanistan.

We appreciate the difficulties faced by the government and commend the professional manner in which so many contracting personnel perform their work in a hostile region. However, the frequent rotation of COE field staff has created a cascade of challenges to the contractor and the government.

For example, delays in resolving contract modifications due to government contracting officers and related personnel causes delays in payment to the contractors. Similarly, high turnover of government personnel in the field causes delays in submission of the final CCASS evaluations.

Quality at the job site is overseen by the USACE's quality assurance (QA) representatives. COE QA representatives are experienced in other trades, but lack sufficient training to understand and enforce the technical requirements of the contract they are assigned to. Lack of partnering between the contractor and the COE is another unfortunate result of the personnel turnover.

Contract has participated in numerous partnering sessions with the COE in other regions such as Qatar, Bahrain, and Egypt. We believe these sessions vitally contributed to the success of the projects in those regions. However, in 9 years in Afghanistan, and after completing over 50 projects, we have had only one partnering session with the COE.

High turnover of government personnel exacerbates lack of coordination between different government agencies in charge of the projects and their respective end users. This often causes delays to the project and cost overruns. Sometimes the end users' requirements are not fully understood by the Corps.

For example, on design-build projects, early partnering sessions involving the contracting agency, the contractor, and the facilities end user would really help parties to achieve the end users' design goals.

Transportation and logistics. The high volume of cargo creates delays at the base entry control points. Material and equipment convoys are at the mercy of the transporter. Meanwhile, border politics that can block or delay shipments of material to the project sites make matters even worse.

Working with the Afghan ministries is a challenge. The Afghan ministries change procedures on a regular basis. Requirements for tax exemption documentation, approval of visas, et cetera, lack of stability is further compounded by a thin staff that lack the cross-training.

New and constantly changing Presidential Decrees further increase the uncertain risk environment. For example, the latest ban on private security firms will cause disruptions, delays, and safety problems.

We believe that the foundation of a good project is a well-coordinated design. Such design must meet the general guidelines by the COE and address the end users' needs. On a project in Bagram Air Base, we were tasked to design and build the main entry control points.

We had our designers onsite for a meeting with the COE and the Force Protection staff to agree on a design that satisfied everyone's requirements. This eliminated a lengthy review process and clarified the objectives of the project. All of these partnering efforts resulted in a successful project completed on time and on budget.

I appreciate this opportunity to share our experience in Afghanistan and would be pleased to answer any of your questions.

Senator MCCASKILL. Thank you both very much.

Mr. Walker, I want to talk a little bit about the road. I understand where the road is located. I understand the strategic planning that went into this particular road, but I am trying to figure out whether or not someone along the way should have pulled the plug. Let us talk about the initial price tag of the road, and we are talking about now the highway, the Gardez-Khost Highway that goes down through rough territory and significant elevations and covered in snow in the winter and, frankly, a very challenging highway project under the best of circumstances.

Clearly, very difficult under the circumstances, especially considering you are going through some significant Taliban real estate. The initial price was \$69 million. We are now up to \$176 million for 64 miles of highway. What went wrong in terms of the initial price tag for this highway? Why are we barreling toward three times as expensive as it originally was intended, and of that price tag, \$43.5 million of that is security.

So what we are seeing is that a third of the cost of building this is, in fact, security. Did no one have any idea that was going to be the case before it began?

Mr. WALKER. When we started with the project, the incidents of violence were not nearly as high as they were as we got into the project. The original estimate of security cost as a percent of the contract was around the 12 percent level, as I recall.

The challenge was, as we got into it and probably a year into it, the attacks really began to increase and the security situation really began to significantly deteriorate. At the time—and we have worked on roads throughout Afghanistan for many years.

At the time that the project was initiated, there was no reason to assume that the security conditions would deteriorate the way they did, recognizing that the possibility always existed, we have all been working over there and it is a very fluid and volatile situa-

tion. But no one anticipated the level of violence and the level of attacks that the project was going to sustain.

Senator MCCASKILL. And who made the decision as to what the level of attacks would be? I mean, was that the military that decided the attacks—because it would be hard not to guess that this is going to be significantly different than many of the other highway projects just by sheer—the fact of where it is located.

Everyone knows. Frankly, the reason they wanted the road in the first place is they wanted to clear out the hornet's nest of Taliban in the area. So I am trying to figure out who I can talk to that misjudged the security environment by so much.

Mr. WALKER. I am not sure it is a question of misjudgment. I can appreciate that perspective that it certainly might appear that way. The security in the country in general really began to deteriorate. At the same time, when looking at security in Afghanistan, it is not one single footprint. Clearly, the north and the west is a different security profile than what we have in the east and the south.

When we began work on one road in the south, for example, working in the same type of conditions, other roads that we have worked in that area—as a matter of fact, the Kabul-Gardez road, which is the other extension of Gardez-Khost, we did that road. We did not have nearly the security situation that developed later into the program.

So our historic experience was certainly at a serious level of security, but not to the extent of what we are experiencing now.

Senator MCCASKILL. Is it typical that you would have as many subcontractors as you have on this project? Is this typical?

Mr. WALKER. Yes.

Senator MCCASKILL. So you would typically have 24 first tier subs and 147 second tier subs on projects that you would work?

Mr. WALKER. The 24 first tier subs, most of those subs would be very small subcontracts.

Senator MCCASKILL. Give me an example. I am trying to figure out, for 64 miles, you have 167 different subcontractors for 64 miles. What in the world are all those subcontractors for?

Mr. WALKER. You could have a small Afghan subcontractor whose job would be clearing ditches of debris. Another Afghan subcontractor who would build—makes new walls on the approach to a bridge. You would have another subcontractor who could work on the culverts with the primary and first tier construction firm.

There are many small aspects to a construction project. One of the things that we wanted to encourage was the use of Afghans as much as possible, the use of Afghan firms.

Senator MCCASKILL. How many of these subcontractors are Afghan companies?

Mr. WALKER. Without looking at the list I cannot say, but I would guess it is the majority of them.

Senator MCCASKILL. Well, we would love to get the exact number.

Mr. WALKER. We can get you that for the record.

Senator MCCASKILL. That would be very helpful. I am most concerned about the money that was paid on security to folks that there is every indication that they are the bad guys. Is this a reality that America has to accept, that in order for us to do things

for the Afghan people, that we have to pay the people that are killing us?

Mr. WALKER. I do not believe that is the case. Certainly on this road, with the security firm that we have providing security on the road, all of the local Afghan security providers are placed into the military's biometric data system to check against the bad guy list.

If someone were to turn up, the military, through USAID, would get back to us and say, We have a problem here.

Senator MCCASKILL. Have there been any you have had to remove because of that?

Mr. WALKER. I am not aware of any.

Senator MCCASKILL. Mr. Arafat.

Mr. WALKER. Mr. Arafat, his information, as I have been informed, was put into the biometric database and there was no indication that he was a person of interest. As a matter of fact, Task Force 2010 specifically told us that he was not on their list.

Senator MCCASKILL. But he was fired?

Mr. WALKER. Pardon me?

Senator MCCASKILL. He was fired?

Mr. WALKER. Consent to use him on the project was withdrawn, so his employment was terminated.

Senator MCCASKILL. And he was getting a million a year?

Mr. WALKER. No, ma'am. He was responsible for providing drivers and vehicles. He did not provide security, as I understand it. His responsibility was to provide drivers and vehicles, which he did. The cost of those vehicles and drivers and fuel was \$40 a day per vehicle. We compared that against similar charges for running vehicles and that was consistent. The charge of those vehicles was a little bit over a million dollars.

Senator MCCASKILL. OK. I have additional questions that I will ask in the next round, but I will now turn it over to Senator Portman.

Senator PORTMAN. Thank you, Madam Chairman, and again, I thank the witnesses for being here today.

Mr. Walker, I think this hearing should be forward looking, but I think there are some questions that should be asked and some assurances, I hope, can be given with regard to steps you have taken, not so much with regard to the road—I do have some questions about that following on the Chair's questions, but with regard to some of the over-billing practices and what kind of internal audits or other controls have been put in place.

In November of last year, my understanding is that your firm received the largest fine ever imposed on a contractor working in a war zone of \$18.7 million in criminal penalties and \$50.6 million in civil penalties for over-billing.

And as part of that deferred prosecution agreement, your company admitted that from 1999 to 2007, former executives submitted false, fictitious, and fraudulent overhead rates for indirect costs and correspondingly resulted in overpayments by the government in excess of \$10 million. Federal prosecutors charged in addition to that between 15 and 20.

But what I want to ask today, and give you a chance to respond to is, what assurances can you give the Committee that these kinds of abuses will not occur in the future with taxpayer dollars? Have

you improved internal audit controls? How frequently do you plan to have your billing practices reviewed by outside accounting firms? What safeguards have you put in place?

Mr. WALKER. In 2006, we noticed a problem in our overhead and we initiated an internal review, and in June 2007, we initiated a refund to the U.S. Government of \$4.3 million. In August 2007, the Justice Department (DOJ) let us know that we were under investigation and intervened with us at that point.

Being that we had already seen that there were some problems in the overhead structure, we, of course, immediately pledged our full cooperation. We brought in an outside accounting firm to do a forensic analysis of what was going on in the overhead structure. We shared that completely with the Department of Justice.

And what was determined was costs that were associated with one overhead pool were inappropriately moved to another overhead pool. That overhead pool was the overhead pool for U.S. Government overseas work. That was absolutely wrong.

In looking at that situation and recognizing that we had that problem, we worked with the Department of Justice to, again, identify what the damages were to the U.S. Government and certainly volunteered our cooperation to initiate the refunds.

The individuals who were associated with that improper practice are no longer with the firm. We initiated a complete restructuring. I took over the presidency of the firm about 2½ years ago and initiated a complete restructuring of the controls and policies and procedures in the company.

I created a much more robust Compliance and Ethics Department in the company. We put the entire company through training, the Accounting Department, through many, many types of training. We put in place scores of new controls. We brought in yet another outside accounting firm to test those controls.

It is one thing to have policies and procedures; it is another thing to make sure that they work. So I brought in another independent accounting firm to test us to see how we are doing because we need to make sure that not only does the policy and the control exist on paper, but that it exists in the culture of the company. And so, we have been in that process.

As part of the DPA, as you are aware, we are under a monitor and we share everything, of course, with that monitor, all the training programs, all the testing to provide assurance that the controls that we put in place to protect the U.S. taxpayer.

We have shared this from day one with the Justice Department, with USAID, many presentations, and we have just laid everything open bare to make sure that we are as transparent as we can possibly be in this situation.

Senator PORTMAN. Well, thank you. I am glad to have given you the opportunity to respond. Obviously what this Committee is concerned about is that there are ongoing efforts to have both internal and external reviews, and through the monitor and other safeguards, we want to be sure that, as I said earlier, this incredible expenditure of taxpayer funds is being properly spent. Given where we are in Afghanistan, it is all the more important.

Let us go to the specific project, if we could, that you discussed with the Chair and that is the 64-mile highway that has now cost

about \$121 million. Final price tag, I am told, is expected to reach \$176 million, or about \$2.8 million per mile. Cost overruns, as I look at this, have now exceeded 100 percent. I do not know if that is accurate or not, but that is the way I read the numbers.

In your testimony, you attribute this to the security environment. You have responded to the Chair's questions about the security environment. I guess I would ask you a question, in addition to the security issue, can you tell us what is the cost overrun excluding, security costs?

Mr. WALKER. When Senator McCaskill had mentioned \$69 million, I would like to clarify it a little bit. That was our estimate of what we thought at the time it would cost to build that road, the construction cost. The bids that came in and the firm that won the contract, who was the low bidder, came in at, I believe it was \$85 or \$86 million.

That was really the starting point for us for the construction of the road, not counting security or the construction management over the contractor. So from our perspective, the construction starting point is about \$85 or \$86 million. And the total cost at that starting point, when you include security and the construction management, was about \$107 million.

The \$85 or \$86 million that was bid by the construction firm, the job will come in basically at that price. The construction costs are not experiencing large overruns. The primary driver of these costs are security. It has exceeded 30 percent. It has grown throughout the process. And it grew to such a point that—we are not in the security business and we saw that the security costs continued to grow as a result of the security situation.

So last year in one of the modifications to the contract, without prodding by USAID, but on our own volition, we told USAID that we were going to forego profit on security moving forward from last year. And so, we were entitled to it, but we voluntarily chose to forego \$1.4 million in profit on security because we are not interested in making profit because of that type of a situation, so we voluntarily decided not to.

Senator PORTMAN. My time is running out here.

Mr. WALKER. Yes.

Senator PORTMAN. We will have a chance for further questions in a moment, but if you could provide the Subcommittee with the cost overrun data, that would be helpful. You just said the primary driver of these costs are security-related. What we would be interested in knowing is which of those costs are not security-related, understanding what you said about security and the fact that there is a change in the security environment in the country as a whole. But if you could give us the data on cost overruns that are not security-related? If there are none, we want to hear that. If there are some, we want to hear what they are and why.

Mr. WALKER. Be happy to, Senator.

Senator PORTMAN. And there is, as I understand it, because of the basis of the contract being on a cost-plus basis, I assume there would be a profit involved. So we want to hear what those cost overruns are. Thank you, sir.

Senator MCCASKILL. Let us just get an overview here. Approximately how many different contracts does your company have in Afghanistan, Mr. Walker?

Mr. WALKER. The largest one is the IRP IQC contract that we hold in joint venture with Black & Vetch.

Senator MCCASKILL. Which is for all the highways, all the roads?

Mr. WALKER. Not all the roads. The roads are being executed under different contract mechanisms, but our responsibility has been roads. So under the IRP contract, road task orders, I believe we have done four roads, if I am not mistaken.

Senator MCCASKILL. OK. And are there other types of projects that your companies are doing besides roads in Afghanistan?

Mr. WALKER. We have some small contracts where we are a subcontractor to some other firms on non-infrastructure. We also have some—we have had a couple of small projects under the AFCAP contract, but they are—I do not think we have any current and we have had just a handful of those.

Senator MCCASKILL. Mr. Hakki, you indicated most of the work you have done has been under the aegis of work with the Army Corps for the military as it relates to structures either supporting the Afghan police, the Afghan national army, or the U.S. military.

Mr. HAKKI. Correct, ma'am.

Senator MCCASKILL. Have you done any projects that would be considered civilian infrastructure projects, electrical plants, health centers, schools, anything of that nature?

Mr. HAKKI. No, we have not, ma'am.

Senator MCCASKILL. OK. Let us talk about oversight. I was shocked in your testimony, Mr. Hakki, when you said in 9 years you had one meeting with the Corps of Engineers. For both of you, how often do you see USAID officials, Mr. Walker, at the Gardez-Khost project? How often are they there?

Mr. HAKKI. I am sorry, Senator. The meeting I was talking about was a partnering meeting, not normal regular meetings. We have regular meetings with the Corps in country on—

Senator MCCASKILL. Partnering like the planning meeting?

Mr. HAKKI. Partnering planning meetings where we have top executives from both agencies, along with the end user, and they meet for a whole day or perhaps 2 days in a remote location and they discuss the strategy and the partnering for the whole project.

Senator MCCASKILL. And sustainability, I assume?

Mr. HAKKI. And sustainability. For that, we have only had really one in Afghanistan, but as far as regular meetings with the clients, we have had those on a regular basis.

Senator MCCASKILL. I understand. What about oversight on your end, Mr. Walker? How often does USAID show up onsite?

Mr. WALKER. In the projects that we have around the country, they definitely come in. One of the restrictions that USAID works under is the restriction for being able to move in the country. And I have known quite a number of USAID personnel who want to get out more than they are allowed to.

They do come to the case of Gardez-Khost, USAID does come out to the road. They are forced to travel under very restrictive security restrictions such as movements in MRAPs, for example, but they do get out. They do get out to the road.

Senator MCCASKILL. What about the contracting officers, the CORs? Do you all have very much contact with CORs, either one of you?

Mr. HAKKI. Yes, we do.

Senator MCCASKILL. You do?

Mr. HAKKI. We do, but I have to emphasize that our projects are a lot different than the Louis Berger projects because our projects are all inside the wire.

Senator MCCASKILL. Right.

Mr. HAKKI. They are all inside the perimeter of the base where most of the times, the COR's officers are there.

Senator MCCASKILL. Right.

Mr. HAKKI. So it would be a lot easier for us to meet than they do.

Senator MCCASKILL. Do you think the CORs are doing a better job in terms of contract oversight than 4 or 5 years ago?

Mr. HAKKI. They have definitely improved over the past 9 years. We have definitely seen a lot of improvement in all aspects—

Senator MCCASKILL. That is good.

Mr. HAKKI [continuing]. Including the government turnover of personnel that you just mentioned. Most of them are now on one year rotations, when initially in 2003, we used to see people on 60 day, 90 day rotations. Now they are getting into one year. I think there is still room for improvement there. I think they can still increase that, but there is definitely an improvement.

Senator MCCASKILL. And let us talk about bribes. I mean, I spent some time in Afghanistan and I am hopeful that neither one of you will test us here and not acknowledge that bribes have been an essential part of us doing business in Afghanistan, regardless of what we are doing.

What can you tell the Committee about bribes and the bribes that have been paid at various places and levels, whether it is under the aegis of security or other services that are needed by local folks that are used to getting their piece of the pie?

Mr. HAKKI. No, I can tell you, ma'am, we do not have any part of that whatsoever. We have a very strict company policy against bribes and we just do not participate in that. And on several occasions, it cost us delays and we had to suffer because we did not agree to play that game. But we really do not.

Senator MCCASKILL. Mr. Walker.

Mr. WALKER. We have seen no evidence of our security personnel providing bribes. I mean, I think the casualties that we are taking would indicate that is not something that we sponsor or that our security provider sponsors.

Senator MCCASKILL. Well, I assume when the security costs went way up, the casualties began to go down.

Mr. WALKER. No, ma'am.

Senator MCCASKILL. The casualties have remained at the same level even though security has increased by a dramatic fashion?

Mr. WALKER. We have had, for example, 2 weeks ago, two of our security personnel were kidnapped and taken to a local village. They brought the villagers out and they executed them. Whether that happened 2 weeks ago or whether it might happen 30 days from now we still have to maintain a level of security.

In ramping up the security, it is one of those unknowns. We do not know what we may have prevented by having more security, better security. But what we do with our security profile is to create a security bubble and to make that as airtight as possible so that the work can occur.

But when you move on from that bubble, you still have infiltration to plant IEDs, to plant mines. When workers go home, in the case of the gentlemen 2 weeks ago who were kidnapped, they were on their way home after they had left duty when they were kidnapped and then executed. We have to maintain a level to allow us to get our work done.

Around 3 to 4 weeks ago, you all are probably aware of the attack that occurred north of the road in which 36 construction workers were killed. I believe it was a PRT road. They were trying to use a lower level of security, as I understand it, and the result was they could not withstand a serious assault.

So how much is our security footprint a deterrent from a serious assault like that? I do not know if we can answer that question.

Senator MCCASKILL. Right. You cannot prove what you can prevent.

Mr. WALKER. Yes.

Senator MCCASKILL. Well, I do not think either one of you would say that bribing is not a serious issue in Afghanistan, right? I mean, you are not going to tell me that?

Mr. HAKKI. No, it is definitely a serious issue.

Senator MCCASKILL. OK.

Mr. HAKKI. And it happens on a daily basis.

Senator MCCASKILL. Right, everywhere.

Mr. HAKKI. We get threatened and we get calls to give the bribe and if we do not, we face the consequences. Like I said, we have been forced to suck it up and delay material delivery, delay in normal procedures with the government simply because we are not playing the game. We are refusing to succumb to that.

Senator MCCASKILL. Right. Do you think we should have built this road, Mr. Walker?

Mr. WALKER. A couple of years ago, a reporter for the Wall Street Journal asked me if we should have built the Kabul-Kandahar Highway, which we had constructed. It has been under attack. All the bridges have been damaged. And he said, it is under such attack, was it worth building the Kabul-Kandahar Highway in the first place?

And I said to him that they are attacking it because it is important and if it is important, it is worth building. I think the question is not should we have built it or not built it, but is there a different way of building it that would get it done quicker or lower the casualty count or lower the security profile?

Again, when we started the road, we were at one level and then it advanced. We built a road a few years back up to Tarin Kowt, which is in Uruzgan Province, under the REFS contract which was the first contract that we had, and we knew that was going to be bad from day one. And so, we got together with the military, I think it was the 864th Combat Engineer Battalion, and we embedded ourselves with them.

So we had a battalion around us. They actually did the ground-work—did the earthwork. They had their 'dozers out there and they blazed it, and we came behind doing the asphalt work. And we were surrounded by a battalion. There were no casualties on that road, and Uruzgan Province was Taliban territory from day one that the United States came into Afghanistan. That was never—

Senator MCCASKILL. So why don't you do the same on this road?

Mr. WALKER. Because when we started, no one recognized that it was equivalent to a Tarin-Kowt, and our experience working on roads in the area indicated that it was not like a Tarin-Kowt.

Senator MCCASKILL. But once you figured out it was, why did you not go back to the drawing board and do what you had done in the previous incident?

Mr. WALKER. Senator, I think that is a great question and my understanding with this hearing is getting to the lessons learned, and going back to my opening statement where I said we cannot just look at the typical metrics of scope, schedule, budget, there comes a time when we probably should have stepped back and said, We have to change the scope because we need to get the road done, but maybe there is a different way of getting that road done.

What ended up happening is we all—we went into a reactive mode. So we have a security situation, we have to increase the security footprint to prevent that particular situation from happening again where we have another incident.

So I think from the lessons learned, that we have to recognize how the security environment can change relatively quickly in a contingency environment like Afghanistan.

Senator MCCASKILL. Well, it is sad to me that we are just now talking about that lesson learned because that lesson was learned many times in Iraq where the security environment changes and billions of dollars worth of investment was blown to smithereens because the security environment changed.

And I guess what I would say is that it seems this is a long time that we have had lessons learned, and it is so frustrating that—let me ask this last question because my time is up. Who is the person that you would see, Mr. Walker, that could have, in this whole enterprise of building this highway, who is the person that should be held accountable for not changing the way the highway was being built in light of the security environment changing?

Not within your company, but within the government part of this, the military or the State Department. Who is the person that should have said, We have to go back and do this differently?

Mr. WALKER. I do not know if there is any one person, but I do know that it is really important that we make sure that our communication between the military, between our client, with ourselves, is always at its best.

Senator MCCASKILL. Who can I blame?

Mr. WALKER. Who can you blame?

Senator MCCASKILL. Yes. Who can I blame that we did not change the way we were doing it sooner? Who could the American people look to hold accountable that we have poured tens upon millions of dollars into security not really sure where all that money

has ended up? Who is it that I should ask to come in front of this Committee to talk to about it?

Mr. WALKER. I am reasonably confident that we have maintained controls over the money that is going to security.

Senator McCASKILL. OK. I should not have added that. I am wanting to know, who is the person—and if there is not a person, that is the problem. Who is the person that I should ask to come in front of this Committee and explain that they were monitoring this expenditure of American tax dollars, that they saw it getting out of control, and they said, “Stop, we need to have a meeting, we need to figure out a different way to do this, we are going to put way too much money into this project?” Who is that person?

Mr. WALKER. And I guess I would have to say there is not one person who could be held to that standard. I think it is incumbent on all of us to sit down and look, is there a different way?

Senator McCASKILL. You know what happens with all of us? That means none of us because we do not know who we can hold accountable and we have to figure that part out. Somebody has to be held accountable. There has to be somebody in the whole organization that has primary responsibility and accountability for these projects if they are not sustained and they ended up costing way more than they should have cost and not achieving the objectives of the original project. Thank you very much. Senator Portman.

Senator PORTMAN. Thank you, Madam Chairman. Three quick questions and I would appreciate it if we could try to go through these quickly because there is another panel right behind you, I know, that is already here with us.

Again to Mr. Walker, giving you chance to respond, you talked about the highway that is under discussion here today, the Gardez-Khost Highway, and we have talked about the security situation and the cost overruns.

But let me give you a chance to respond to a report. This comes from the New York Times back in May. It is a quote, Despite the expense, a stretch of the highway completed just 6 months ago is already falling apart and remains treacherous, end quote.

One, do you agree that parts of the highway that you have already constructed is deteriorating, and if so, is your firm paying for the repairs to that stretch of road, or is USAID and the taxpayer picking up the tab?

Mr. WALKER. First, I would absolutely disagree with that reporter’s assessment. The reporter was referring to one particular crack that was on the road. If you have the photograph that I included with the opening statement—and if you do not have it with you, you could look at it later—on the right-hand side of that photograph, you will see where that crack is.

You will also see a fault line that runs down the mountain and the crack was a result not of workmanship. It was the result of a fault. It is there, the road goes over that fault, and whether it is Colorado where I used to live, whether it is West Virginia, whether it is Afghanistan, mountains move.

It was not a quality issue. It was not an issue of workmanship. It was an issue of that fault moving. I have spoken—we have had a senior geotechnical engineer who has been out there taking a look at it. It goes over a fault.

Senator PORTMAN. Who is going to pay for the repair?

Mr. WALKER. In the case of it going over a fault, that is a maintenance repair. Where there have been issues of quality, as there is also some issue of quality, we have had the contractor pay for that when it is their responsibility. But when a mountain moves, it is not the responsibility of the contractor. It is a maintenance function.

Senator PORTMAN. To both Mr. Walker—and Mr. Hakki, we are not going to leave you out totally here. After all, you got your engineering degree from Ohio University.

Mr. HAKKI. Yes. I was hoping you would mention that, Senator.

Senator PORTMAN. Yes. We are proud of that. Let us talk briefly about Afghan First. As I said in my opening statement, this is a policy now of the Administration I supported. Hire Afghans first, buy Afghan products, build Afghan capacity. You addressed this a little bit in your opening statement with regard to the 3,000 students you say have graduated from a training course, and you said you have local firms engaged in some retraining efforts.

I would ask you both, how do we get Afghans engaged in the sustainability I talked about in my opening statement? This road, the next time there is a crack and you all are gone and we begin our withdrawal, who is going to fix it? Can they afford it? Do they have the technological capacity to do it?

I just would like to hear from, first, Mr. Hakki quickly. What are you doing exactly to ensure that there will be this ongoing support by retraining, by developing this expertise? What are the challenges you see by this stated policy, the Afghan First Policy, and do you see any unintended consequences of it? And I think Mr. Walker alluded to some of those earlier. But if you could respond to that, Mr. Hakki?

Mr. HAKKI. Yes, Senator Portman. The Afghan First program is really not something that we are very familiar with. That is very limited to Afghan companies. We know it is there, we know it has been fairly successful, but I really cannot comment on that because we have not really participated in that.

Senator PORTMAN. But the policy is to have contractors like you hire Afghans.

Mr. HAKKI. I think the Afghan First program is limited to Afghan companies, if I am not mistaken. But that does not mean that we are excluding the Afghans from our projects. Like I said, we hire a lot of Afghans on our projects, we train them. We also engage with the local Afghan subcontractors.

Senator PORTMAN. But you do it just because you think it is a good idea, not because there is any direction in terms of a policy related to your contracts?

Mr. HAKKI. Correct. There is a requirement in our contract that encourages the engagement of the local labor and local companies, but it is really not a requirement. We have taken that way over.

Senator PORTMAN. You would not have to do any hiring of Afghan subs.

Mr. HAKKI. Contractually speaking, no.

Senator PORTMAN. Interesting.

Mr. HAKKI. But we do that.

Senator PORTMAN. In terms of policy—

Mr. HAKKI. But we do that and it has been very successful, and the training center that we established really was completely out of pocket. There was no government funding associated with the training center that we developed. It was completely out of pocket and we thought it was a great idea because it really addresses Senator McCaskill's concern with sustainability. The best way to sustain these projects after we all leave Afghanistan would be the training and the education.

The way we really did it is very simple. We hired these students, believe it or not. We had to pay them like a daily allowance. We had to transport them and we had to give them actually like food while they are there.

But it is really peanuts. I mean, the cost of all that was very little compared to the overall reconstruction process. And in 2 to 3 weeks, we would graduate them with a simple—maybe I can introduce this as part of the record if it is possible.

But it is a simple certificate,¹ really, that states that this individual has been trained for about 2 to 3 weeks on a specific skill, and it really does not cost much, but it means the world to this individual because it provides him with the security and a skill and with a job that he can use long after we leave. So that is why it has been really successful, this whole program for us.

Senator PORTMAN. I look forward to talking to the government panel afterwards. There must be some disconnect here between the work you have done, which it sounds like successful in terms of moving toward not just using Afghan subcontractors and labor, but also training them for the future, and what my understanding was, which is that should not be something that is discretionary, but rather, part of a policy. So we will talk more to the government panel about that.

Mr. Walker, other thoughts?

Mr. WALKER. Yes. Under USAID's auspices, we have a major and significant program of sustainability underway for roads. Currently, we have basically an Afghan-led program where 1,500 kilometers of road under active maintenance, we have been developing the capability of the Afghan firms, the Afghan employees for a number of years now. And again, it is 1,500 kilometers under maintenance.

Our employees, our Afghan employees, we have moved up the ranks so that the deputy task order manager is a local Afghan engineer, Engineer Wali. He could take that program over probably in another 6 months, maybe a year.

The important point about that is sustainability also means funding, and we have worked with the Afghan Government, with the Ministry of Public Works and the Ministry of Finance, to establish the framework for a road authority, as well as a road fund. The Minister of Finance has indicated that he feels it is very important in that roads can be funded, maintenance of roads can be funded through a fuel tax or something along those lines.

This initiative is now on President Karzai's desk on the decision on whether or not the authority goes under Public Works or whether it is an independent authority. But I think it is an example of

¹The certificate mentioned by Mr. Hakki appears in the appendix on page 151.

planning for things, as we have discussed here earlier, having some foresight into, will these roads be able to be maintained? And I believe the answer is yes.

The crack that we talked about from the fault is being repaired by Afghans under that maintenance task order. So I think it is a real example of success in looking at sustainability and protecting the investment that the United States has made for roads.

Senator PORTMAN. OK. Madam Chairman, if I could ask one more quick question?

Senator McCASKILL. Sure.

Senator PORTMAN. And this is one that I think is important to get on the record. It has to do with, in a sense, what the Chair asked earlier about which was these multiple subcontractors, and GAO has raised concerns about this, what they call the excessive use of multiple tiers of subcontractors. They talk about concerns over project management, over vetting, over cost control.

I am going to focus on one area and that is what kind of contract. It seems to me we are creating the wrong economic incentives when some of these multi-million dollar contracts are structured as cost-plus contracts. And in that case, prime contractors actually earn more when their subcontractors spend more. So you all would be earning more as they spend more, rather than creating an incentive for efficiency.

Rather than encouraging subcontractors who, for example, economize on the material cost or delivery cost, prime contractors would actually profit from that waste at any level. So my question to you is, do you think we ought to change it? Do you think we ought to use fixed-cost contracts more widely, and why would that not be feasible in some of these reconstruction efforts? And if so, what kind of projects would those work best on? And if you think that we should not move to fixed-cost contracts, why not?

Mr. HAKKI. Senator Portman, 99 percent of our contracts are fixed price and we really have little subcontractors on them, because like I said, we always tend to self-perform the majority of the work. And I think out of 50 projects we have done in Afghanistan, only one has been cost-plus. All the others have been fixed price competitively bid with very little amount of subcontractors.

Senator PORTMAN. Fixed price for your subcontracts—

Mr. HAKKI. No, fixed price for us.

Senator PORTMAN [continuing]. Or for your contracts?

Mr. HAKKI. It is a fixed price for us.

Senator PORTMAN. And outside the wire, is that true, outside the compounds?

Mr. WALKER. Working outside the wire, it is extraordinarily difficult to do a fixed-price contract. There are just so many unknowns when you are dealing with mine fields on either side of a road that you are working on.

What we have done is we have tried to blend pieces of fixed-price in with cost-plus, and to that end what we have done is we have created a contract modality where we have fixed unit prices so that the only thing that would vary would be the quantities. An example would be on the Gardez-Khost road, it cost \$4.40 a cubic meter for dirt for excavation. That holds, and if it costs more than that, that unit price does not change.

What changes are the quantities and the quantities are monitored every day, every dump truck to make sure that however many cubic meters are pulled out of a particular section are, in fact, accounted for. So we have tried as best we can to blend both aspects of fixed-price as well as cost-plus.

Senator PORTMAN. So is there more opportunity for fixed-price contracting at the subcontractor level?

Mr. WALKER. If it is a smaller contract that is defined—and that is really the key—if you can define what the work is, then it is certainly possible.

Senator PORTMAN. Thank you, Madam Chairman. One final thing I want to say and that is, just as we are concerned about the safety and security of our troops, we are for your employees and your subcontractors and we wish them well.

Mr. WALKER. Thank you.

Senator PORTMAN. Thank you.

Mr. HAKKI. Thank you.

Senator MCCASKILL. Thank you both for being here. We really appreciate it and we will followup if we have any additional questions.

Mr. WALKER. Thank you.

Mr. HAKKI. Thank you, Senator.

Senator MCCASKILL. And I want to second Senator Portman. While our job is to oversee the way money has been spent on all of these various contracting initiatives in Afghanistan and Iraq, make no mistake about it. The people who have worked on many of these projects are in as much danger as many of our military, and we certainly wish them well and certainly mourn the loss of people who work on reconstruction projects for our government, as much as we mourn the loss of our soldiers who lose life and limb in theater. So we wanted to pass that along to both of you. Thank you for being here.

Mr. WALKER. Thank you.

Mr. HAKKI. Thank you, Senator.

Senator MCCASKILL. I will go ahead and introduce our next panel. Our first witness will be William Solis who is the Director, Defense Capabilities and Management Team at GAO. In that capacity, Mr. Solis is responsible for a wide range of program audits and evaluations, focusing on Army, Navy, Air Force, Marine Corps, and Defense Logistic Agency programs.

His portfolio of work covers issues including operational contract support, operational energy, urgent needs, force protection for ground forces, in-theater supply chain management, maintenance, transportation, sustainment, and equipment reset. I understand that the schedule change for this hearing was very difficult for you and I want to thank you especially for joining us today.

David Sedney has served as Deputy Assistant Secretary of Defense for Afghanistan, Pakistan, and Central Asia since 2009. From 2007 to 2009, Mr. Sedney was the Deputy Assistant Secretary of Defense for East Asia.

Prior to joining the Defense Department, Mr. Sedney was a career diplomat with the State Department where he held a position on the National Security Council and was the Deputy Chief of Mission in Afghanistan as well as several other countries. Mr. Sedney

previously testified before the Subcommittee at the April 2010 hearing on the Afghan National Police Training.

Kim Denver is the newly appointed Deputy Assistant Secretary of the Army for Procurement. In that capacity, Mr. Denver manages the Army's procurement mission, including the development and dissemination of policies, processes, and contracting business systems. He directs the evaluation measurement and continuous improvement actions for over 270 Army contracting offices worldwide.

As the functional career representative for contracting, Mr. Denver oversees the recruitment, training, certification, and professional development of the Army's contracting workforce. He was previously the Director of Contracting for the U.S. Army Corps of Engineers National Contracting Organization.

J. Alexander Thier has been the Assistant of the Administrator and Director of the Office of Afghanistan and Pakistan Affairs for the U.S. Agency for International Development since June 2010. Prior to joining USAID, Mr. Thier served as Director for Afghanistan and Pakistan at the U.S. Institute of Peace, and Chair of the Institute's Afghanistan and Pakistan working groups.

Once again, as is the custom of the Committee, if you would stand so I can administer an oath?

Do you swear that the testimony you will give before the Subcommittee will be the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. SOLIS. I do.

Mr. SEDNEY. I do.

Mr. DENVER. I do.

Mr. THIER. I do.

Senator MCCASKILL. Thank you all for being here and we will begin with Mr. Solis.

TESTIMONY OF WILLIAM M. SOLIS,¹ DIRECTOR, DEFENSE CAPABILITIES AND MANAGEMENT, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. SOLIS. Good morning, Madam Chairman, Ranking Member Portman. I appreciate the opportunity to be here to discuss DOD contract oversight in Afghanistan and the vetting of non-U.S. vendors by DOD, AID, and State. Collectively, DOD, AID, and State have obligated billions of dollars for contractor-provided services and goods in Afghanistan.

Given the magnitude of these obligations, the importance of contract oversight cannot be overstated. To this end, we have made numerous recommendations aimed at improving contract management and oversight. My statement today will focus on two areas. First, the extent that DOD's contracting officer representatives are prepared to conduct their oversight and management responsibilities in Afghanistan, and the extent that DOD, AID, and State vet non-U.S. vendors in Afghanistan for ties to terrorist or criminal activities.

With regard to contractor officer representatives they act as the eyes and ears of the contractor officer and thus serve a critical role

¹The prepared statement of Mr. Solis appears in the appendix on page 67.

in providing contract oversight. To its credit, DOD has taken actions to better prepare CORs to conduct contract oversight and management in Afghanistan. However, CORs are not fully prepared for their roles to provide adequate oversight there.

To improve the capability of CORs to provide contract management and oversight contingencies, DOD has developed a new contingency focus COR training course, issued new guidance, and developed a COR certification program. Nonetheless, gaps in training and technical capabilities exist.

For example, according to the DOD personnel in Afghanistan, the required training does not provide CORs with enough specificity about contracting in Afghanistan such as information about Afghan First program, which encourages the increase in local goods and services or working with private security contractors.

Also, whether a COR has relevant technical expertise is not always considered prior to assigning an individual to oversee a contract, even though CORs have a significant role in determining if products or services provided by the contractor fulfill the contract's technical requirements.

According to officials, some CORs appointed to oversee construction contracts have lacked the necessary engineering or construction experience, in some cases resulting in newly constructed buildings that were to be used by U.S. or Afghan troops having to be repaired or rebuilt.

According to CORs and commanders in Afghanistan, poor performance on construction contracts has resulted in money being wasted, substandard facilities, and an increased risk to bases. For example, contracting officials from a regional contracting center stated that construction of guard towers at a particular forward operating base was so poor that they were unsafe to occupy.

In addition to oversight concerns related to CORs, we recently reported on the extent that DOD, State, and AID have processes in place for vetting non-U.S. firms in Afghanistan for ties to terrorists or criminal activity. We reported that while DOD began to vet non-U.S. firms in August 2010, there are several gaps in its process.

For example, vendors with contracts below \$100,000 are not routinely vetted. In fiscal year (FY) 2010, around three-quarters of those contracts with non-U.S. vendors were below the \$100,000 level. Subcontractors are also not routinely vetted. Command officials stated that the central command (CENTCOM) uses other risk factors to prioritize vendors to vet such as contracts performed in Taliban strongholds, but these factors have not been documented.

While officials stated that the vetting cell was created to vet vendors prior to award, CENTCOM is largely vetting vendors with existing contracts, which means it is likely there are a large number of new vendors that have not been vetted prior to award and may not be vetted in the future.

Also, the vetting effort now includes some Army Corps of Engineer vendors. However, the vetting cell has not been staffed to accommodate this workload. So it is uncertain how existing resources will be able to vet vendors in a timely manner.

In January 2011, AID created a process intended to vet non-U.S. implementing partners in Afghanistan. However, this process may face similar limitations as CENTCOM's. According to AID officials,

this decision was based on urgent need to mitigate the risk of AID funding being diverted to insurgent groups.

While AID's process is in the early stages, it proposes to vet non-U.S. implementing partners in at least the first tier subcontractors with contracts valued at \$150,000 or more. AID officials said they are considering changing the dollar threshold or vetting of other potential assistance recipients based on risk. However, the available documentation does not include other risk factors.

As of March 2011, State had not developed a process to vet contractor firms in Afghanistan. Since 2008, State has required a terrorist financing risk assessment to be completed of any new program or activity prior to a request or obligation of funding. However, it does not use the same information that CENTCOM or AID use in their vetting cells. Additionally, its use of Afghan vendors may increase under Afghan First Policy.

In closing, the Secretary of Defense has recently called for a change in the Department's culture related to operational contract support and directed the Joint Staff to identify resources and changes in doctrine and policy necessary to improve it.

We echo his call and believe that these changes should include an examination of how DOD manages and provides oversight of contracts and contractors in deployed locations. This concludes my statement. I will be happy to answer any questions.

Senator MCCASKILL. Thank you, Mr. Solis. Mr. Sedney.

TESTIMONY OF DAVID S. SEDNEY,¹ DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR AFGHANISTAN, PAKISTAN, AND CENTRAL ASIA, U.S. DEPARTMENT OF DEFENSE

Mr. SEDNEY. Thank you, Senator. Thank you for inviting me here to testify today. My office falls under the Under Secretary of Defense for Policy, so I would like to comment on the overall larger strategy background for the contracting activity that is being executed in Afghanistan.

I will begin by reiterating the U.S. objectives in Afghanistan: To deny safe havens to al-Qaeda, and to deny the Taliban the ability to overthrow the Afghan Government. To support these objectives, U.S. and Coalition forces are working to continue to degrade the Taliban-led insurgency in order to provide time and space to increase the capacity of the Afghan National Security Forces and the Afghan Government, so that they can assume the lead for Afghanistan's security by the end of 2014.

As you know, based on the success of our strategy, President Obama recently announced that United States would begin a deliberate responsible drawdown of our surge forces. An initial drawdown of 10,000 troops will occur over the course of this year, with a further drawdown of the remainder of the surge by the end of the summer of 2012.

Our strategy in Afghanistan is working. The momentum has shifted to the Coalition and the Afghan security forces, and together we have degraded the Taliban's capability and achieved significant security gains, especially in the Taliban's heartland in the south.

¹The prepared statement of Mr. Sedney appears in the appendix on page 90.

As we look ahead, the key to our success is the presence and the capability of the Afghan National Security Forces and those forces are making progress in both size and capability. By the end of the summer of 2012 when the last of our surge forces are out, there will actually be more Afghan and Coalition forces in the fight than there are today.

That is because we will have increased Afghan security forces to 352,000 by October 2012, in addition to the 68,000 forces that we will have and an—and that is also augmented with forces by a number of our partner allies in NATO and elsewhere.

These security gains are enabling key political initiatives to make progress. We have begun a transition process that will ultimately put Afghans in the lead for security nationwide by the end of 2014. We are beginning to see reintegration and reconciliation processes gain traction and are discussing a strategic partnership with the Afghans to signal our enduring commitment to regional peace and stability.

I want to emphasize that while our progress in Afghanistan is substantial and our strategy is on track, significant challenges remain. The Taliban will make some strong and sometimes spectacular efforts, as they did the other day in Kabul on the attack on the InterContinental Hotel, in order to try and regain the momentum. However, just as that attack was defeated, those attempts will also be countered.

At the same time, we find that the enemy is increasingly facing an Afghan population that, through experiencing the benefits of stability and self-governance and seeing those become clear to them, they are becoming part of the transition process. Afghan communities are providing useful lessons in security and governance, as well as a potential model for other parts of the country as we move forward in our strategy.

I want to emphasize how important the role of our Coalition partners is in Afghanistan, 48 countries with over 47,000 troops today. These partner nations have made significant contributions and significant sacrifices.

Madam Chairman, Senator Portman, I want to close by thanking you and your colleagues in the U.S. Senate for your support for our men and women in uniform. Thank you again for allowing me to appear before you today.

Senator McCASKILL. Mr. Denver.

**TESTIMONY OF KIM D. DENVER,¹ DEPUTY ASSISTANT
SECRETARY OF THE ARMY FOR PROCUREMENT, U.S. ARMY**

Mr. DENVER. Madam Chairman, Ranking Member Portman, and distinguished Members of the Subcommittee on Contracting Oversight, thank you for the invitation to appear today to discuss the lessons the U.S. Army has learned and the ongoing challenges in management and oversight of contracting in Afghanistan. I will provide brief opening remarks and request that my full written statement be submitted for the record.

The U.S. Army has had boots on the ground in Afghanistan for nearly a decade. As we know from past military engagements, when our Army deploys, they depend on civilian support from contractors. Currently, more than 90,000 contractors are supporting our troops in Afghanistan, a ratio of just under one contractor for each soldier.

The contracting force supporting our troops in Afghanistan is the largest contract oversight mission the United States has ever managed. We still face challenges, but the Army has made significant progress in improving contract management and contract oversight.

I would like to share with you what the Army has done to change the contingency contracting environment, how we award and manage contracts, our oversight, and the training our non-acquisition personnel receive before deployment and when they arrive in theater.

Most of the contracts issued by the CENTCOM Contracting Command are awarded competitively ensuring the best possible price for the U.S. Government. We accomplish this by transitioning from cost contracts to fixed-price contracts. In a fixed-price contract, the contractor is paid only the amount that was agreed upon at the time of award.

Contracting officers must ensure the U.S. Government obtains the best value. An important element is the use of past performance information. The availability of data has been especially problematic with host nation companies as we strive to give preference and make awards to Afghan firms under the terms of the Afghan First program.

The Contractor Performance Assessment Reporting System (CPARS) is effective with U.S. vendors, but we have learned it has limitations in theater. In Afghanistan, we also use the Joint Contingency Contracting System (JCCS) to alleviate a number of problems in resident and theater contracting from solicitation postings to currency conversions and tracking performance. It has proven to be an invaluable tool for contracting in Iraq and Afghanistan.

Oversight of subcontractors has been a significant concern of Congress, the audit agencies and the contracting community. The Federal Funding Accountability and Transparency Act of 2006, requires prime contractors to provide extensive insight into subcontractor information. The CENTCOM Contracting Command has implemented 11 clauses dealing with subcontractor information to capture not just the data required by law, but additional information that will aid in vetting of contractors and subcontractors prior to award.

¹The prepared statement of Mr. Denver appears in the appendix on page 93.

Vetting host nation contractors is a key element in ensuring the security of the workplace for U.S. Warfighters, civilians, and contractors, as well as the security of our reconstruction efforts in Afghanistan.

In August 2010, a vetting cell was established at CENTCOM headquarters in Tampa, Florida, to vet prospective non-U.S. contractor firms in Afghanistan. Non-U.S. vendor information on contract awards and options is tracked in the Joint Contingency Contracting System, along with past performance.

After a contract award, the key to our contract oversight resides with the contracting officer's representatives who are the front lines as responsible stewards of American taxpayers' dollars. The Army strengthened our COR management and training in December 2009 with the issuance of an Army Executive Order mandating that deploying brigades have as many as 80 soldiers designated as trained CORs.

As a result, in the past 2 years, the Army Logistics University trained more than 8,500 CORs, and 2,317 soldiers since October 2010, the Expeditionary Contracting Command provided augmentation training to more than 2,300 soldiers as CORs.

The Army recognizes that success in contingency contracting results when deployed CORs are trained and technically qualified for their assignments. To ensure that technically qualified personnel are involved in the oversight of construction contracts in Afghanistan, the Senior Contracting Official in Afghanistan (SCO-A) recently provided guidance on the appointment of Construction Inspectors (CIs) to assist the technical expertise for our construction CORs.

Endemic corruption in Afghanistan remains a challenge to our contracting personnel. The U.S. Government has stood up several anti-corruption task forces in Afghanistan which have played a significant role in improving the contracting environment by reducing the impact of corruption on government contracting.

Madam Chairman, Army Contracting continues to identify more effective ways to ensure excellence in all contracting activities, to provide the most value of our contracting dollars, and the most effective support to our war fighters. Thank you for your continued support and I look forward to answering your questions.

Senator McCASKILL. Thank you, Mr. Denver. Mr. Thier.

TESTIMONY OF J. ALEXANDER THIER,¹ ASSISTANT TO THE ADMINISTRATOR AND DIRECTOR, OFFICE OF AFGHANISTAN AND PAKISTAN AFFAIRS, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. THIER. Chairman McCaskill and Ranking Member Portman, my name is Alex Thier. I am the Assistant Administrator for Afghanistan and Pakistan at USAID. I began working in Afghanistan in 1993 and since the fall of the Taliban, I have been intensively engaged in implementing and assessing the U.S. effort to stabilize Afghanistan.

I have repeatedly raised concerns about the corrosive effects of corruption and waste in Afghanistan post-2001. Indeed, these are

¹The prepared statement of Mr. Thier appears in the appendix on page 103.

not only issues of fiscal importance, but of national security itself. One of the reasons I took this job, in fact, was to improve our performance and our accountability. We owe this both to the American and to the Afghan people.

If the stable transition in Afghanistan will be achieved, we must ensure that our efforts are sustainable, durable, and realistic. With the support of the American people and strong bipartisan support in Congress, we have made some dramatic development achievements in Afghanistan over the last decade.

For example, we have worked with the health ministry to significantly expand access to health services from 9 to 64 percent of the population, literally saving tens of thousands of lives. Our efforts to build schools and train teachers have allowed more than 7 million children to enroll in school, 35 percent of whom are girls, up from no girls in 2001 and fewer than 1 million boys under the Taliban.

Economic growth has exceeded 10 percent growth per year on average, and GDP per capita has doubled since 2002, with 5 million people lifted from a state of dire poverty. Together, we are proud of our contribution to helping reverse Taliban momentum and achieving development progress under the toughest conditions.

As we embark on the path of transition, the process by which our Afghan partners will truly stand on their own feet, sustainability is of paramount concern to us. We have worked with Afghan and international partners to identify a set of core foundational investments that will develop Afghan capacity, promote economic growth, and increase government revenue generation to support a sustainable and durable transition in Afghanistan.

Those investments include things such as agriculture, extractive industries, human capacity development, and energy. For example, in energy, analyses shows that power availability and consumption are directly correlated with economic viability. Because sustainability of our investments is essential, a key component of our work is building Afghan capacity in the power sector and supporting power sector reform.

In 2009, the United States helped to launch a Da Afghanistan Breshna Sherkat (DABS), a new commercialized Afghan electric utility. Collections have increased 30 percent in the last year alone, boosting revenues of that utility to \$175 million. Kabul has gone from averaging 2 hours of electricity in 2002 to 24-hour availability today paid for by a commercially viable system.

Yet, I cannot overemphasize the challenges involved in undertaking these efforts as the Afghans, the U.S., and other international partners combat a vicious insurgency and terrorist threat. Security concerns on our projects are paramount. In 2010, attacks on civilian efforts rose sevenfold.

To succeed in this environment, we have made oversight and accountability a top priority in Afghanistan. Just weeks into this job, Administrator Shah and I concluded that we needed to do more to safeguard our investments. To ensure that proper procedures are in place, to help protect assistance dollars from waste, fraud, or otherwise being diverted from their development purpose, we developed the Accountable Assistance for Afghanistan Initiative, or A Cubed.

As a result, we are enhancing the safeguards on our development assistance by improving our award mechanisms, increasing vetting, increasing financial controls, and project oversight, and these efforts are already yielding concrete results.

In addition, over the last 2 years, we have tripled our staffing in Afghanistan, 60 percent of whom are located outside of Kabul, allowing us more USAID eyes on the ground. I am also proud to say that we have gone from three oversight staff in country in 2009 to 71 today. Many of them are staying now for multiple year tours.

We are under no illusions about the challenges we face in Afghanistan. Every day our staff and partners are under threat. Insecurity increases our costs and other threats require us to expend significant effort to safeguard taxpayer funds. When I left Kabul in 1996 after 4 years working during the civil war there, watching the country enveloped in chaos, the capital was a heavily mined rubble heap, the Taliban were taking over, and Bin Laden was moving in.

Despite the turmoil today, our efforts have resulted in critical gains. These results will enable the President to carefully draw down U.S. resources in Afghanistan. USAID's entire budget in Afghanistan since 2002 is equivalent to the cost of just 6 weeks of our war effort. This progress that we helped to contribute to the effort in Afghanistan will help bring American troops home more quickly and ensure that they do not have to return.

Civilian assistance has been central to these gains and will only increase in importance as Afghans take the lead in forging their own future. Thank you.

Senator MCCASKILL. Thank you all very much for being here.

Let us start, Mr. Sedney, with you. I was confused by your opening statement because it did not have anything to do with contracting and we are here on contracting. Obviously, you came to discuss contracting as it related to the Afghan National Police. And so, I guess my first question to you is, who is in charge at the Defense Department in terms of making the contracting decisions as it relates to infrastructure that is being built under the authority of the Defense Department and money coming from the Defense Department?

Mr. SEDNEY. In terms of contracting, I would defer to—

Senator MCCASKILL. I need you to turn your microphone on. We cannot hear you.

Mr. SEDNEY. I am sorry. In terms of actual responsibility for contracting processes within the Department of Defense, I may have to call on Mr. Denver who is more expert in the contracting area than I am. In terms of our contracting in Afghanistan, that contracting is done by C-STCA, which is the U.S. element that is in Afghanistan that does contracting for U.S. forces. They report to CENTCOM, which is then overseen eventually by the Under Secretary of Defense for Acquisition Technology and Logistics.

Senator MCCASKILL. I am looking for who is in charge of planning. Is that the Commander of CENTCOM? So when you all decide that we are going to spend \$500 million on \$400 million—I guess that is a related question. How much of the \$17 billion in the fiscal year request, how much of that is going to come through Defense and how much of it is going to come through State?

Mr. THIER. I can speak for USAID. We will get you the exact number, but I believe the request for USAID civilian assistance is around the \$3 billion level.

Senator MCCASKILL. Well, the President has asked for \$17 billion in fiscal year for reconstruction projects and infrastructure projects in Afghanistan. Does anybody here know how much of that is going to be under the control of the Defense Department, how much is going to be under the control of the State Department?

Mr. THIER. Again, I can say that about \$3 billion of that—

Senator MCCASKILL. \$3 billion.

Mr. THIER [continuing]. For USAID and possibly an additional billion under the State Department for operations, civilian operations that are not under USAID, but I cannot speak to the rest.

Senator MCCASKILL. So is the rest of that Defense Department, Mr. Sedney?

Mr. SEDNEY. I am not familiar with the \$17 billion figure that you mentioned, Senator, in terms of reconstruction projects. The Department of Defense budget, as I am familiar with it, has funding for operations in Afghanistan which include funding for the Afghan Security Forces fund which we are asking for about, I believe, \$12.4 billion—I can get you the exact figure—for Afghan Security Forces funding.

INFORMATION FOR THE RECORD

The President's budget request for fiscal year 2012 for the Afghanistan Security Forces Fund is \$12.8B.

But in terms of funding for reconstruction, I am not familiar with the \$17 billion figure you mentioned.

Senator MCCASKILL. What do you think it is? What do you think we are going to spend next year on building projects for the Afghan people?

Mr. SEDNEY. In terms of building projects for the Afghan people, that would be the realm of the AID and the Department of State.

Senator MCCASKILL. What about CERP? How much is CERP going to spend building projects for the Afghan people?

Mr. SEDNEY. CERP funding for this year will be—CERP funding for this year will be somewhere in the neighborhood of \$300 to \$400 million. The appropriations for the last several years have not been fully spent. CERP, however, is not reconstruction money.

CERP funding is Commander Emergency Response Programs. These are programs designed to assist commanders in the field to build the foundations for stability. It is not meant to replace—to be in the place of the long-term reconstruction funding, which is done by the State Department and USAID.

Senator MCCASKILL. But it is true that CERP has morphed into a program where we are now doing projects like building roads and building buildings and doing things other than small-scale projects which was the original use of CERP funds, especially in Iraq, were for small-scale projects and now in Afghanistan, we have the Defense Department actually managing projects that are construction projects with CERP fund, correct?

Mr. SEDNEY. We do have, over a number of years, particularly in the area of roads, CERP began to be used for roads. In the most recent appropriations bill, the Congress gave us authority to estab-

lish the Afghan Infrastructure Fund (AIF). The purpose for that is to divide out those projects which would be looked at as infrastructure projects and then enable CERP to maintain its original focus on those small-scale projects.

We are in the process of putting together guidance for the implementation of the Afghan Infrastructure Fund and the division of the CERP funds and oversight for that. I participated yesterday in a first meeting of a Department of Defense oversight panel which will be giving guidance in those areas.

Senator McCASKILL. Does the Defense Department have a certification process for sustainability before we spend any American money in Afghanistan?

Mr. SEDNEY. Senator, I am not familiar with the details of contracting processes or certifications, but I will pass that question on to my colleagues who do that responsibility in that area.

Senator McCASKILL. Who would you pass it to?

Mr. SEDNEY. I would first send it to the Under Secretary of Defense for Acquisition Technology and Logistics (AT&L), which supervises policy regarding contracting—

Senator McCASKILL. Is this Ash Carter?

Mr. SEDNEY. That would be his office I would be passing your request to.

INFORMATION FOR THE RECORD

Sustainability is critical to the success of the Commander's Emergency Response Program and Afghan Infrastructure Fund infrastructure projects. Recognizing this, the Department of Defense continues to develop and implement a number of processes to ensure that the infrastructure it builds will be sustained by the Afghan Government. For example, a variety of stakeholders—including the Government of Afghanistan, the U.S. Department of State, the U.S. Agency for International Development, international donors, and regional and local government officials and citizens—review electrical, water, and other AIF projects for sustainability. All AIF projects must have sustainability plans that identify Afghan responsibilities, any non-U.S. funding sources, and maintenance and operation requirements.

The infrastructure projects funded by CERP also address sustainability. For those projects requiring sustainment—such as irrigation canals and wells—the Department of Defense coordinates with the host government and interagency partners to develop sustainment agreements and plans, as well as to identify sustainment funding. Specifically, for CERP projects costing more than \$50,000 that require sustainment—like the Hezar Joft Beltway project in Helmand Province—a responsible Afghan Government official must sign a Memorandum of Agreement (MOA) with U.S. forces to acknowledge sustainment responsibility to budget and execute project operations and maintenance. In addition, U.S. and international stakeholders review CERP infrastructure projects, with the additional requirements that all projects costing more than \$1M are reviewed by the Office of the Secretary of Defense (OSD) CERP Management Cell; projects costing more than \$1M up to \$5M require Commander, U.S. Central Command approval; and all projects costing \$5M up to \$20M require Commander, U.S. Central Command endorsement and Deputy Secretary of Defense approval. In addition, the congressional defense committees are notified of any CERP project with a total anticipated cost of \$5M or more at least 15 days before funds are obligated.

Senator McCASKILL. OK.

Mr. SEDNEY. But any request that you have regarding contracting, I will pass to them.

Senator McCASKILL. OK. I am trying to figure out who is charge. I am trying to figure out how much money we are spending and who is in charge. It is ironically difficult to figure out how much we are spending and who is in charge. I particularly need to figure out who is in charge in terms of who is making the decision to go

forward with projects when they turn out not to be sustainable. And that has been more difficult than it should be.

Let us get to where the money is going, and I will try to do this very briefly, and then turn it over to Senator Portman. The Special Inspector General for Afghan Reconstruction, the previous Special Inspector General—I want to caution that this is not the current Special Inspector General.

The previous issued a report that indicated that four contractors, Contrack, Kabuljan, United Infrastructure Projects, and Red Sea Construction Company received over \$1.8 billion in contracts in a 2-year period between 2007 and 2009. That report, which SIGAR stated was based on a review of information provided by the Defense Department, has since been identified by both SIGAR and the Defense Department as containing inaccurate information.

In fact, that report was so inaccurate it was off by hundreds of millions of dollars. OK? Then USA Spending, another database that reports information from Federal Procurement Data Systems (FPDS), the government's main database for tracking contract information, lists \$454 million in spending over the same period of time.

So one report says we have spent \$1.8 million on just contractors in 2 years. Another report says we spent \$454 million over the same period for just two of these companies. Does not even have information on the other companies. I know, Mr. Denver, that your office—and I know that you are new and I am sorry that you are the one that has to sit there today.

Your office is the executive agent for contracting in Afghanistan, which gives you oversight and authority for contracting which is now called Triple C, CENTCOM Triple C, which is the contracting command.

That office provided the inaccurate information to SIGAR and in preparation for this hearing, your office provided the Subcommittee with information that shows that one of those contractors listed by SIGAR as having \$691 million in contracts actually only had \$5 million in contracts.

CCC was provided an original copy of the SIGAR report, but yet said nothing about these wild inaccuracies that were contained. I think you all can see where I am going. I do not think the public can have any confidence that we are accurately reporting what we are spending where on contracting in Afghanistan. And I would like to know how you can explain this wildly inaccurate information that was provided to the Special Inspector General for Afghanistan.

Mr. DENVER. Thank you, Madam Chairman. We are currently coordinating with SIGAR to determine where those issues arose. It is true that inaccurate information was provided. What we are working with them on is a process in the future where this information that is gathered directly from the CENTCOM Contracting Command would be forwarded to my office so that we can also, in addition, pull reports to validate the information.

What we are seeing is that we do not want to impact their ability to connect directly with the CENTCOM Contracting Command, but we want to make sure that what we do in the future, that we are able to double-check the information that is being provided. But

right now, even SIGAR has indicated that they may need to audit to determine why and what was the source of the inaccurate information.

Senator MCCASKILL. Senator Portman.

Senator PORTMAN. Thank you, Madam Chairman. I think it might be helpful just to put what we are talking about in perspective.

If you could correct me if I am wrong, Mr. Sedney, but current troop levels in Afghanistan is just over 100,000?

Mr. SEDNEY. Yes, Senator.

Senator PORTMAN. And number of contractors, DOD, State, USAID contractors in Afghanistan about 154,000?

Mr. SEDNEY. I am not—I cannot certify the total, but I would say for the Department of Defense, the average figure is about .85 contractors for each deployed troop. I think that is the ratio that we are operating under. So with 100,000 troops, we would expect about 85,000.

Senator PORTMAN. Earlier in testimony someone said it is more than one contractor per troop. Mr. Solis, what are your numbers?

Mr. SOLIS. I do not have the exact number, but it is about one to one or a little over one to one.

Senator PORTMAN. So let us say roughly 100,000 troops, 150,000 contractors. So this hearing is about the contractors. As I said earlier, the experience in Bosnia and Iraq is that as we begin a drawdown of troops, we do not begin a drawdown of contractors initially. Is that accurate, Mr. Solis?

Mr. SOLIS. That is what we saw in some of our prior reviews, I think.

Senator PORTMAN. So this is incredibly important that we get this contracting right, and one of the big concerns, obviously, that has been raised today is about sustainability. So as we continue to spend more and more taxpayer money, even relative to the military commitment, going forward on contracting, we are really creating something of value that is going to last and be able to be successful in moving Afghanistan to a stable government that meets the objectives that Mr. Sedney laid out earlier.

So unsustainability. Let us talk about it for a second. There is a June report by the Commission on Wartime Contracting that was pretty pessimistic. It said, There is no indication that DOD, the Department of State, or AID are making adequate plans to ensure that host nations would be able to operate and maintain U.S.-funded projects on their own, nor are they effectively taking sustainability risks into account when devising new projects or programs.

That is particularly concerning if that is accurate because having learned the lessons, you would think that we, on the new projects, would be looking at sustainability. The report goes on to say, In Afghanistan, the United States has contracted for schools and clinics that lack adequate personnel, supplies, and security; a large power plant that the host country cannot maintain or operate; roads that will need substantial continuing maintenance; security force training and support whose costs exceed Afghan funding capabilities.

So I guess I would ask first, and maybe, Mr. Thier, you are the right person to talk about this from an AID perspective, but I would also like to hear from Mr. Sedney and Mr. Denver from a

DOD perspective. What are your agencies' approaches to evaluating at least these ongoing development and reconstruction projects to ensure that they are sustainable?

Are you redesigning or terminating programs that are not viewed as sustainable? Are you ensuring that any new commitment of U.S. taxpayer dollars is for an undertaking that the Afghans can carry on after we are gone? And how has that process been formalized?

Mr. THIER. Thank you, Senator. USAID is intensively focused on this question of sustainability and it really goes in two different directions. One is, are the actual investments that we are making sustainable? In other words, will power projects that are being built, will they be maintained? Will schools be used? That is one aspect of sustainability.

The second aspect of sustainability is the broader question of how does Afghanistan itself manage to sustain these investments over the longer term in terms of developing their economic growth?

On the first part, we certify that any program that we are doing that has a capital investment must have a sustainability plan. In fact, we have intensified this just in the last few months by creating what we call a sustainability guidance, where we are assessing every single program that USAID is implementing to determine if it is going to be sustainable in both of these senses.

Will the actual physical investment be maintained? And more broadly, is this contributing to the Afghans' ability to sustain these investments in the long term? So it is something that we take very seriously.

Senator PORTMAN. Let us focus in for a second on AID and projects. Let us talk about the Kabul power plant. I know you are familiar with it. The American taxpayers have paid \$300 million for this power plant. It is a dual fuel plant. It is now rarely used, is my understanding, and the cost to operate it is prohibitively expensive for the Afghan government.

There is an audit by your Inspector General recently at AID who found that the project is not sustainable because the Afghans cannot afford to purchase the diesel fuel necessary to power the plant and they cannot sustain the complex maintenance and technical expertise required to operate it. Instead, actually, the Afghans are negotiating with neighbors, including Uzbekistan, to get their power for a fraction of the cost that they would from your dual source, dual fuel source plant that cost 300 million bucks.

So how did AID get that wrong, is one question that I want to hear from you on, but then let us talk about the next one. There is a 2011 AID contract to build a diesel-fueled power plant in Kandahar. And so, you say that you now certify that any program we are doing has a sustainability plan.

The Commission has stated there, and you may disagree with the Commission, but this plant faces similar sustainability challenges. The financing plans have not been made for the transmission or distribution grid that would make this plant a useful source of energy. Are we doing it again? One, how did AID get the first one wrong, and second, are we once again stepping into a situation where we are putting hard-earned taxpayer dollars against a project that is simply not sustainable?

Mr. THIER. Let me address the second one first. The decision to invest in power in Kandahar was a decision that the U.S. Government, the military, the State Department, USAID made collectively in the summer given the critical nature of our campaign in Kandahar and our desire to shift the momentum away from the Taliban.

So we made two decisions with regard to the investment into Kandahar power. The first decision was that a long-term source of power for Kandahar was not going to come online quickly enough in order to achieve that objective. So there was a joint decision with the International Security Assistance Force (ISAF) and USAID to invest in some short-term power generation, diesel fuel, which you are absolutely right is not a long-term sustainable effort, to turn the lights on in Kandahar.

And we are adding 50,000 connections in Kandahar so that the people of Kandahar, as well as the people of Helmand, are going to see the positive results of this effort.

There is, however, important sustainability components in that program. The first is that we are working to increase the power supply to that region in a sustainable fashion, both by building line down from the north of Afghanistan that will provide long-term sustainable power, as well as increasing the power supply from the Kajaki Dam into that area.

So those two things together are a longer-term sustainability plan, together with the fact that the Afghan utility, DABS, that I mentioned before, is collecting money for the power it distributes now, and that means that over the long term, they will be responsible for actually sustaining the investment.

That is also related to the question about Tarakhil. Today that plant is being run as a peaking power plant. Kabul, the capital of Afghanistan, was known until recently as the dark capital of Asia. It had the least amount of power of any capital in the world.

Twenty percent of the Afghan population lives in Kabul. When the decision to build that plant was made, there was no assurance that this line coming down from Uzbekistan would, in fact, be available. And even once the plant was built, a landslide, for example, cut out that power line allowing the only reliable source of power, which is the Tarakhil plant, to function and to—

Senator PORTMAN. So was that plant constructed as a back-up power plant? That is what you are saying it is?

Mr. THIER. It was constructed as a peaking power plant.

Senator PORTMAN. It was originally intended for 300 million bucks to be a peaking back-up power plant?

Mr. THIER. It was with the caveat that people were uncertain of whether the alternative plan, which is to bring a line down from Uzbekistan which has its own reliability problems as well as the terrain that was to traverse—

Senator PORTMAN. So that was the design here? Because that is not my understanding.

Mr. THIER. That was, in fact, the design, but we made sure that the sustainability of that plant is a very high priority in three ways. One, that we are intensively engaged with DABS to make sure that they are, in fact, able to maintain the plant.

Senator PORTMAN. Could you provide us, the Committee, some data to back up the assertion that this was built as a back-up power plant for peaking only? And with regard to the sustainability, we would love to see more information on that.

Mr. THIER. Sure.

Senator PORTMAN. I am over my time. I guess just quickly, not to leave DOD out of this, with regard to the Afghan National Security Forces in terms of sustainability, again, the studies we have seen, including from the Commission, and you may disagree with the Commission. I would like to hear if you do disagree. They think that the investment in training and preparing the Afghan National Security Forces risk being wasted in the long run due to the same sorts of sustainability problems.

In 2002 until now, we have appropriated almost \$35 billion of taxpayer money to establish the security forces, and another \$13 billion, as was talked about earlier, is being added to the 2012 budget. The Commission concluded, The prospects for the Afghan government's ability to sustain these forces are meager, particularly considering that the national government's entire domestic revenues are about \$2 billion a year.

So I would ask DOD, have we evaluated the sustainability of the support here, and if so, what has our evaluation shown? And if not, how can we do that? How can we improve its long-term effectiveness? Just as background again, we have committed \$11.5 billion since 2005 to construct facilities, facilities alone, including bases, police stations, outposts and so on. What are the long-term maintenance costs of these facilities, and do you believe that the Afghan government has the financial resources ever to be able to maintain those facilities?

Mr. SEDNEY. Senator, those are important questions and let me take them in two parts. First, however, I would like to correct the record. In fact, I do have the numbers. The exact numbers of Department of Defense contractors in Afghanistan is 90,800. The Department of Defense is required to submit a report, which it does, to the Armed Services Committee and to the Appropriations Committee. This report was dated June 21 and we will make sure you get copies of that report.

INFORMATION FOR THE RECORD

A copy of the report¹ to Congress on contractors, pursuant to Section 9013 of the Department of Defense and Full-Year Continuing Appropriations Act, 2011 (P.L. 112-10), dated June 21, 2011 is attached.

Senator PORTMAN. Great.

Mr. SEDNEY. On the issues of sustainability, as I said, I will divide them in two. The first is a question of financial sustainability, the ability of the Afghan government to fund the security forces that it currently has and that it may need in the future. Currently, Afghanistan does not have the ability to fund the security forces and the U.S. Government and, to a certain extent, our international partners are funding those forces.

Currently, the cost of those forces, we are asking for fiscal year 12—not fiscal year 12—FY11, we have \$12.4 billion, I believe, for

¹A copy of the report appears in the appendix on page 234.

that. A certain percentage of that is for infrastructure; another is for training; and for the sustainment of the forces themselves. As you point out, this is well beyond the capacity of the Afghan government to provide for.

However, let me go back to our national interests in Afghanistan, which is to ensure that Afghanistan is no longer able to be a base from which terrorists can mount attacks against the United States.

Our solution for that is to drive down the insurgency through our military efforts and to buildup the Afghan security force to be able to do that. Since Afghanistan does not have the resources to do that, we, you, the American taxpayer, the American Congress are funding those security forces, again with some help from our allies.

The size of the security forces that will be needed in the future to contain the Taliban is yet to be determined because we do not know the level to which we will be able to drive down the insurgency. We are currently building the Afghan security forces to a level of 352,000 for October 2012. That is based upon the level of insurgency that we see now and the level of forces that the United States and our allies will have there at that time.

What we are aiming for is to continue to drive down the insurgency enabling us to continue to withdraw our forces and have the Afghans continuing to improve that. What that equilibrium level will be we do not know yet.

Senator PORTMAN. Mr. Sedney, I am well over my time.

Mr. SEDNEY. I am sorry.

Senator PORTMAN. I apologize. I need to yield back to the Chair. Let me just conclude by saying, I understand the mission and, in many respects, what AID is doing on the ground and what DOD is doing on the ground, even outside of the military involvement with contractors, is carrying out policies that you are asked to do.

It is under very difficult circumstances. I have been there, had an opportunity to visit with some of your AID colleagues, and it is tough work. The question is whether this policy makes sense, whether it is a sustainable policy, because so much of what we are doing and building may not be able to be maintained subsequent to our departure.

These numbers are indicating that there is a huge risk. And so, what we are asking here is for a realistic assessment of what those risks are and the very important reassessment of how we look at these projects. If they are not going to be sustainable, why are we doing them? If we are building a back-up power plant for 300 million bucks that the Afghans are not using except for peak periods, because they cannot afford the fuel, how does that make sense?

So that is what we are asking here today and whatever information you can provide the Committee going forward would be helpful. With that, again, I thank you for your service and I give it back to the Chair. Sorry for taking so much time.

Senator McCASKILL. Not a problem. Thank you, Senator Portman.

I am trying to figure out where the decisions are being made as to the Afghan Infrastructure program at the Department of Defense and the Afghan Infrastructure Fund. Now, it is my understanding in fiscal year 2011, the Afghan Infrastructure Fund,

which is all DOD money, is \$400 million. Is that correct, Mr. Sedney?

Mr. SEDNEY. I believe that is correct.

Senator MCCASKILL. OK. And I am looking at a document here and this is projects that are going to be built with that money. This is DOD money. Now, the first one is the power generation in Kandahar City, Kandahar Province. Fuel operations maintenance for all DOD and USAID procured generators in Kandahar. That is \$40 million. And the implementing agency is DOD, not USAID.

The next one is power transmission, Kandahar to Lashkar and then power transmission, Chimtala to Ghazni and that is \$231 million and that says—Department of State, USAID, one of them says DOD on it also, and the next one just says Department of State USAID.

The next one says power transmission Chimtala to Gardez. That is \$86 million. And that is just DOD. The next one is a road in Helmand Province. That is \$23 million, which does not sound like CERP to me, and that is DOD. The last one is Government Infrastructure Provincial Justice Centers. That is \$20 million and that is DOD.

OK. So who is deciding what Department of Defense builds and what USAID is building? Who is making that decision? Is that CENTCOM Command that is making that decision? Is that the Secretary of State? Where is that decision being made and on what basis is it being made?

Mr. SEDNEY. First of all, on the—for the purpose of the Afghan Infrastructure Fund and the reason it is funded out of Department of Defense funds, as my colleague, Mr. Thier said, the commander on the ground has made the determination that our success on the battlefield requires both the reality and prospect for certain economic inputs. The largest of those is electricity.

Helmand Province and Kandahar Province, particularly, were the center of gravity for our ongoing campaign. That is where the majority of our surge forces have—were put into place. First General McChrystal and then, after he took over, General Petraeus made very clear that increasing and making sustainable an electricity supply for the city of Kandahar was an essential part of our campaign plan, and in order to defeat the Taliban, we needed to do it both militarily and with the population itself.

So the first step, as Mr. Thier said, was the provision of these temporary power plants that will be fueled by diesel fuel. As Senator Portman pointed out, that is very expensive, and as Mr. Thier said, that is not sustainable.

Senator MCCASKILL. Mr. Sedney, I hate to interrupt you. I understand that all of these projects someone thinks are important to the success of our mission. I think what I am trying to do is pull some thread here on accountability.

I cannot figure out why in the world is Department of Defense building provincial justice centers. Why is that not USAID? Why is DOD in the construction of provincial justice centers right now? I do not understand that. And how is that decision being made and where is it being made?

Mr. SEDNEY. The recommendations, Senator, come from the field through the chain of command. On the provincial justice centers,

there are some areas where the provision of provincial justice centers, we believe, are so important to the success of the campaign that if it is not possible for AID to be funding those at this time, they are included in the Afghan Infrastructure Fund.

Senator MCCASKILL. Well, who is it that is in the room that is deciding which pot of money you are taking this out of? It makes it very difficult to hold anybody accountable because what happens, I feel like I am boxing ghosts. I cannot decide is it USAID that is responsible for the sustainability assessment, which clearly in some instances, I think, has been lacking?

I look at the sustainability language for these projects. It does not appear to me that it has been taken seriously in terms of the sustainability. It looks like to me that somebody in the field has said, We need to do this, and so we are just trying to find the money somewhere in the budget to do it and DOD is going with it and that is not the way that you carefully craft this expenditure of Federal tax dollars.

I mean, do you see where my frustration is about—I cannot figure out who to call.

Mr. SEDNEY. Well, I apologize for any confusion that has been caused, but I would say that the process has been much more rigorous and ordered than has been described so far.

In terms of the Afghan Infrastructure Fund projects, those projects were vetted first out in the field. They were based on requirements that the commanders in the field outlined and discussed intensively. This is a combined civil/military effort. Discussed extensively with our colleagues at the U.S. embassy and USAID.

There are some areas where USAID was already working where a number of—a large amount of the funds, almost, I think, 80 percent of the funds that USAID spends are now in the south and the west. But there were some projects which USAID did not have the money and which the commander in the field identified as an urgent requirement.

After discussion out in the field over which agency would be the most appropriate implementing partner, then those requests were sent back for approval of projects under the Afghan Infrastructure Fund. Those projects are recommended to the Department and then the decisions, the final approval decisions, are made in the Department of Defense.

Each one of those projects, which I understand were briefed by some of my colleagues last week, do have a sustainability assessment in them.

Senator MCCASKILL. Have you looked at the sustainability assessments?

Mr. SEDNEY. I have not reviewed the sustainability assessments myself.

Senator MCCASKILL. I would recommend them to you and I would love your input after you have looked at them, because I will tell you, I have looked at them and I do not think that this is what we are looking for. It looks to me like somebody says, We need to do this, and then people are checking boxes, and it looks like to me that the military is deciding what projects need to be done, and if

AID does not have the money, we just find the money in our budget. How long has the Afghan Infrastructure Fund been around?

Mr. SEDNEY. This is the first year, ma'am.

Senator MCCASKILL. OK. And would you say this is an outgrowth of CERP? This is CERP on steroids?

Mr. SEDNEY. I would not say that this is CERP on steroids. I would say that over the last several years, as we encountered this complex civil/military environment, there were a number of areas where commanders in the field saw a need for projects that would have immediate impact. A number of those projects under CERP were put forward as CERP projects.

Senator MCCASKILL. We have never before—honestly, sir, this is really historic in some ways, because what we have done here for the first time that I am aware of, we have decided that in a military operation, we are going to do things like build justice centers in the Department of Defense.

Now, we did some of this. There was obviously some cross-pollination in Iraq, some that happened in a way that was helpful and, frankly, a lot of money was wasted. Tens upon billions of dollars went up in smoke in Iraq because what the military commanders thought they needed that moment turned out we were not going to be able to sustain it. Health care centers that were never built, power plants that were blown up, roads and bridges that were destroyed.

And so, I am trying to—do you believe that this is the new normal, that in contingency operations in the United States, the Department of Defense will have its own construction fund that will be commanded by the military leaders to determine what roads should be built, what power lines should be built, and what justice centers should be built?

Mr. SEDNEY. First of all, Senator, I would say it is not the Department of Defense that determines which ones will be built. The commanders in the field do make recommendations, they do consult intensively with—

Senator MCCASKILL. But it is your money. What do you mean you are not deciding it is going to be built? This is money we appropriated to the Department of Defense.

Mr. SEDNEY. Right.

Senator MCCASKILL. Surely you are not telling me somebody else is deciding how to spend your money.

Mr. SEDNEY. No. What I am saying is, we are not deciding on the whole complex of things that need to be done in Afghanistan. We are deciding which ones are of urgent military necessity, and yes, this is a new area. The Afghan Infrastructure Fund is a brand new concept.

It does come out of the issues that we saw with CERP where CERP was tending toward things that were more than just the quick impact projects that it was originally designed for. There was intensive consultation with Congress on putting the Afghan Infrastructure Fund in place. We created a new office in the Office of the Secretary of Defense to work on overseeing this, and the—

Senator MCCASKILL. And who is that person?

Mr. SEDNEY. Pardon?

Senator MCCASKILL. Who is in charge of that office?

Mr. SEDNEY. One of my colleagues in our Office of Stability Operations. I can get you his name.

INFORMATION FOR THE RECORD

The CERP Management Cell (CMC) is led by an executive level director, Mr. Robert Doheny, a member of the Senior Executive Services (SES). He leads the activities of the CMC and chairs the CERP Working Group, with responsibilities for review and oversight of assigned programs, including the review, assignment, tracking, and reporting of OSD/Joint Staff/Military Department/Combatant Command-level and interagency CERP activities, as well as Afghan Infrastructure Fund issues and tasks. In addition, the Department has recently established the Afghanistan Resources Oversight Council (AROC) that is co-chaired by three Under Secretaries of Defense: Comptroller; Acquisition, Technology, and Logistics; and Policy. The AROC is charged with providing senior management review and oversight of DOD programs and funds related to Afghanistan, including the Afghanistan Security Forces Fund (ASFF), AIF, and CERP in Afghanistan.

Senator MCCASKILL. I think this is the kind of stuff that we would have liked to see covered in your opening statement, Mr. Sedney. We have a lot of projects that are being built, and I know that this is really a difficult environment. There are all kinds of challenges, and our men and women have performed heroically, and our military leaders are doing an amazing job.

But I do think that we have played fast and loose, and sometimes sloppy, with the way we have spent this money, and if this is the priority for the military command, then why is that not transferring to make it the priority of the State Department? Why are we not using the funds that have traditionally been always appropriated in this country for reconstruction projects.

The expertise has always been at the State Department. And after the military pulls out of there, guess where it is going to be back to? It is all going to be back to the State Department.

And what has happened is, with this morphing of CERP into something even bigger, I understand it allows you to short-circuit some of the processes that traditionally are in place, and it allows you to jump the line in terms of budget priorities, but in the long run, it makes accountability and oversight very, very difficult, because you are going to go out—how many power projects do you have in USAID right now in Afghanistan?

Mr. THIER. I would have to get you the exact number of individual projects.

Senator MCCASKILL. But more than a couple?

Mr. THIER. Not too many at the moment, but we have several.

Senator MCCASKILL. Let me change the subject now and go to the Kabul Bank. I know this is difficult and, in some ways, delicate. But while we are pouring billions of dollars into the infrastructure of Afghanistan, because they have a GDP that is, I do not know, I think it is higher than \$2 billion. What do you think it is, Mr. Thier? Without us, what is their GDP?

Mr. THIER. I think overall GDP is about \$18 billion. I do want to say that I think that this 97 percent figure has been somewhat mis-cited.

Senator MCCASKILL. That is the highest I have ever heard their GDP. When I was in Afghanistan, I was told by the people on the ground in Afghanistan, including, I believe, the Ambassador, that the GDP was somewhere around \$10 to \$12 billion in Afghanistan.

Mr. THIER. I think it has gone up steadily. I may be slightly overstating—

Senator MCCASKILL. Optimistic.

Mr. THIER [continuing]. But that was my understanding—

Senator MCCASKILL. Right.

Mr. THIER [continuing]. It has been growing every year.

Senator MCCASKILL. I guess what I am trying to figure out here is, we have a \$900 million fraud that has occurred at the Kabul Bank and that is where we put international assistance for Afghanistan. And clearly, we have technical assistance on the ground that is supposed to be overseeing the financial sector through USAID.

Can you explain how they were able to do insider lending to the tune of hundreds of millions of dollars that is now gone, and why we are not being more aggressive in terms of requiring the kinds of audits that the other bank that now is in question, that may have the same kinds of problems, the Azizi Bank, why we are not requiring independent forensic audits and results of those audits before we put any more money in either one of those banks that has any connection to the U.S. taxpayers?

Mr. THIER. So let me clarify two things. No U.S. taxpayer dollars have ever gone to Kabul Bank.

Senator MCCASKILL. It is just IMF money?

Mr. THIER. I am not familiar with any IMF funds ever having gone, but I cannot, obviously, speak to that.

Senator MCCASKILL. Well, you say no U.S. funds have gone to the bank, but if we are paying Afghan contractors and if we have blown their GDP up way above what it will ever, ever be after we are gone, that money is going into some bank. So you say it is not United States' money, but I would hasten to add that a lot of the money that has gone in every Afghanistan bank for the last 3 years has been American money. Would that not be a fair assessment?

Mr. THIER. Well, there is no program that has existed in the past that provides any type of support to Kabul Bank. The only way—what we have done as a government is to support the Afghan government's ability to develop its financial system. That has primarily been involved in, for instance, building the Afghan Central Bank from nothing into an entity.

Part of that assistance has been to build their capacity. But I hasten to add that at no point has the U.S. Government or U.S. Government officials or contractors been responsible for the oversight of Afghanistan's banking system. That is a sovereign function of the government of Afghanistan. We have attempted to build their capacity.

I think critically on the other point about Azizi Bank and the forensic audit, not only do we support that idea, but we have been demanding it.

Part of the IMF conditions for a new IMF program that have been designed around the Afghans rectifying the problems in Kabul Bank has been precisely that a forensic audit of the Azizi Bank needs to be conducted, and that the IMF program, which these conditions we support strongly, require that audit to be conducted prior to a new IMF program being put into place.

So I do want to emphasize that we agree with you strongly, that an audit needs to be done, as well as a number of other steps, con-

ditions that have been endorsed by the U.S. Government, before any IMF program goes forward.

Senator MCCASKILL. OK. Thank you for that and we will have some followup questions on that.

Finally, a couple of things I want to do. One is CERP. I have had many conversations in the Armed Services Committee with General Petraeus and others about CERP, Ash Carter and others about CERP. Do you all have, in the Department of Defense, an analysis of where CERP money has been spent in relationship to where there have been challenges in terms of our military mission and what kind of success the CERP funds have, in fact, brought about? Is there data?

Mr. SEDNEY. Senator McCaskill, I do not know of any study yet that has been done on the connection of CERP funding to military success. While we have repeated statements and validation from commanders in the field, as far as I know, and I will check and see to make sure, there has been no study trying to validate any statistically valid correlation between CERP spending and military success.

In Afghanistan, since we are still in the process of developing or achieving that success, my own view would be that it would be too soon to be able to make such an evaluation because we are still in the process of carrying out the war.

Senator MCCASKILL. Well, we have done CERP now for as long as I have been in the Senate, and so we have lots of CERP money that has been spent in Iraq and Afghanistan. And this is my specific question and I would ask you to take it for the record, because I want you to be sure before you answer this question.

Does the Department of Defense, does the American military have data that would lay over where CERP money has been spent versus hot spots to determine whether or not the CERP money is actually being spent in areas where there are hot spots as it relates to our military mission? And if so, is there any data available about the success of that CERP money in terms of helping directly with the military mission other than anecdotal?

Mr. SEDNEY. In terms of the first part of your question, yes, we do have data which shows where CERP money is being spent and where there is insurgent activity, and that is something that we can provide to you.

On the second part, as I said, on the evaluation of the success in Afghanistan, which is the area that I am responsible for, I do not think we yet have the data to be able to evaluate the success because we are still in the process of carrying out the fight.

But certainly on the first part of the data that you requested, we will be able to provide that to you. On the second part, I will consult with my colleagues and see if doing a study on success of CERP in Afghanistan is something that would be something we would want to try and do now or do it more retrospectively as we are further along in the campaign.

INFORMATION FOR THE RECORD

Yes. The Department of Defense does have a map overlaying CERP expenditures with areas of Afghanistan that are a priority in the military campaign. Attached is

the “For Official Use Only” chart that overlays CERP project locations relative to the map of Afghanistan.

Senator MCCASKILL. Mr. Solis, do you have any—

Mr. SOLIS. Senator, if I could, and I did not do this particular study on CERP, but I do know that we did make a recommendation along the lines that you mentioned about trying to measure success against some set of standards and metrics, and that was in a recent report. The Department did concur with that.

So there is a recommendation out there to do that and the Department has concurred.

Senator MCCASKILL. To do that kind of study—

Mr. SOLIS. Yes.

Senator MCCASKILL [continuing]. So we could get some kind of sense of the efficacy, because essentially, we have now moved beyond CERP into much bigger projects based on AIF, and it worries me that we have done that without really checking to see if CERP was a success in terms of the mission and whether or not the Afghan people need power, I understand that it would be nice to have the lights on, but I need to make sure that spending hundreds and hundreds of millions of dollars on the power grid and the power system in Afghanistan is, in fact, going to translate into defeating the Taliban.

It is nice that we turn on the lights for them, but it would also be nice if we got more broadband in Missouri. And those are the kinds of decisions we have to make, and I worry that the blinders get on and we lose perspective about whether or not these projects are essential to the mission of defeating the Taliban and providing stability.

I am not quarreling that we have to train the army. I am not quarreling we have to train the police. But I just think it is time for us to really button down whether or not building the roads, the schools, and building the justice centers that we are building, and sometimes USAID is building them, sometimes the Department of Defense is building them. Is the Army Corps taking the lead on all these projects, the AIF projects?

Mr. SEDNEY. I know they are taking the lead in at least one of them, but I can get back to you with who is on the lead.

INFORMATION FOR THE RECORD

The U.S. Army Corps of Engineers is the lead for four of the FY 2011 Afghan Infrastructure Fund projects—three power projects and one transportation project. Other components within the Department of Defense will implement the Provincial Justice Centers project, and the Rule of the Law Field Force-Afghanistan—a subordinate command of U.S. Forces-Afghanistan—will oversee them. USAID will implement one of the power transmission projects that will be executed in concert with the Afghanistan power company—Da Afghanistan Breshna Skerkat (DABS).

Senator MCCASKILL. And I assume all of these are being contracted out?

Mr. SEDNEY. We are in the process of doing that, but yes, they will be—they will be contracted, although I think—I will have to take that question, ma’am.

INFORMATION FOR THE RECORD

Yes, all six fiscal year 2011 Afghanistan Infrastructure Fund projects will be contracted out, in accordance with the “Afghan First” policy. As delineated in DOD’s

AIF notification to Congress, the Department of State/USAID will implement one of the projects, and the Department of Defense will implement the other five projects.

Senator McCASKILL. OK. I have a number of other questions in here. You all have stayed long and this hearing was supposed to be over at noon. Sorry. I have to ask about counter-narcotics before we go.

The Committee released a report, Mr. Denver, on the counter-narcotics contracts in Afghanistan. Frankly, it dealt with all the counter-narcotics moneys that we have spent and the problems there. First, for Mr. Denver, what have you done to improve the management of the counter-narcotics contracts in Afghanistan, and if this is something you are not prepared to answer today, we are happy to take it for the record.

Mr. DENVER. Thank you, Madam Chairman. I will need to take this for the record. I do know that the Space and Missile Defense Command is the Army organization that oversees the counter-narcotics contracts so I will need to take it for the record and coordinate with them and get back to you.

INFORMATION FOR THE RECORD

The Army appreciates the opportunity to share the progress made in the management of counternarcotics contracts in Afghanistan. The U.S. Army Space and Missile Defense Command/Army Forces Strategic Command (USASMDC/ARSTRAT) Contracting and Acquisition Management Office (CAMO) is the primary Army contracting office awarding and managing contracts in support of counternarcoterrorism and the Department of Defense Counter Narcoterrorism Technology Program Office (CNTPO). USASMDC/ARSTRAT CAMO has implemented many improvements since the 2009 Department of Defense Inspector General Report was published (D-2009-109, Contracts Supporting the DOD Counter Narcoterrorism Technology Program Office).

Personnel improvements include growing the contracting team from two to nine and the project management team has grown from 8 to 21 government personnel. Recruiting actions have targeted particular skills that closely match the functional expertise of the missions supported, training has been tailored to reflect the unique aspects of the types of missions supported, and continuous learning is embraced as a mandate to ensure training is sufficiently robust to meet missions support requirements.

Process improvements have been made to ensure the comprehensiveness of files. Templates and desk guides have been developed to aid in the training of new personnel and ensure consistency and continuity of work products.

A quality assurance hierarchy had been implemented that provides a team approach to quality assurance. Of importance is the location and approach to QA. Given the complexity and nature of the acquisitions supported in Afghanistan, CNTPO has stationed a forward deployed QA cell, from which skilled QA evaluators deploy to specific performance locations throughout the theater of operations and local geographic area.

Although substantial progress has been made to remedy concerns voiced in the 2009 Defense Inspector General Report (D-2009-109, Contracts Supporting the DOD Counter Narcoterrorism Technology Program Office), USASMDC/ARSTRAT CAMO still faces many challenges. A program of this nature requires uniquely skilled professionals, dedicated to keeping pace with evolving requirements. Like many organizations, staffing authorized must appreciate not only the level of resource required, but must also understand that it takes a complement of skills to ensure all aspects of the acquisition are properly and effectively executed. These actions are directly improving the execution and oversight of these critical activities; however, the challenges of the operational environment, changes in requirements, funding priorities and the experience level of new personnel remain.

Senator McCASKILL. OK. USAID, Mr. Thier, since 2002, has awarded \$1.4 billion for agricultural programs as a means to encourage farmers to engage in something other than opium farming.

There is concern that these programs are distorting the Afghan economy or creating false economies that are unsustainable. Do you have any real measure of the impact of these programs, and will any of these impacts be sustainable in terms of the alternative agricultural programs?

Mr. THIER. I would be happy to get you more on the measures, but to fundamentally answer your question, yes. I think that this investment in agriculture, which has really been about finding alternatives for people who are growing opium poppy, has been dramatically successful in two regards. First of all, a large number of provinces, and I can also get you the number, have gone opium-free, and that has been very important to our strategy of trying to reduce and eliminate opium production in Afghanistan.

The other is that there really is no silver bullet to replace opium in Afghanistan, but what we are trying to do is to create an agricultural mix and market for those agricultural products that will allow Afghan farmers to be able to make a decent living so that the choice to plant opium will be far less attractive, vis-a-vis, other efforts.

And we have reached literally tens of thousands of farmers with these programs that have increased crop yields dramatically, and I think we are quite proud of that investment, and I do think it is a long-term investment because they are able to generate seed from those, they have opened up new markets, we are increasing trade across the borders as well, and it is really a critical part of our ultimate sustainability strategy for Afghanistan to increase agricultural income.

Senator MCCASKILL. I think it is a terrific program. I know that we have a Missouri National Guard unit that is over an agricultural program and has done great work. In fact, we lost one of ours over there that was there on that program.

Let us talk about now not the agricultural program, but for both DOD and for USAID. We have now spent \$2 billion in counter-narcotics contracts in Afghanistan. Can either of you speak to any specific milestones that have been reached in terms of having a negative impact on the narcotics trafficking in Afghanistan and exporting out of Afghanistan after we have spent \$2 billion?

Mr. THIER. Our work again really focuses on the crop replacement side. Other aspects of the State Department are responsible for the elements of interdiction and law enforcement. Our efforts focusing on agriculture have really been, as I said, to find replacement crops.

I think one of the most significant factors that I noted is that a large number of provinces that were planting opium just a few years ago have gone poppy-free.

Senator MCCASKILL. Have we actually measured the amount of opium being produced in Afghanistan and do we have milestones in each year as to where we are in that metric?

Mr. THIER. We do not do that, but there are very intensive measurements that are done on a year-by-year basis of the opium crop, of its price, of the number of hectares. There was a dramatic decline last year that was in part due to blight, but also, I think, due to other programs as well.

Senator MCCASKILL. Maybe we need to figure out that blight, work the blight. Maybe it will be less expensive than \$2 billion. I would like to get that information, if I could, from your colleagues at either DOD or at State, what milestones we can point to that this investment of \$2 billion has been a wise investment.

I think the alternative crops, obviously, if we can show—I mean, one is going to prove the other. But I guess the question is, and you are not the right person. We will try to pose questions to the right people if you will help us find them.

And it may be, Mr. Sedney—I was hard on you today—you may not have been the right person to be at this hearing. But we struggle when we do these hearings and that is part of our problem, and I will close with this. It would be great if I could get the right people in front of this hearing that actually I can hold accountable on contracting in Afghanistan for infrastructure.

But it is harder than it looks to find the right people because it is not clear who really is making the decisions at the front end as to where the money is going to go, the decisions in the middle as to the contracting process, and the decisions at the end as to whether or not we have done an adequate job assessing sustainability.

I certainly will look forward to the input from DOD after you look at the sustainability rationale that has been laid out for the projects in the AIF, and I think you are going to continue to hear more and more questions in this area as we try with all of our might to find every taxpayer dollar we can in terms of spending less.

I am not here to say I do not support the mission in Afghanistan, I do, but I question whether all of the money we have spent on contracting in the effort against counterinsurgency, whether or not we have any value for it. And this has been a giant experiment, what we have done in Iraq and Afghanistan, and so far, from where I sit, in terms of doing contracting oversight, I think the grade is not a good grade in terms of the amount of money we have spent and what we have for it in the long run.

So, I thank all of you. We will have questions for the record and I really appreciate your time this morning.

Mr. SOLIS. Senator, if I could add just one thing—

Senator MCCASKILL. Yes, Mr. Solis.

Mr. SOLIS [continuing]. About sustainability very quickly? While our work focused mostly on the oversight of contractors at DOD, as we looked at it, some of the outcomes that you could have is poor construction. And as we talk about sustainment, you cannot assume that what we have out there is already ready to go in terms of people just going in and using it and then be able to sustain it.

I think what you have also got to look at is, what is it going to take to possibly rebuild or reconstruct—

Senator MCCASKILL. Right.

Mr. SOLIS [continuing]. Facilities that are already there. And some of our work has shown that a lot of these buildings that are out there, particularly on some of these bases, are not ready to be moved into. And so, I think as you think about sustainment, you

are going to also have to think about, are we ready to move folks in, what is it going to cost to rebuild or reconstruct those buildings.

Senator MCCASKILL. You are right at the back end. I mean, we have the front end deciding where the money is going to go, we have the middle portion which is actually letting the contracts in a cost-effective way and overseeing the contracts, and then at the back end, who do we hold accountable if the structures are sub-standard, if they are not to spec, if they are not going to work for the purposes they were intended.

That is what we saw so frequently in Iraq, frankly, and some of it dealt with the safety and security of our troops in terms of the construction that had been done. Other was construction. The health centers are a famous example of the health centers that somebody got paid for and the ones that were built were not capable of being used, and the ones that were not built, we never got the money back.

So there is a disconnect between what the commanders in the field want to have happen and what actually happens, and the money that is spent from that point to that point is where I think we can save billions and billions of dollars if we really work at getting this right.

It is better, the CORs are better, they certainly are better. The CORs are now being trained. When I first started down this path, when the idea for the War Contracting Commission was just an idea that I came up with because I am a student of history and what Harry Truman did after World War II, and I thought it was time that we did that after what I learned in Iraq, and Jim Webb and I worked hard to get that contracting commission established.

But we are a long way from where we need to be, and I want the Department of Defense to take this really seriously and I want AID to take it really seriously because what is going to happen is the American people are going to turn off the spigot if we do not do this right, and they have a right to turn off the spigot if we do not do this right, and there is so much work to be done.

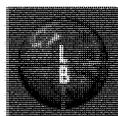
If all of you would just study the work that GAO has done, we could make huge progress. But somehow that just does not ever happen. It is painful how long it is taking to get the accountability we need and to even get the accurate information.

So I will continue to followup with the new Secretary of Defense on this. He and I have discussed it. I have had many conversations with commanders on this subject matter and everyone nods their head and says they get it, but it is not getting done right and it needs to improve.

Thank you all very much for being here today.

[Whereupon, at 12:40 p.m., the hearing was adjourned.]

A P P E N D I X



THE Louis Berger Group, INC.

Statement By:

Larry D. Walker

President, The Louis Berger Group, Inc.

Provided To:

United States Senate

Committee on Homeland Security and Governmental Affairs

Ad Hoc Subcommittee on Contracting Oversight

June 30, 2011

Chairman McCaskill, Senator Portman, and members of the subcommittee, I am Larry Walker, president of The Louis Berger Group. I appreciate the opportunity to provide our firm's perspectives on the Gardez-Khost Highway project and our observations concerning reconstruction projects in Afghanistan based on our experience.

By way of background, The Louis Berger Group is an international consulting firm of approximately 3,000 employees worldwide. We provide diverse, multidisciplinary expertise including engineering, program and construction management, and economic development services. Many of our projects are carried out in some of the most fragile and challenging regions of the world. Over the past decade, we have worked as a partner to the U.S. Agency for International Development and other agencies that operate in the developing world or in conflict zones. LBG first began working in Afghanistan in the 1970s, and in December 2001, the company was the first engineering firm to enter Afghanistan after the September 11th attacks. Our work in Afghanistan has consisted mainly of reconstructing and rehabilitating Afghanistan's physical infrastructure.

Over the last eight-and-a-half years, on behalf of USAID, we have successfully reconstructed more than 2,000 kilometers of paved roads, provided nearly 40,000 jobs to Afghans, and trained thousands more. LBG's USAID-funded projects have irrigated more than 90,000 acres of land, provided reliable power to the Afghan people in southern Afghanistan, and constructed more than 90 schools and clinics to seismic 4 standards.

The improved road network has dramatically decreased transit times, which has spurred economic development along the road corridors and improved access to education and health care. I have traveled those roads myself, and have also had the opportunity to visit some of the schools and clinics we constructed. I can truly say that our work has improved the quality of life for Afghan citizens.

The Gardez-Khost Highway is a critical commercial link between Pakistan and Afghanistan. The road provides a reliable transportation route from the border province of Khost to the capital city of Kabul. This road results in better access for the Afghan people to their government, and improved trade and economic development, in addition to improved access to health care and education.

I want to say a few words about the circumstances surrounding the reconstruction of this road. As the picture accompanying my written statement shows, the topographical and geological features of the roadbed on which our reconstruction work has occurred are some of the most challenging we have faced in Afghanistan. Unfortunately, Khost province is also literally "enemy territory," and the degraded security environment in which our company works has made this the most dangerous project LBG has attempted in my 21 years with the company. On this project alone, we have suffered 21 killed, 51 wounded, and four missing and presumed captured or kidnapped in the last two years.

In the construction management business, the three goals a company must balance to deliver a successful project are high quality, on schedule and within budget. In the case of the Gardez-Khost Highway, the degraded security environment caused us to hire more security personnel and prevented our people from being able to accomplish the required work on schedule. Security as a percentage of the overall project cost has approached 30%. To compare, in other parts of Afghanistan, security costs typically average about 8-10% of overall project costs.

You may have seen the press coverage a few weeks ago of the attack on a PRT-funded road in Paktia province near the Pakistan border that resulted in 36 killed and dozens kidnapped. That road connects to the Gardez-Khost road that we are rebuilding. The camp is only 15 miles from our own. The recent attack is, unfortunately, indicative of the very dangerous and volatile operating environment. On the Gardez-Khost road alone, our project has experienced 147 direct attacks, 108 IEDs and 40 mine or other ordnance detonations.

My main point concerning the Gardez-Khost Highway, which really applies to many projects in Afghanistan, is that the traditional metrics by which the Government measures the efficacy of projects and contract performance have to be reconsidered. The lack of existing infrastructure or technical capacity in the country, the inexperience of Afghan companies in dealing with US contracting standards, the need for capacity building and the defacto war zone in which construction takes place all work against measuring success against just scope, schedule, and budget.

I know the subcommittee is also concerned about project sustainability. Sustainability is critical to ensuring the long-term benefits of construction projects for the Afghan people and to

protecting the significant investment made by the American taxpayer and other donors. Because Afghanistan engineering and construction capability is quite new, contractors must offer on-the-job and classroom training with the goal of leaving behind a local capacity to continue to construct and maintain infrastructure. Even before the Afghan-First policy existed, The Louis Berger Group made a significant effort to hire locally and incorporate sustainability concerns into the training we provide our subcontractors and employees, and we continue to do so. This approach has been at the heart of LBG's work in the developing world for more than 40 years. In the long run, the ultimate sustainability of many projects in Afghanistan will be determined by the ability of the Afghan economy to generate enough revenue to provide the materials that will be needed to maintain and sustain projects we and other companies have completed.

I have already mentioned security in the context of the Gardez-Khost Highway, but I want to comment about security in general. In 2002, we were able to travel around Afghanistan in one vehicle, without security. Today, travel in the provinces in which we operate requires an armed convoy, and even then safe passage is not assured. Our projects are "outside the wire" and sometimes behind enemy lines. During the eight years LBG has been operating on USAID-funded programs, security has deteriorated to the point where 212 program staff have been killed and more than 300 have been wounded.

The security environment increases the importance of communication between the contractor and the Government. We at LBG have worked hard to communicate with contracting officers as well as the US military to properly address security-related issues as they arise.

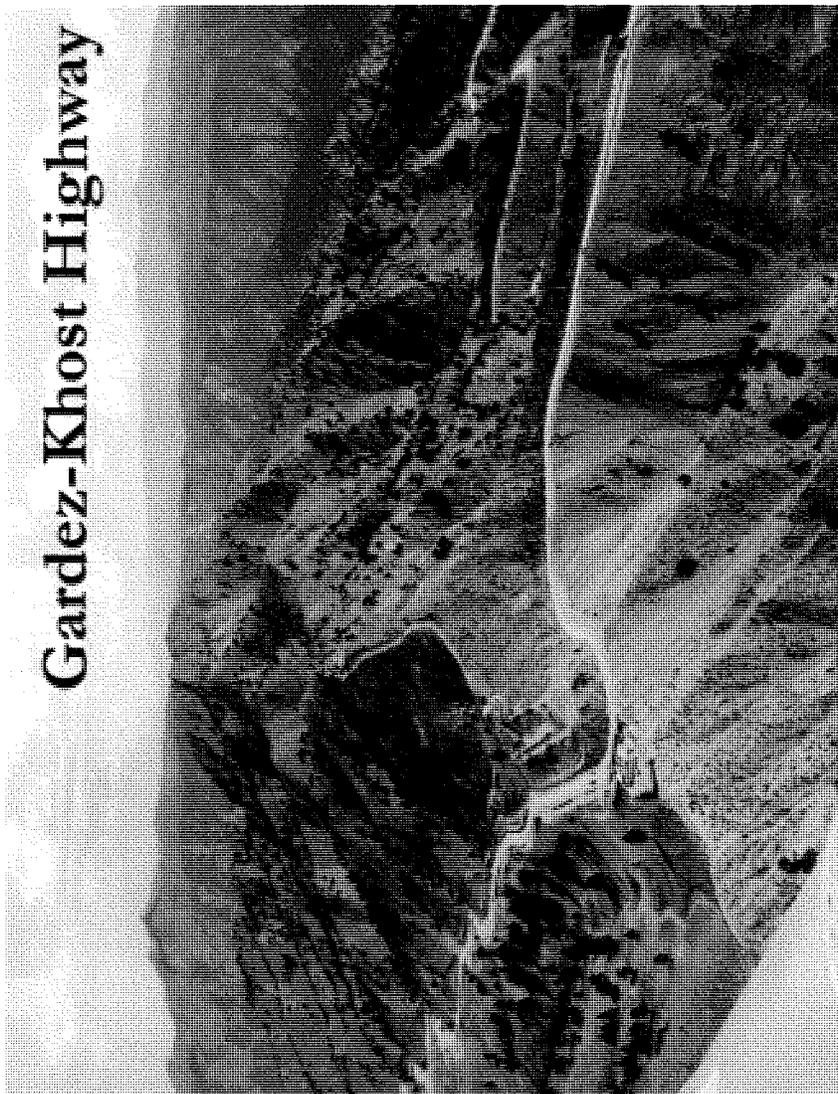
The Louis Berger Group is honored to support the U.S. Agency for International Development and other clients in their critical efforts to improve Afghanistan's physical, social and economic infrastructure. We met with the Commission on Wartime Contracting on four occasions to discuss reconstruction and, most recently, to discuss the recommendations found in their recent report, *At what risk?: Correcting over-reliance on contractors in contingency operations*.

I also want to note that The Louis Berger Group supports several of the recommendations in the Commission's February 2011 interim report. For instance, integrating contract support into operational plans and education, expanding and improving the qualifications and experience level of government acquisition personnel, expanding competition requirements, and requiring

improved contract administration and oversight of contingency contracts would all, we believe, make constructive improvements in the contracting process. We applaud the efforts of the Commission to improve the manner in which the United States awards and oversees its contracts in overseas conflict environments and its emphasis on the sustainability of our reconstruction programs.

At The Louis Berger Group, we strive to deliver quality construction in a timely fashion and within the funding parameters for each project. The company and our employees do this work because we have seen the tangible improvements in the lives of the Afghan people that result from our work. Thank you.

Gardez-Khost Highway



**REMARKS OF WAHID HAKKI
CEO, CONTRACK INTERNATIONAL, INC.**

**BEFORE THE
AD HOC SUBCOMMITTEE ON CONTRACTING OVERSIGHT
OF THE
COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL
AFFAIRS
UNITED STATES SENATE
ON
*“AFGHANISTAN RECONSTRUCTION CONTRACTS:
LESSONS LEARNED AND ONGOING PROBLEMS”*
JUNE 30, 2011**

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Chairman McCaskill, Ranking Member Portman and distinguished members of the Subcommittee. On behalf of Contrack International, Inc., I thank the Subcommittee for the invitation to share some of our experiences and lessons learned as part of the reconstruction efforts in Afghanistan over the past nine years. We share your interest in examining how the Government can bring greater efficiency, transparency and accountability to the construction contracting process. We believe those goals can help everyone deliver projects that are on schedule, within budget and sustainable.

I will begin with an overview of Contrack's operations in Afghanistan, followed by a discussion of some of the specific challenges we have faced there along with those of our primary customer, the U.S. Army Corps of Engineers. I will conclude with a brief case example of a project that was successful for both the Government and Contrack. That experience will hopefully highlight a successful practice that may be incorporated into future construction projects in Afghanistan.

I. OVERVIEW OF CONTRACK INTERNATIONAL, INC.

Since 1985, Contrack has operated as a privately owned U.S. corporation currently headquartered in McLean, Virginia. I joined the company in 1994 as Contrack's Executive Vice President responsible for U.S. operations. We suffered a tremendous loss in December 2010 when my close friend and our CEO, Karim Camel-Toueg, passed away. I stepped in as Contrack's CEO and have 27 years of international construction experience.

Contrack has offices in Egypt, Qatar, Bahrain and Afghanistan. We provide engineering, procurement and construction services, as well as facilities operations and maintenance. Our focus primarily is on military, institutional and infrastructure projects throughout Northern Africa, the Middle East and Central Asia. We have always worked hard to maintain high

standards for excellence in government contracting. This has earned Contrack ranking among the top international contractors in the world by *Engineering News-Record* for the past 17 consecutive years.

Over the past nine years, Contrack has completed more than \$1.5 billion worth of fast-track, design-build projects in Afghanistan for the U.S. Army Corps of Engineers (also called the "USACE" or "the Corps") and the Air Force Center for Engineering and the Environment (or "AFCEE"). We currently employ approximately 4,500 personnel in Afghanistan, 3,700 of whom are Afghan locals. Contrack has completed over 50 task orders in Afghanistan for the Corps. Among other commendations, Contrack was awarded a Certificate of Appreciation from the Combined Forces Command-Afghanistan and the Corps's Afghanistan Engineer District (known as AED) honoring Contrack for the company's extensive efforts to assist the Afghans in rebuilding their nation.

Our first contract grew out of an Indefinite-Delivery Indefinite-Quantity Contract with the Corps for design-build and construction services in the Middle East. Under that agreement, the Corps issued task orders for Contrack to work on specific projects. Through the Corps's Middle East District in Winchester, Virginia (formerly called the Transatlantic Programs Center) and the Afghanistan Engineer District, the Corps has administered much of our work in Afghanistan.

Working as a prime contractor, we have constructed ANA Brigade camps, airfields, Entry Control Points, Ammunition Supply Points, bulk fuel storage and supply systems, Forward Operating Bases and other facilities. We were also awarded the permanent Operations and Maintenance Services contract to perform O&M work in numerous ANA and ANP locations

throughout Afghanistan. Currently we have projects in Kandahar, Camp Bastion, and Shindand as well as numerous O&M sites throughout the country.

Contract's country office in Kabul consists of 60 staff established in two central offices in the Wazir Akbar Khan district of Kabul. The first office was established in late 2002. The majority of staff at the Kabul office has been with the company a minimum of three to five years. The departments included at our Kabul office are Logistics, Procurement, Human Resources, Warehousing, Camp Services, Security and Finance and coordination with the local Ministries.

II. LESSONS LEARNED IN AFGHANISTAN SINCE 2002

A. Working with Local Nationals and Contractors

Contract's business model in Afghanistan is somewhat different than most prime contractors in that we self-perform the majority of our work, rather than acting purely as a construction manager of major subcontractors. Contract has been a vital partner with the COE in accomplishing the AED's mission statement to: *"Provide sustainable development projects for the Afghan people that employ the populace, build skilled human capital, and promote the future stability of Afghanistan."*

In order to utilize the local labor force, the majority of Afghans must first be trained in a skill. To accomplish this task Contract set up a Training Center to train and educate the Afghans on a variety of construction trades. To date we have graduated more than 3,000 students, most of whom are still employed by Contract.

As a prime contractor, we try to foster relationships with local firms so that they can succeed. This requires on-going training and guidance concerning U.S. technical and contractual obligations. We have been in Afghanistan since 2002 which has allowed us to develop a list of approved, qualified subs. When procuring the services of a local subcontractor, a minimum of three bids is required, where practical, to comply with cost and pricing

requirements. A “best value” method is then used to determine the lowest responsible offer that meets technical criteria.

B. Contracting with Foreign Contractors

Afghan contractors often receive contracts which are more than they can handle. Many of them are also unfamiliar with U.S. contract requirements. This sometimes results in projects in which the Government quietly “descopes” the balance of the unfinished work rather than issuing a formal termination for default which is publicly accessible to other government agencies or users. Many times we have observed completed projects by unqualified contractors which are plagued with substandard workmanship.

Unfortunately, we share the perception in the international contracting community that there is an uneven playing field in that foreign contractors typically are not subjected to the same standards as U.S. contractors. These include safety, ethics, bonding and cost accounting requirements that are established both to protect workers and the interests of the U.S. government. Apparently these requirements are either waived or simply not enforced, which presents a cost advantage for non- U.S. construction and design firms.

We believe that the COE has begun recognizing the risks in awarding projects to foreign firms based on low price only. For example, the Government recently awarded a MATOC to 14 firms, all of which are American firms. Future task orders will be competed among these 14 firms only. This promotes full and open competition with qualified construction contractors to deliver the best value for taxpayers’ dollars invested in Afghanistan.

III. SPECIFIC CHALLENGES WORKING IN AFGHANISTAN

A. Rapid Rotation of Field Staff

We appreciate the difficulties faced by the Government and commend the professional manner in which so many contracting personnel perform their work in a hostile region. The

frequent rotation of COE field staff , however, creates a cascade of challenges to the contractor and the government. For example, delays in resolving contract modifications due to turnover of government contracting officers and related personnel causes delays in payment to contractors. Similarly, high turnover of government personnel in the field causes long delays in submission of final CCASS performance evaluations. These evaluations, which are a critical source selection tool for government agencies, often are prepared inaccurately by personnel who were not present during the construction phase. For the first five years, we received no past performance evaluations for projects in Afghanistan. This information vacuum hurts both the government and the contractors.

Quality at the job site is overseen by the USACE's quality assurance (QA) representatives. COE QA staff often are experienced in other areas but lack sufficient training to understand and enforce the technical requirements of the particular contract to which they have been assigned. This is another problem created by the frequent turnover in field personnel and insufficient financial incentives for government personnel deployed in combat zones.

Lack of partnering between the contractor and the COE is another unfortunate result of the personnel turnover. Contrack has participated in numerous partnering sessions with the COE in other regions such as Qatar, Bahrain and Egypt. We believe these sessions vitally contributed to the success of the projects. However, in nine years in Afghanistan and after completing over 50 projects, we have had only one partnering session with the COE.

High turnover of government personnel exacerbates lack of coordination between the different government agencies in charge of the projects and their respective end users. This often causes delays to the project and cost overruns. Sometimes the end user's requirements are not

fully understood by the Corps. For example, on design-build projects early partnering sessions involving the contracting agency, the contractor and the facility's end user would help the parties to achieve the end user's design goals.

B. Logistics and Transportation

The high volume of cargo creates delays at the base Entry Control Points. Material and equipment convoys are at the mercy of the transporter. Meanwhile, border politics that can block or delay shipments of material to the project sites makes matters worse.

In a typical convoy movement, between 200-400 trucks are assembled to carry U.S. supplies in south of Kabul. The U.S. supply chains often have to wait several days until as many trucks as possible are gathered before moving. Often this means that some trucks are days or weeks overdue at their destination.

C. Working with Afghan Ministries

The Afghan Ministries change procedures on a regular basis, i.e. the requirements for tax exemption documentation, approval of visas, etc. This lack of stability is further compounded by a thin staff which lacks cross-training. For example, only one person at the Ministry approves customs clearance paperwork, creating costly bottlenecks.

The Ministry of Interior has refused issuance or re-issuance of all visas for non-engineers, which is causing major problems for us. This creates a critical lack of qualified technicians, accountants, finance personnel, etc.

New and constantly changing Presidential Decrees further increase the uncertain risk environment. For example, the latest ban on private security firms will cause disruptions, delays and safety problems.

IV. CASE EXAMPLE OF A SUCCESSFUL PROJECT

The foundation of a good project is a good and well coordinated design. A design that meets the general guidelines set by the COE and addresses the end users' needs. On a project in Bagram Air Base where we were tasked to design/build the Main Entry Control Points, we had our designers on site meeting with the COE and the Force Protection staff to agree on a design that satisfied everyone's requirements. This eliminated a lengthy review process and clarified the objectives of the project. All of these partnering efforts resulted in a successful project completed on time and on budget.

I appreciate this opportunity to share our experiences in Afghanistan and would be pleased to answer your questions.

United States Government Accountability Office

GAO

Testimony
Before the Subcommittee on Contracting
Oversight, Committee on Homeland
Security and Governmental Affairs, United
States Senate

For Release on Delivery
Expected at 10:00 a.m. EDT
Thursday, June 30, 2011

**OPERATIONAL
CONTRACT SUPPORT**

**Actions Needed to Address
Contract Oversight and
Vetting of Non-U.S. Vendors
in Afghanistan**

Statement of William M. Solis, Director
Defense Capabilities and Management



GAO-11-771T



Highlights of GAO-11-771T, a testimony before the Senate Subcommittee on Contracting Oversight, Committee on Homeland Security and Governmental Affairs, U.S. Senate.

Why GAO Did This Study

The Departments of Defense (DOD) and State (State) and the United States Agency for International Development (USAID) have collectively obligated billions of dollars for contracts and assistance to support U.S. efforts in Afghanistan. The work of GAO and others has documented shortcomings in DOD's contract management and oversight, and its training of the non-acquisition workforce. Addressing these challenges can help DOD meet warfighter needs in a timely and cost-conscious manner; mitigate the risks of fraud, waste, and abuse; and minimize the operational risks associated with contractors.

This testimony addresses the extent to which (1) DOD's Contracting Officer's Representatives (COR) are prepared for their roles and responsibilities and provide adequate contract oversight in Afghanistan; (2) DOD, State, and USAID vet non-U.S. firms for links to terrorist and insurgent groups in Afghanistan; and (3) DOD has implemented GAO's past recommendations. The testimony is based on GAO's recently published reports and testimonies on operational contract support, including a June 2011 report on vetting of non-U.S. vendors in Afghanistan, as well as providing preliminary observations as a result of ongoing audit work in Afghanistan. GAO's work included analyses of a wide range of agency documents, and interviews with defense officials including CORs, contracting officers, and contract management officials in the United States and Afghanistan.

View GAO-11-771T or key components. For more information, contact William Solis at (202) 512-8365 or solisw@gao.gov.

June 30, 2011

OPERATIONAL CONTRACT SUPPORT

Actions Needed to Address Contract Oversight and Vetting of Non-U.S. Vendors in Afghanistan

What GAO Found

DOD has taken actions to better prepare CORs to conduct contract oversight and management in Afghanistan; however, CORs are not fully prepared for their roles and responsibilities to provide adequate oversight there. To improve the capability of CORs to provide contract management and oversight in contingencies, DOD has developed a new, contingency-focused COR training course, issued new guidance, and developed a COR certification program. Nonetheless, gaps in the training exist. For example, according to DOD personnel in Afghanistan, the required training does not provide CORs with enough specificity about contracting in Afghanistan, such as information about the Afghan First Program, which encourages an increased use of local goods and services, or working with private security contractors. Also, whether a COR has relevant technical expertise is not always considered prior to assigning an individual to oversee a contract, even though CORs have a significant role in determining if products or services provided by the contractor fulfill the contract's technical requirements. However, according to officials, some CORs appointed to oversee construction contracts have lacked necessary engineering or construction experience, in some cases resulting in newly constructed buildings that were to be used by U.S. or Afghan troops having to be repaired or rebuilt. According to CORs and commanders in Afghanistan, poor performance on construction contracts has resulted in money being wasted, substandard facilities, and an increased risk to bases. For example, contracting officials from one regional contracting center told GAO that construction of guard towers at a forward operating base was so poor that they were unsafe to occupy.

DOD and USAID have both established processes to vet non-U.S. vendors in Afghanistan, but GAO has identified limitations; additionally, State has not yet developed a vendor vetting process. The purpose of DOD's vetting process begun in August 2010—which includes the examination of available background and intelligence information—is to reduce the possibility that insurgents or criminal groups could use U.S. contracting funds to finance their operations. Additionally, in January 2011 USAID also began to implement a process to vet prospective non-U.S. contract and assistance recipients (i.e., implementing partners) in Afghanistan. GAO made recommendations, such as to formalize their vetting processes, which, both agencies concurred with. For example, USAID signed a mission order in May 2011 codifying the details of its vetting process. As of May 2011, State had not developed a vendor vetting process for non-U.S. vendors in Afghanistan, though officials stated they are considering several options.

GAO has made numerous recommendations in areas such as developing guidance, tracking contractor personnel, providing oversight personnel, and training, and DOD has made strides in addressing some of them. However, it has not fully implemented other previous recommendations, such as ensuring training for commanders and senior leaders and improvements to the contracting personnel tracking system in Afghanistan.

United States Government Accountability Office

Madam Chairman, Ranking Member Portman, and Members of the Subcommittee:

Thank you for inviting me to be here today to discuss a few of the challenges that the Department of Defense (DOD) faces in providing contract oversight in Afghanistan and that the DOD, the U.S. Agency for International Development (USAID), and the Department of State (State), face vetting non-U.S. vendors. Guidance issued in September 2010 by the Commander of the International Security Assistance Force (ISAF) and United States Forces-Afghanistan stated that, with proper oversight, contracting can spur economic development and support the Afghan government's and ISAF's campaign objectives. In fiscal year 2010, DOD reported obligating approximately \$11.4 billion on contracts with a principal place of performance in Afghanistan, while USAID obligated about \$331.5 million and State obligated \$775 million. Our work, as well as that of the inspectors general and the Commission on Wartime Contracting in Iraq and Afghanistan, has documented the need for improvements in DOD's contract management and oversight, and training of the non-acquisition workforce. Additionally, U.S. government agencies and congressional committees have paid increasing attention to the risks of DOD, USAID, and State contracting and reconstruction funds being diverted to criminal or insurgent groups. Legislation to address this issue has recently been proposed in Congress, and there have been congressional hearings and reports detailing examples of corruption and financing of insurgents in Afghanistan.¹

Addressing DOD's oversight challenges is essential if DOD is to meet the warfighters' needs in a timely and cost-conscious manner; mitigate the risks of fraud, waste, and abuse; and minimize the operational risks associated with contractors not only in today's operations but also in future contingencies. Similarly, DOD, USAID, and State must address the challenges they face in ensuring that U.S. funds do not help finance the insurgency.

¹These examples of corruption and insurgent financing are reported in the Senate Committee on Armed Services's Inquiry into the Role and Oversight of Private Security Contractors in Afghanistan, S. Rep. No. 111-345, released in October 2010, and by the majority staff of the House Subcommittee on National Security and Foreign Affairs of the Committee on Oversight and Government Reform in its report Warlord, Inc., in June 2010. See also National Defense Authorization Act for Fiscal Year 2012, H.R. 1540, 112th Cong. § 821 (2011) (as passed by the House May 26, 2011); No Contracting with the Enemy Act of 2011, S. 341, 112th Cong. (2011) (as introduced in the Senate, Feb. 14, 2011)

My statement today will focus on the extent to which (1) DOD's Contracting Officer's Representatives (COR) are prepared for their roles and responsibilities and provide adequate contract oversight in Afghanistan; (2) DOD, USAID, and State vet non-U.S. vendors for links to terrorist and insurgent groups in Afghanistan; and (3) DOD has implemented our past recommendations to improve contract management and oversight. My statement is based on preliminary observations from ongoing work looking at the extent to which DOD and the services have taken actions to improve the capabilities of CORs to provide contract management and oversight in Afghanistan. During the course of our work we reviewed relevant DOD and service publications, guidance, and training material; attended DOD and Army operational contract support training; and interviewed officials both in the United States and in Afghanistan responsible for contracting and contract management and oversight including contracting officers, CORs, officials from the Defense Contract Management Agency, representatives from the U.S. Central Command (CENTCOM) Contracting Command, and other personnel responsible for contract management and oversight in Afghanistan.² In addition, this testimony is based on a June 2011 published report on vendor vetting, and testimonies that examined the extent to which contract management and oversight has improved.³ Our work was conducted in accordance with generally accepted government auditing standards. Additional information on scope and methodology is provided in previously issued products.

Background

Oversight of contracts—which can refer to contract administration functions, quality assurance surveillance, corrective action, property administration, and past performance evaluation—ultimately rests with the contracting officer, who has the responsibility for ensuring that contractors meet the requirements as set forth in the contract. Frequently, however, contracting officers are not located in the contingency area or at the installations where the services are being provided. As a result, contracting officers appoint contract monitors who are responsible for monitoring contractor performance. For some contracts, such as LOGCAP

²CENTCOM Contracting Command is the commonly used name for what is formally known as the Joint Theater Support Contracting Command, formerly the Joint Contracting Command-Iraq/Afghanistan.

³GAO, *Afghanistan: Efforts to Vet Non-U.S. Vendors Need Improvement*, GAO-11-355 (Washington, D.C.: June 8, 2011).

or theaterwide service contracts like the Afghan trucking contract or some Afghan security guard contracts, contracting officers may delegate contract oversight to the Defense Contract Management Agency (DCMA) to monitor contractor performance.⁴ In Afghanistan, DCMA teams include administrative contracting officers, and quality assurance representatives, who ensure that the contractors perform work to the standards written in the contracts and oversee the CORs assigned to DCMA-administered contracts.⁵ The DCMA team also includes property administrators and subject matter experts who advise the agency on technical issues such as food service, electrical engineering, and fire safety. DCMA does not administer construction contracts because according to the head of DCMA in Afghanistan it lacks the technical expertise to manage these types of contracts. Generally, construction contracts in Afghanistan are administered by organizations like the Army Corps of Engineers, or they may be administered by the contracting officer assisted by a COR.

If DCMA is not delegated responsibility for administrative oversight of a contract, the contracting officer who awarded the contract is responsible for the administration and oversight of the contract. These contracting officers, such as those from the CENTCOM Contracting Command, appoint CORs or contracting officer's technical representatives to monitor contractor performance. CORs appointed by the CENTCOM contracting command and others are typically drawn from units receiving contractor-provided services. These individuals are not normally contracting specialists and serve as contract monitors as an additional duty. They cannot direct the contractor by making commitments or changes that affect price, quality, quantity, delivery, or other terms and conditions of the contract. Instead, they act as the eyes and ears of the contracting officer and serve as the liaison between the contractor, the contracting officer, and the unit receiving support or services. In Afghanistan, CORs who have been appointed as contracting officer's representatives for

⁴The Logistics Civil Augmentation Program, commonly referred to as LOGCAP, is a program to provide worldwide logistics and base and life support services in contingency environments and provides the majority of base and life support services to U.S. forces in Iraq and Afghanistan.

⁵The administrative contracting officer is a certified contracting officer with specialized training and experience. Administrative contracting officers may be responsible for many duties including ensuring contractor compliance with contract quality assurance requirements, approving the contractor's use of subcontractors, reviewing the contractor's management systems, reviewing and monitoring the contractor's purchasing system, and ensuring that government personnel involved with contract management have the proper training and experience.

contracts administered by DCMA report their oversight results to DCMA personnel. For contracts not administered by DCMA, CORs provide oversight information to the contracting officer, who may be located in Afghanistan or outside the theater of operations. In addition to their oversight responsibilities, CORs have been tasked with other duties such as developing statements of work, developing requirements approval paperwork and preparing funding documents.

DOD's CORs Are Not Fully Prepared for Their Roles and Responsibilities in Afghanistan

DOD's Training Does Not Fully Prepare Most CORs for Their Roles and Responsibilities of Contract Management and Oversight

DOD has added new training for CORs serving in contingencies, but some gaps in training remain and not all of the required training is being conducted or completed. In Afghanistan, much of the day-to-day surveillance of contracted projects is done by CORs. The Federal Acquisition Regulation (FAR) requires that quality assurance, such as surveillance, be performed at such times and places as necessary to determine that the goods or services conform to contract requirements.⁶ DOD guidance requires CORs be trained and assigned prior to award of a contract. DOD training is intended to familiarize the COR with the duties and responsibilities of contract oversight and management. Contracting organizations such as CENTCOM Contracting Command require that personnel nominated to be CORs complete specific online training courses, as well as locally developed training and contract-specific training, before they can serve as CORs. DOD has taken some actions to improve the capability of CORs to provide management and oversight of contracts in contingency operations such as Afghanistan. These actions include developing a new COR training course, with a focus on contingency operations, and developing a COR certification program. Additionally, DOD has begun to emphasize the need for qualified CORs in military doctrine and other guidance with the publication of Joint

⁶Surveillance generally involves government oversight of contractors with the purpose of ensuring that the contractor (the service provider) performs the requirements of the contract, and the government (the service receiver or customer) receives the service as intended.

Publication 4-10, *Operational Contract Support and the Defense Contingency Contracting Representatives Officers Handbook* and memoranda issued by the Deputy Secretary of Defense.

However, our analysis of DOD's COR training and interviews with CORs and contracting personnel from organizations like the regional contracting centers and the Defense Contract Management Agency indicated that some gaps and limitations continue to exist. According to personnel in Afghanistan, none of the required COR training provides enough specifics about contract management and oversight in Afghanistan. For example, the required training does not provide CORs with information regarding important issue areas like the Afghan First Program, which encourages an increased use of local personnel and vendors for goods and services as part of the U.S. counterinsurgency strategy, and working with private security contractors. Some CORs told us that they were unfamiliar with the challenges of working with Afghan contractors, and had believed that contracting with Afghan vendors would be similar to contracting with U.S. vendors. However, some of the CORs and other contracting officials we interviewed said they found that providing oversight to Afghan contractors is more challenging than working with other vendors because Afghan vendors often did not meet the time lines established by the contract, did not provide the quality products and the services the units had anticipated, and did not necessarily have a working knowledge of English. For example, one COR told us during our visit in February 2011, that the unit was still waiting for barriers that they had contracted for in May 2010. While some of the barriers had been delivered, the unit had not received all of the barriers they required even though the contract delivery date had passed. Other CORs and contracting officials and contract management officials described similar situations where services were not provided as anticipated or not provided at all. As a result, items such as portable toilets, barriers, gates, water, and other items or services were not available at some locations when needed, raising concerns about security, readiness, and morale. Officials we spoke with noted similar problems with construction contracts awarded to Afghan contractors. For example, according to another COR, an Afghan contractor was awarded a \$70,000 contract to build a latrine, shower, and shave unit. However, when the contractor was unable to satisfactorily complete the project, another contract was awarded for approximately \$130,000 to bring the unit to usable condition. Similarly contracting officials provided documentation of other construction problems including, a latrine or shower facility built without drains, and a facility constructed in the wrong location, and facilities that were poorly constructed.

Because of the nature and sensitivity of security contracts, CORs for private security contractor contracts have unique responsibilities. For example, CORs are responsible for compiling a monthly weapon's discharge report and for ensuring contractor adherence to contractual obligations on topics such as civilian arming requirements, personnel reporting systems, property accountability and badging. According to a senior military officer with U.S. Forces Afghanistan's private security contractor taskforce, because of gaps in training, CORs do not always understand the full scope of their responsibilities and so do not always ensure that a contractor is meeting all contract requirements. He noted that CORs do not always understand that they have the responsibility to ensure that the terms of the contract are met and therefore do not bring contractors' performance issues to the contracting officer's attention for resolution. As a result, DOD may pay contractors for poor performance and installations may not receive the level of security contracted.

Further, we found that the training programs do not provide enough information on preparing statements of work or preparing documentation for acquisition review boards—two responsibilities that CORs are routinely tasked with. The Defense Contingency COR Handbook describes statements of work as specifying the basic top-level objectives of the acquisition as well as the detailed requirements of the government. The statement of work may provide the contractor with "how to" instructions to accomplish the required effort, and forms part of the basis for successful performance by the contractor. Well-written statements of work are needed to ensure that units get the services and goods needed in the required time frame. CORs we spoke to highlight the problems they encountered when preparing statements of work. For example, several CORs told us of instances when statements of work needed to be rewritten because the original statements of work did not include all required contractor actions, or because they included incorrect requirements. Military officials responsible for reviewing and approving requests for contract support told us that poorly written statements of work are a principal reason why units do not receive the contract support they require. In 2000 and 2004, we reported that poorly written statements of work can result in increased costs and in contractors providing services that do not meet the requirements of the customer.⁷ According to DOD, the

⁷GAO, Military Operations: DOD's Extensive Use of Logistics Support Contracts Requires Strengthened Oversight, [hyperlink, <http://www.gao.gov/products/GAO-04-854>] (Washington, DC: July 19, 2004).

acquisition review board—known in Afghanistan as the Joint Acquisition Review Board—reviews and recommends approval or disapproval of proposed acquisitions to ensure efficiency and cost effectiveness and so it is important that CORs understand and are able to complete the required documentation in order to obtain needed goods and services.

Furthermore, in addition to required on-line training, CENTCOM Contracting Command guidance requires that contracting officers discuss with CORs their specific contract requirements and responsibilities after they have been nominated and before they have begun their duties. However, contracting officers we interviewed at regional contracting centers in Afghanistan said they are frequently unable to provide the required contract-specific training for CORs because they are busy awarding contracts. Without this follow-on training on the specific contract, the COR may not have a clear understanding of how to perform contract oversight or the full scope of their responsibilities. In contrast, DCMA is able to provide specific contract training and mentoring to its CORs because DCMA has quality assurance personnel who have been tasked with providing COR training and assistance.

**CORs Lack Needed
Technical Expertise to
Oversee Some Contracts**

Although CORs are selected from a group of candidates who have completed the basic COR training, their technical expertise, or lack thereof is not always taken into consideration when they are appointed to oversee contracts. The Defense Contingency COR handbook indicates that CORs are responsible for determining whether products delivered or services rendered by the contractor conform to the requirements for the service or commodity covered under the contract. The COR handbook notes that personnel nominated as CORs should have expertise related to the requirements covered by the contract, and suggests that commanders should consider the technical qualifications and experience of an individual when nominating a COR. In addition, the CENTCOM Contracting Command requires that commanders identify the nominee's qualifying experience.

However, these requirements are not always taken into consideration when CORs are selected to oversee certain contracts. According to CORs and other personnel we interviewed in Afghanistan, CORs frequently lack the required technical skills to monitor contractor performance. For example, military personnel have been appointed to oversee construction contracts without the necessary engineering or construction experience, in part because their units lack personnel with those technical skills. While DCMA has subject matter experts in key areas such as fire safety available

for CORs needing technical assistance, CORs for contracts written by the CENTCOM Contracting Command have no subject matter experts to turn to for assistance, particularly in the construction trades. As a result, according to officials there have been newly constructed buildings used by both U.S. and Afghan troops that had to be repaired or rebuilt before being used because the CORs providing the oversight were not able to adequately ensure proper construction. According to personnel we interviewed, this resulted in a waste of money as well as lower morale due to substandard facilities; and in an increased risk to bases and installations because required infrastructure such as guard towers, fire stations, and gates were lacking. Contracting officials from one regional contracting center told us that guard towers at a forward operating base were so poorly constructed that they were unsafe to occupy; they were subsequently torn down and reconstructed. According to a contracting officer, it is not uncommon for CORs to accept a portion of the contractor's work only to find, at the project's completion, that the construction was substandard. Similarly, officials told us that before the LOGCAP program will accept responsibility for maintenance of a facility not constructed by the LOGCAP contractor, the LOGCAP contractors are often required to repair or replace wiring or plumbing in buildings constructed by Afghan contractors to meet U.S. building codes.

The Number of CORs Is Not Sufficient to Adequately Oversee the Thousands of Contracts Being Used in Afghanistan

DOD continues to lack a sufficient number of oversight personnel to oversee the numerous contracts and task orders used in Afghanistan. While there is no specific guidance on the number of contracts for which a COR can be responsible, the CENTCOM Contracting Command's standard operating procedures for COR nomination requires that memoranda for COR nominations, signed by the unit commander, contain a statement verifying that the COR will have sufficient time to complete assigned tasks. Similarly, the Defense Contingency Contracting Officer Representative Handbook states that the requiring unit must allow adequate resources (time, products, equipment, and opportunity) for the COR to perform his or her COR functions. However, we found that CORs do not always have the time needed to complete their oversight responsibilities. While available data do not enable us to determine the precise number of contracts that require CORs, in fiscal year 2010 CENTCOM Contracting

Command awarded over 10,000 contracts.⁸ According to contracting officials and CORs we interviewed in Afghanistan, some CORs are responsible for providing oversight to multiple contracts in addition to their primary military duty. For example, one COR we interviewed was responsible for more than a dozen construction projects. According to the COR, it was impossible to be at each construction site during key phases of the project, such as the wiring installation or plumbing, because these phases were occurring almost simultaneously at different locations. Consequently, according to officials, construction was completed without sufficient government oversight, and problems were not always identified until the buildings were completed. This often resulted in significant rework, at a cost to the U.S. taxpayer. In addition, in some cases units did not assign enough CORs to provide oversight. For example, we were told at one unit that they did not have a sufficient number of CORs to provide proper oversight of dining facilities. Although the unit was able to provide one COR for each dining facility, the dining facilities operate 24 hours a day, and ideally, enough CORs would have been assigned to provide contract oversight 24 hours a day. Army guidance requires that supervisory staff for dining facilities (military food advisors, food program manager, CORs, and contractors operations) check food for sanitation and safety at dining facilities at every meal period.⁹ Without verification that food is prepared in a safe manner, the health of military personnel, DOD civilians, contractors, and others could be put at risk, with the potential to impact ongoing operations.

DOD Has Not Institutionalized Operational Contract Support

An underlying cause for the oversight issues discussed above is DOD's inability to institutionalize operational contract support. Army officials stated that commanders, particularly those in combat units, still do not perceive contract management and oversight as warfighter tasks. As a result, units may not always use the tools available to help prepare for

⁸CENTCOM Contracting Command does not require a COR for every contract awarded. According to the CENTCOM standard operating procedures, CORs will be nominated for all service contracts exceeding \$2,500, both commercial and non-commercial, with significant technical requirements that require ongoing advice and surveillance from technical/requirements personnel. However, contracting officers may exempt service contracts from the requirement for a COR when the contract will be awarded using simplified acquisition procedures, the requirement is not complex, and the contracting officer documents in writing why the appointment of a COR is unnecessary.

⁹See Department of the Army Pamphlet 30-22, Operating Procedures for the Army Food Program (Feb. 6, 2007).

contract management operations in Afghanistan. For example, according to Army officials, personnel nominated as CORs are not always provided the opportunity to practice their COR roles during pre-deployment training events, despite Army guidance that requires the CORs to be exercised during these training events. Army CORs we interviewed in Afghanistan expressed their desire for more specific and in-depth training at their units' predeployment training events. In addition, we and others have made recommendations to provide operational contract support predeployment training for commanders and senior leaders and DOD agreed with our recommendations.¹⁹ However, little or no operational contract support training for these personnel is available prior to deployment. As a result, commanders do not always understand their units' roles and responsibilities to provide contract management and oversight. For example, some commanders and other personnel we interviewed questioned the idea that units should be responsible for contract oversight, and believe that contract oversight should be provided by other organizations.

DOD, USAID, and State Efforts to Vet Non-U.S. Vendors in Afghanistan Need Improvement

Interagency Efforts Are Underway to Address Corruption in Afghanistan

In response to continued congressional attention and concerns from DOD, USAID, and other agencies about actual and perceived corruption and its impact on U.S. and International Security Assistance Force activities in Afghanistan, several DOD and interagency (including USAID) efforts have been established to identify malign actors, encourage transparency, and prevent corruption. While our recent work has not directly addressed anti-corruption activities in Afghanistan, we can report that these efforts include the establishment of several interagency task forces. One of them is Task Force 2010, an interagency anticorruption task force that aims to provide commanders and civilian acquisition officials with an understanding of the flow of contract funds in Afghanistan in order to limit illicit and fraudulent access to those funds by criminal and insurgent

¹⁹GAO-07-145.

groups. Another is the Afghan Threat Finance Cell, an interagency organization that aims to identify and disrupt the funding of criminal and insurgent organizations.

While DOD Has Recently Begun to Vet Non-U.S. Vendors in Afghanistan, Its Approach Has Limitations

In August 2010, DOD began to vet non-U.S. vendors in Afghanistan by establishing a vetting cell called the Vendor Vetting Reachback Cell (hereinafter referred to as the vetting cell).¹¹ The purpose of this vetting process—which includes the examination of available background and intelligence information—is to reduce the possibility that insurgents or criminal groups could use U.S. contracting funds to finance their operations. The vetting cell is staffed by 18 contractor employees operating from CENTCOM headquarters and is supervised by DOD officials. The contract used to establish the vetting cell for Afghanistan was awarded in June 2010, and in August 2010 the cell began vetting non-U.S. vendors.¹² Names of non-U.S. contractors who are seeking a contract award with DOD in Afghanistan are forwarded to the cell, and an initial assessment is made about the prospective vendor. Once an initial assessment is made by the cell about a non-U.S. vendor, a final determination is made by a DOD entity in Afghanistan as to whether to accept or reject the prospective vendor for the particular contract.

However, some limitations exist in the vendor vetting process. According to the CENTCOM Contracting Command Acquisition Instruction, all awards of and options for contracts equal to or greater than \$100,000 to all non-U.S. vendors in Afghanistan are subject to vetting by the vetting cell.¹³ Additionally, all information technology contracts in Afghanistan,

¹¹While the term *vetting* can be used to describe any sort of background verification or fact checking, for purposes of our work in this area, *vetting* is used to describe the examination of available background and intelligence information to determine whether prospective vendors or assistance recipients are affiliated with insurgent or criminal groups, or appear to pose a significant risk of diverting funds or security information to terrorist, criminal, or other corrupt organizations.

¹²The vetting cell contract awarded in June 2010 is an indefinite-delivery/indefinite-quantity contract that currently has two task orders that separately establish vetting cells for Afghanistan and Iraq that are collocated at CENTCOM headquarters in Tampa, Florida. The task order for Iraq was awarded slightly later, in August 2010, to allow the period of performance for the prior Iraq vetting cell contract to conclude.

¹³Specifically, the Acquisition Instruction applies vendor vetting “to all awards of, and options for, any contracts or Blanket Purchase Agreements.”

regardless of dollar value, are subject to vetting.¹⁴ However, while the acquisition instruction does highly recommend that all vendors be submitted for vetting—which would include those with contracts under \$100,000—it does not require that vendors with contracts below \$100,000 be vetted. This presents a significant gap in the vetting requirements for non-U.S. vendors as nearly three-quarters of the new contracts awarded and options exercised for FY 2010 to non-U.S. vendors were valued at under \$100,000.¹⁵ Additionally, currently, CENTCOM Contracting Command does not routinely vet subcontractor vendors, even though according to DOD officials, subcontractors do much of the work in Afghanistan. Also CENTCOM Contracting Command officials said that when the contract was established, it was with the intention of determining a non-U.S. vendor's eligibility to be awarded a contract in Afghanistan prior to award. However, according to CENTCOM Contracting Command officials, when they began submitting names to the vendor vetting cell in 2010, the focus was on vendors who had already received contracts in order to address immediate corruption and illicit funding concerns.¹⁶ CENTCOM Contracting Command has not yet determined how many of the remaining non-U.S. vendors that have already been awarded contracts valued above \$100,000 will be vetted in the future, and at the same time, the number of vendors awarded contracts prior to vetting continues to grow as contracts continue to be awarded in Afghanistan by CENTCOM

¹⁴According to the Acquisition Instruction, this process is to be implemented for information technology contracts as soon as feasible and practicable but not later than April 2, 2011.

¹⁵Figure based on GAO analysis of Federal Procurement Database System-Next Generation (FPDS-NG) data, April 2011. Non-U.S. contractors were identified in the system as contractors for which the vendor country was not the United States or for which the contractor name was "miscellaneous foreign contractor." Award amount is the amount of the initial obligation for contracts and purchase orders; the obligation for options exercised in fiscal year 2010; and because of the lack of estimate value for blanket purchase agreements and indefinite delivery contracts, the fiscal year 2010 obligated amount for calls and orders performed in Afghanistan. FPDS-NG includes unclassified contracts that are estimated to be \$3,000 or more and any modifications to these contracts, regardless of dollar value. Further, the number of contracts and task orders does not necessarily equal the number of vendors, as some vendors may have more than one contract or task order. Also, the number of contracts and task orders does not necessarily equal the number of vendors, as some vendors may have more than one contract or task order. Totals may not correspond due to rounding.

¹⁶Although the Acquisition Instruction primarily focuses on vetting prospective contract actions (i.e., award), one subsection addresses the potential for termination of existing contracts where a contracting officer becomes aware of a contractor with a "rejected" eligibility status. See CENTCOM Contracting Command Acquisition Instruction, § 25.7704-1203(k) (Nov. 5, 2010).

Contracting Command during fiscal year 2011. This may mean that the number of non-U.S. vendors who have not been vetted will continue to grow and further delayed by the fact that CENTCOM Contracting Command has also not established a timeline for when it will begin vetting vendors prior to award, nor have they developed an estimated number of prospective vendors that it anticipates vetting in the remainder of the fiscal year. Furthermore, the command does not use a formalized risk based approach to prioritize vetting needs. Officials from CENTCOM Contracting Command told us that they considered factors such as the risk, complexity, and nature of the contract to prioritize the first tranche of non-U.S. vendors sent to the cell for vetting, but they have no documentation identifying these considerations as a process.

To address these vendor vetting limitations in Afghanistan, in our June 2011 report we made several recommendations to DOD. These recommendations included that CENTCOM Contracting Command consider formalizing a risk-based approach to enable the department to identify and vet the highest-risk vendors—including those vendors with contracts below the \$100,000 threshold—as well as subcontractors, and to work with the vendor vetting cell to clearly identify the resources and personnel needed to meet the demand for vendor vetting in Afghanistan, using a risk-based approach. DOD concurred with our recommendations and in their response provided additional clarification about the limitations that currently exist on its resources, including limitations on expanding its joint manning document and the current mandate to reduce staff at CENTCOM.

USAID Has Recently Begun to Implement A Vendor Vetting Process

In January 2011, in order to counter potential risks of U.S. funds being diverted to support criminal or insurgent activity, USAID created a process for vetting prospective non-U.S. contract and assistance recipients (i.e., implementing partners) in Afghanistan. This process is similar to the one it has used in the West Bank and Gaza since 2006. This process was formalized in USAID's May 2011 mission order, which established a vetting threshold of \$150,000 and identified other risk factors, such as project location and type of contract or service being performed by the non-U.S. vendor or recipient.¹⁷ The mission order also established an Afghanistan

¹⁷ See USAID Mission for Afghanistan, Mission Order No. 201.04, National Security Screening (Non-US Party Vetting) (May 9, 2011). The Mission Order specifies that awards to non-U.S. parties for private security services are subject to vetting regardless of the award amount. See GAO, *Afghanistan: Efforts to Vet non-U.S. Vendors Need Improvement*, GAO-11-355 (Washington, D.C.: June 2011). See USAID agency comments, pg. 37.

Counter-Terrorism Team, which can review and adjust the risk factors as needed. USAID officials said that the agency's vendor vetting process was still in the early stages, and that it is expected to be an iterative implementation process of which aspects could change—such as the vetting threshold and the expansion of vetting to other non-U.S. partners. In our June 2011 report we recommended that USAID consider formalizing a risk-based approach that would enable it to identify and vet the highest-risk vendors and partners, including those with contracts below the \$150,000 threshold. We also recommended that in order to promote interagency collaboration so as to better ensure that vendors potentially posing a risk to U.S. forces are vetted, DOD and USAID should consider developing formalized procedures, such as an interagency agreement or memorandum of agreement, to ensure the continuity of communication of vetting results and to support intelligence information, so that other contracting activities may be informed by those results. USAID concurred with our recommendations and noted that the agency has already begun to implement corrective measures to ensure conformity with the GAO recommendations and adherence to various statutes, regulations, and executive orders pertaining to terrorism.

State Has Not Created a Vendor Vetting Process for Afghanistan

As of May 2011, the State Department (State) was not vetting vendors in Afghanistan. As we reported in June 2011, State officials told us that currently many of their contracts are awarded to U.S. prime contractors, and that they award relatively few contracts to non-U.S. vendors. Nonetheless, our analysis of contract data shows that State does work with many non-U.S. vendors in Afghanistan, and embassy officials in Kabul told us they do not do any vetting or background checks on the vendors other than for the security risks posed by individual personnel with physical access to the embassy property or personnel. State has endorsed the Afghan First policy, which will likely result in increased contracting with Afghan vendors in the future, which will in turn increase the need to have procedures in place to prevent funds from being diverted to terrorist or insurgent groups. Given this potential increase in local contracting, and without a way to consider—after specific vendors are known to be candidates—the risk posed by funding non-U.S. vendors to perform particular activities in Afghanistan, the department may increasingly expose itself to contracting with malign actors.

To help ensure that State resources are not diverted to insurgent or criminal groups, we recommended that State assess the need and develop possible options for vetting non-U.S. vendors—for example, these could include leveraging existing vendor vetting processes, such as USAID's, or

developing a unique process. State partially agreed with our recommendation, and in written comments noted that while it recognized the risk of U.S. funds under State's management being diverted to terrorists or their supporters, there were significant legal concerns related to contracting law, competition requirements, and the conflict between open competition and the use of classified databases to vet contractors and grantees that have required analysis and discussion. We recognize these concerns and encourage State to continue to address these various issues should they develop and implement a vetting process.

**DOD, USAID, and State
have Not Developed a
Formal Method of Sharing
Vendor-Vetting Information
in Afghanistan**

Although DOD, USAID, and State likely utilize many of the same vendors in Afghanistan, we found and reported in June 2011 that the agencies have not developed a formalized process to share vendor vetting information. Currently, DOD and USAID officials in Afghanistan have established informal communication, such as biweekly meetings, ongoing correspondence, and mutual participation in working groups. Further, DOD and USAID officials said that their vetting efforts are integrally related and are complementary to the work of the various interagency task forces, such as Task Force 2010 and the Afghan Threat Finance Cell, and that their mutual participation in these task forces contributes to interagency information sharing in general and vetting results in particular. However, a formal arrangement for sharing information such as would be included in a standard operating procedure or memorandum of agreement between DOD and USAID has not been developed for vetting efforts. In addition, though the U.S. Embassy also participates in various interagency task forces, such as Task Force 2010, there is no ongoing information sharing of vendor vetting results, either ad hoc or formally. According to CENTCOM Contracting Command officials, the command is in the process of developing a standard operating procedure for sharing the vendor vetting results specifically with USAID, but this document has not yet been completed. To promote interagency collaboration so as to better ensure that non-U.S. vendors potentially posing a risk to U.S. forces are vetted, we recommended that DOD, USAID, and State consider developing formalized procedures, such as an interagency agreement or memorandum of agreement, to ensure the continuity of communication of vetting results and to support intelligence information, so that other contracting activities may be informed by those results. DOD and USAID both concurred with our recommendation, but State did not comment on it.

DOD Has Not Fully Addressed GAO Recommendations

Since the beginning of our work on operational contract support in 1997, we have made numerous recommendations to DOD to help improve the oversight and management of contractors used to support contingency operations. Specifically, we have made recommendations in the areas of developing guidance, planning for contractors in future operations, tracking contractor personnel, providing sufficient numbers of oversight personnel, and training non acquisition personnel including CORs and other key leaders such as unit commanders and senior staff. DOD has implemented some—but not all—of these recommendations.

DOD has taken some actions to address or partially address some of our previous recommendations regarding operational contract support, such as establishing a focal point to lead the department's effort to improve contingency contractor management and oversight at deployed locations, issuing new guidance, incorporating operational contract support into professional military education, and beginning to assess its reliance on contractors. For instance, based on our work, in October 2006, the Deputy Under Secretary of Defense for Logistics and Materiel Readiness established the Office of the Assistant Deputy Under Secretary of Defense (Program Support) to act as a focal point for leading DOD's efforts to improve contingency contractor management and oversight at deployed locations. Among the office's accomplishments is the establishment of a community of practice for operational contract support comprising of subject matter experts from the Office of the Secretary of Defense, the Joint Staff, and the services. In March 2010, the office issued an Operational Contract Support Concept of Operations, and it has provided the geographic combatant commanders with operational contract support planners to assist them in meeting contract planning requirements.

To provide additional assistance to deployed forces, the department and the Army introduced several handbooks and other guidance to improve contracting and contract management in deployed locations. For example in October 2008, the department issued Joint Publication 4-10, *Operational Contract Support*, which establishes doctrine and provides standardized guidance for, and information on, planning, conducting, and assessing operational contract support integration, contractor management functions, and contracting command and control organizational options in support of joint operations.¹⁸

¹⁸Joint Publication 4-10 expressly does not pertain to contracting support of routine, recurring (i.e., noncontingency) DOD operations.

Additionally, in 2003 we recommended that DOD develop training for commanders and other senior leaders who are deploying to contingencies and we recommended that CORs be trained prior to assuming their duties.¹⁹ DOD has partially implemented this recommendation; training is available for commanders and other senior leaders however these courses are not required prior to deployment. In 2006, we recommended that Operational Contract Support training be included in professional military education to ensure that military commanders and other senior leaders who may deploy to locations with contractor support have the knowledge and skills needed to effectively manage contractors²⁰. Both DOD and the Army have taken some actions to implement this recommendation. For example, the Army includes operational contract support topics in its intermediate leaders course and includes limited operational contract support familiarization in some but not all of its pre-command courses. DOD has established a program of instruction for use in senior leader professional military education but the instruction has yet to be incorporated in this level of professional military education.

We have made several recommendations to improve contractor visibility in contingencies. We have made several recommendations to improve the tracking of contractor personnel in contingencies. While DOD, along with USAID and State, has implemented a system—the Synchronized Predeployment and Operational Tracker (SPOT)—to track information on its contractor personnel in Afghanistan and other countries, we have issued a series of reports that highlight shortcomings in the system's implementation.²¹ The shortcomings are due, in part, to varying interpretations of which contractor personnel should be entered into the system. As a result, the information SPOT does not present an accurate picture of the total number of contractor personnel in Afghanistan. In

¹⁹ GAO, *Military Operations: Contractors Provide Vital Services to Deployed Forces but Are Not Adequately Addressed in DOD Plans*, GAO-03-695 (Washington, D.C.: June 24, 2003)

²⁰ GAO, *Military Operations: High-Level DOD Action Needed to Address Long-standing Problems with Management and Oversight of Contractors Supporting Deployed Forces*, GAO-07-145 (Washington, D.C.: December 18, 2006)

²¹ GAO, *Iraq and Afghanistan: DOD, State, and USAID Face Continued Challenges in Tracking Contracts, Assistance Instruments, and Associated Personnel*, GAO-11-1 (Washington, D.C.: Oct. 1, 2010); GAO, *Contingency Contracting: DOD, State, and USAID Continue to Face Challenges in Tracking Contractor Personnel and Contracts in Iraq and Afghanistan*, GAO-10-1 (Washington, D.C.: Oct. 1, 2009); and GAO, *Contingency Contracting: DOD, State, and USAID Contracts and Contractor Personnel in Iraq and Afghanistan*, GAO-09-19 (Washington, D.C.: Oct. 1, 2008).

October 2009, we recommended that DOD, State, and USAID develop a plan, to among other matters, ensure consistent criteria for entering information into SPOT and improve its reporting capabilities to track statutorily required contracting data and meet agency data needs. The agencies did not agree with our recommendation and when we reviewed the system a year later, we found that many of the issues our recommendation was intended to address had not been resolved. We are currently evaluating the status of SPOT's implementations and the agencies' efforts to improve SPOT.

Concluding Observations

DOD and the services has taken some important steps to institutionalize OCS—for example, by issuing joint doctrine, including some training in professional military education, and establishing a vetting cell to vet non-U.S. vendors in Afghanistan, to minimize the risk of criminal groups using contracts to fund their operations but DOD's efforts have not gone far enough. Our previous work has emphasized the need to institutionalize operational contract support within DOD and improved vetting processes for contractor personnel and vendors, as well as highlighting long-standing problems regarding oversight and management of contractors supporting deployed forces. Contract management, including contract oversight, remains on our high risk list in part because of DOD's challenges in managing contracts used to support deployed forces²². Since 2004 we have identified the need for a sufficient number of trained oversight personnel, including CORs, as challenge to effective contract management and oversight. While the department has improved contract management and oversight by adding training requirements for CORs, the current system of using CORs to provide contract management and oversight still has significant weaknesses. As a result, contract oversight and management issues are resulting in a waste of money and raises concerns about security, readiness, and morale. The Secretary of Defense recently called for a change in culture related to operational contract support and directed the joint staff to identify the resources and changes in doctrine and policy necessary to facilitate and improve the execution of operational contract support. This reexamination of culture, policies, and resources along with implementing solutions to the contract oversight problems identified by us and others should help DOD address its longstanding issues oversight issues.

²² GAO, *High-Risk Series: An Update* GAO-11-278 (Washington, D.C.: February 16, 2011).

Madam Chairman, Ranking Member Portman, and members of the Subcommittee this concludes my statement. I would be happy to answer any questions you may have at this time.

Contact and Acknowledgments

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In addition, contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals who made key contributions to this statement are Carole Coffey, Assistant Director; Vincent Balloon, Natalya Barden, Tracy Burney,Carolynn Cavanaugh, Alfonso Garcia, Melissa Hermes, Christopher Miller, James Reynolds, and Natasha Wilder. Michael Shaughnessy provided legal support, and Cheryl Weissman, Vernona Brevard, and Peter Anderson provided assistance in report preparation.

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**Statement of Mr. David S. Sedney
Deputy Assistant Secretary of Defense
for Afghanistan, Pakistan, and Central Asia**

**Committee on Homeland Security and Government Affairs,
Subcommittee on Contracting Oversight,
United States Senate**

**“Afghanistan Reconstruction Contracts:
Lessons Learned and Ongoing Problems”**

June 30, 2011

Chairman McCaskill, Ranking Member Portman, and Members
of the Subcommittee.

Thank you for inviting us to testify before you here today.

My office falls under the Under Secretary of Defense for Policy,
so I would like to give you a sense of the larger strategy
backdrop for much of the contract activity that is being executed
in Afghanistan.

I will begin by reiterating the U.S. objectives in Afghanistan:
To deny safe havens to Al Qaeda, and to deny the Taliban the
ability to overthrow the Afghan Government.

To support these objectives, U.S. and Coalition forces will
continue to degrade the Taliban-led insurgency in order to
provide time and space to increase the capacity of the Afghan
National Security Forces and the Afghan Government, so that
they can assume the lead for Afghanistan’s security by the end
of 2014.

As you know, President Obama recently announced that the United States would begin a deliberate, responsible drawdown of our surge forces.

An initial drawdown of 10,000 troops will occur over the course of this year, with a further drawdown of the remainder of the surge by the end of summer 2012.

Even after the recovery of the 33,000 troops, roughly 68,000 U.S. service members will remain in Afghanistan. Clearly—not a “rush to the exits.”

More importantly, at the end of summer 2012, when the last of the surge forces are out, there will actually be *more* Afghan and Coalition forces in the fight than there are today. That’s because—by the time we complete our drawdown—the Afghan National Security Forces (ANSF) will have added another 55,400 members, not including the additional Afghan Local Police forces.

The growth in the quantity and quality of the ANSF is one of the critical conditions that is enabling the drawdown.

More broadly, our strategy in Afghanistan is working. The momentum has shifted to the Coalition and ANSF, and—
together—we have degraded the Taliban’s capability and achieved significant security gains, especially in the Taliban’s heartland in the south.

These security gains are enabling key political initiatives to make progress. We have begun a transition process that will ultimately put Afghans in the lead for security nationwide by the end of 2014. We are beginning to see reintegration and

reconciliation processes gain traction, and we are discussing a strategic partnership with the Afghans to signal our enduring commitment to regional peace and stability.

I want to emphasize that although our progress in Afghanistan has been substantial and our strategy is on track, some significant challenges remain.

In the months ahead, we will be confronted by a capable and resilient enemy that will try to regain the momentum and territory that it has lost to Afghan and Coalition forces.

However, that enemy will face an Afghan population that is increasingly experiencing the benefits of stability and self-governance. Those benefits will only become clearer as we begin the transition to full Afghan security responsibility in selected areas. Those communities will provide useful lessons on security and governance – as well as a potential model for other parts of the country.

Finally, let me emphasize how crucial it is for us to maintain a continuing role for our Coalition partners in Afghanistan – 48 countries with some 47,000 troops. These partner nations have made significant contributions and significant sacrifices.

Madam Chairman—Senator Portman—I want to close by thanking you and your colleagues in the U.S. Senate for your unwavering support for our men and women in uniform.

Thank you, again, for allowing me to appear before you today.
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STATEMENT BY

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(ACQUISITION, LOGISTICS AND TECHNOLOGY)**

BEFORE THE

**SUBCOMMITTEE ON CONTRACTING OVERSIGHT
COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
UNITED STATES SENATE**

**ON AFGHANISTAN RECONSTRUCTION CONTRACTS,
LESSONS LEARNED AND ONGOING PROBLEMS**

FIRST SESSION, 112TH CONGRESS

JUNE 30, 2011

**NOT FOR PUBLICATION
UNTIL RELEASED
BY THE COMMITTEE ON
HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS**

1

Introduction

Chairman McCaskill, Senator Portman and distinguished members of the Ad Hoc Subcommittee on Contracting Oversight, thank you for the invitation to appear before you today to discuss the lessons the U.S. Army has learned and the ongoing challenges in the management and oversight of contingency contracting in Afghanistan.

The U.S. Army has had boots on the ground in Afghanistan for almost a decade. As we know from past military engagements, when our Army deploys, they depend on civilian support from contractors. Contractors have been on the battlefield in every U.S. conflict since the Revolutionary War. Their roles and numbers have evolved and increased, to the point that the size of the contracting force supporting our troops in Operation Enduring Freedom exceeds that of any prior conflict.

Despite the reduction in the ratio, this is the largest scale contracting oversight mission the United States has ever managed. As of the second quarter of 2011, the Synchronized Pre-deployment and Operational Tracker (SPOT) reported a total of 90,339 contractors supporting US Troops in Afghanistan. The Army has made significant progress in improving contract management and contract oversight, yet despite our progress, challenges remain.

As our soldiers, civilians and contractors strive to help Afghanistan move toward a brighter, more affluent future, we must look back at the endemic problems they encountered in 2001 when they deployed to a nation that had endured three decades of war and instability. During that time, limited formal education resulted in low literacy rates; tribal Afghans without last names, birthdates or any kind of universal identification numbers resulted in a non-existent personnel identification system, impacting areas from banking to the internet; and a national banking system hampered rather than helped the nation's economic stability because it was used as a source of revenue for the Taliban. Through much of Afghanistan, at that time, there was little experience with currency and a monetary system. A tradition of payments for government services and consideration, what we would term bribes, had created a climate of corruption in the country with an expectation of payment for all services rendered. More than 30 years of warfare

had destroyed all institutions and any merchant middle class that may have previously existed. A hostile natural landscape with harsh mountains and unforgiving climate extremes made this a daunting environment for battle, reconstruction and development.

To move Afghan people forward has required the combined efforts of numerous U.S. Agencies, taskforces and our Allies. Together we have made significant progress with our support and assistance. Along the way, we have learned many lessons, worked through daunting challenges, and continue to move forward to complete the mission.

Our efforts have been directed, not just at building physical infrastructure but also developing a middle class comprised of civil servants, members of the Afghan National Security Forces and a merchant class. This will be critical to Afghan sustainment of the gains and improvements that have been made. To that end, the U.S. Agency for International Development, (USAID) is to be congratulated for their work in the development and training of the civil service. The NATO Training Mission-Afghanistan and its predecessor the Combined Security Transition Command-Afghanistan have not only undertaken the building of the Afghan National Police and Afghan National Army, but also to raise the literacy rate of the new members of the Afghan National Security Forces to ensure viability after our departure.

Great care is being taken in the choice of equipment to minimize the costs and complexities associated with the logistics and maintenance of this equipment. These choices will pay great dividends in ensuring that the Afghan people will be able to support the equipment they are provided. The effective use of the Afghan First program, authorized by Congress, has encouraged the development of a merchant class to provide goods and services to the U.S. Army. This will provide a long term benefit and aid in the continued development of Afghanistan.

Contracting In Afghanistan

Contracting in and for Afghanistan has been as much a part of the Army's mission there as the troops that have deployed time and again over the past decade. The infrastructure deficiencies and corruption issues in Afghanistan have impacted the contracting mission. To

establish effective contract management in this landscape, the first challenge is to ensure that the best possible contracts are awarded by our military and civilian contracting officers. Resolution of contracting issues is still difficult, but we have made great strides forward. Most of the contracts awarded by the CENTCOM Joint Theater Support Contracting Command (also known as CENTCOM Contracting Command or C3) are competitively awarded, ensuring the best possible price for the US Government.

Another major advance is the wholesale move from cost contracts to fixed price contracts in theater. In the early years, cost contracts were the predominant type of contract awarded. When contractors perform in an uncertain and risky environment such as on the battlefield, it is appropriate for the government to assume more cost risk through the use of cost contracts. However, as our Warfighters stabilized the environment and we have been able to better define our requirements, fixed price contracts have become viable for use in theater. Fixed price contracts are the preferred method of contracting since the contractor is incentivized to control costs in an effort to maximize profits. In a fixed price contract the contractor is paid only the amount that was agreed upon at the time of contracting, regardless of their actual costs of performance.

It is responsibility of the Army contracting officer to ensure the best award choice is made based on the evaluation criteria of the contract. An important element is the use of past performance information on the contractors in line for contract award. While the data is not always available for U.S. companies, it has been especially problematic with host nation companies as we try to give preference to Afghan firms under the terms of the Afghan First program. Due to lack of internet accessibility and bandwidth limitations as well as language barriers, the standard system for collecting this data, the Contractor Performance Assessment Reporting System, called CPARS, which requires vendor input as part of the system, has not been viable in Afghanistan. Information on host nation vendors in Afghanistan is now being captured in the Joint Contingency Contracting System (JCCS). JCCS was developed to alleviate a number of problems encountered in contracting in Iraq and Afghanistan, from translation and

posting of solicitations in Iraq and Afghanistan to currency conversions and now to tracking past performance, it has proven to be an invaluable tool for contracting in theater.

Project coordination is critical and has not always been effective. The Combined Joint Logistics Procurement Support Board for Afghanistan (CJLPSB-A), which is a centrally coordinated board comprised of senior logistics and contracting representatives, is focused on ensuring that contract management programs are properly coordinated and prioritized. The CJLPSB meets monthly to develop, approve and promote acquisition strategies for coordinating common or similar requirements to eliminate redundancies. It also reviews formal acquisition plans for large and complex acquisitions and strategies for critical operational priorities.

Contract Oversight

Oversight of subcontractors has been a significant concern of Congress, the audit agencies and the contracting community. The Federal Funding Accountability and Transparency Act of 2006, requires prime contractors to provide extensive insight into subcontractor information. C3 has implemented 11 clauses dealing with subcontractor information to capture not just the data required by law, but additional information that will aid in the vetting of the contractors and subcontractors prior to award.

The vetting of host nation contractors is a key element in ensuring the security of the workplace for U.S. Warfighters, civilians and contractors as well as the security of the reconstruction work that we have accomplished in Afghanistan. It is critical that we ensure that the contractors are not just competent performers but that they have no ties to bad actors. It is equally important to vet the local national individuals seeking access to our bases and construction sites as contractor employees. While it has been a struggle to create vetting processes in a country without universal identification criteria, the determination was made that the collection and use of biometric information was the only viable solution to ensure security. While this data collection is time consuming and the project is still relatively new, within the first months of use, several hits on individuals requesting base access proved the projects'

viability. The use of the contractor vetting process and the growing use of biometric identification of individuals will provide needed security for our personnel and sites.

Since vetted contractors and individuals create a more secure environment, this risk reduction can assist in reducing overall contract costs in theater. In August 2010, a vetting cell was established at CENTCOM headquarters in Tampa, Florida to vet prospective non-U.S. contractor firms in Afghanistan. Non-U.S. vendor information on all contract awards and options above \$100,000 is also tracked in the JCCS system along with past performance information. Initial vetting focused on host nation trucking and private security contractor's prime contractors. The U.S. Army Corps of Engineers has been invited to submit both prime and major subcontractors to the C-JTSCC vetting process and discussions will be held with USAID on sharing vetting information. While the system is not perfect, we will continue to work to refine our systems and processes.

After contract award, the key to our contract oversight resides with the Contracting Officer's Representatives (CORs) who are on the front-lines as responsible stewards of American taxpayers' dollars. The Army began a rejuvenation of our COR management and training in December 2009, with the issuance of the Army Executive Order 48-10: Pre-Deployment training for Contracting Officer's Representative Candidates and Commander's Emergency Response Program (CERP) Personnel. This order mandated that deploying brigades have as many as 80 Soldiers designated and trained as CORs. As a result, in CY 2010 and 2011, the Army Logistics University trained 8,568 CORs while the Expeditionary Contracting Command provided augmentation training to 2,317 Soldiers as CORs since October 2010. More than 5,500 CORs, 5,500 Field Ordering Officers (FOO) and 2,700 Project Purchasing Officers received theater specific supplemental training from C3 prior to beginning their COR or FOO assignment.

In addition to training, the C3 contracting officers provide the CORs with Army developed tools such as the COR SmartCard and COR handbooks. Further, the C3 training

website contains a number of resources CORs can access as needed. As a result of these efforts, C3 has been able to assign well-trained CORs to 100% of all contracts requiring a COR.

The U.S. Department of Defense (DoD) has also helped the Army to create and better train CORs. Defense Acquisition University deployed on-line Contingency COR training that has helped to prepare our CORs for problems in theater. DoD is currently evaluating both the Army Materiel Command COR Management Tool and the Virtual Contracting Enterprise COR Management system for possible deployment. The Defense Contract Management Agency does an extraordinary job in performing contract administration on many of our contracts in theater. They are the true experts in contract quality assurance and their involvement on Army contracts in Afghanistan has helped to ensure that contractor performance meets contract requirements.

Beyond COR training, Army leaders must be informed and supportive of the COR mission. The former Chief of Staff of the Army, General Casey, identified the need for both military and civilian leadership in the Army to receive training to foster improved awareness and understanding about the criticality of contracting. At General Casey's direction, the Army developed a General Officer procurement course. Since its inception in December 2010, 85 new general officers and members of the Senior Executive Service have received two days of contracting training on Acquisition Corps priorities including services contracting, construction contracts, contingency contracting and the importance of contract management and COR oversight.

The Army recognizes that our remaining major mission in deploying CORs is to develop a method to ensure that not only a trained COR but the best possible technically qualified COR is assigned to the task. Since the COR function is designed to be a collateral function, it remains a challenge to appropriately integrate the Soldier's operational duties with COR responsibilities.

To ensure that technically qualified personnel are involved in the oversight of construction contracts in Afghanistan, the Senior Contracting Official in Afghanistan (SCO-A) recently provided guidance on the appointment of Construction Inspectors (CIs) to provide technical expertise and support to the construction CORs. The Air Force will be providing

support to this effort through its Expeditionary Prime Base Engineering Emergency Force (BEEF) Squadrons. These squadrons are designed to establish base civil engineer operations where assistance is required and have been supporting the forward operating bases in Afghanistan. If additional CIs are required, they can be technically qualified contractors, civilians or military with expertise in construction engineering. They will receive general COR training as well as specific contract requirements training and will provide technical expertise to the COR and the Contracting Officer. We believe that this initiative will supplement the CORs in providing effective oversight of construction contracts in theater.

Another recent SCO-A initiative was to create an integration cell in the Regional Command-East. This cell is comprised of a Program Manager, a Contracting Officer and an Afghan Business Advisor who is fluent in both English and the local dialect. While this program is young, by bringing together the requirements generator and the contracting officer, we hope to reap significant dividends.

Since this office last appeared before your Subcommittee to address contracting in Afghanistan, we have made significant improvements but much work still remains. Our March 2011 review of procurement operations in Afghanistan showed that while the contracting workforce is performing heroically to procure the needs of the Warfighters, the operational tempo, workload and constant rotations of both contracting officers and CORs continues to impact effective oversight of contracts. Contractor performance documentation is often missing or incomplete. Internet connectivity and bandwidth make it extremely difficult to input contractor performance information into web-based systems. The procurement mission is compounded by the additional workload of training and re-training a customer base continually rotating in and out of theater on COR duties, requirements generation, performance work statement writing, and inspection and acceptance. The Army has initiated or supported a number of partial solutions and will strive to identify process modifications until we have achieved success.

Another measure of effective contract management in a contingency environment is the timely identification and resolution of performance problems. From October 2010 to April 2011, the C-JTSCC Senior Contracting Official in Afghanistan issued 74 terminations for default after working to identify and resolve performance problems.

The endemic corruption in Afghanistan remains a challenge to our contracting personnel. The anti-corruption taskforces now operating in Afghanistan have had a significant impact on the ability of contracting offices to operate effectively. The Army appreciates the impact that these taskforces have had in improving the contracting environment. Task Force 2010, the FBI's International Contract Corruption Task Force, the Army's Criminal Investigation Division's Afghanistan Fraud Detachment Major Procurement Fraud Unit, the Department of Justice's Major Crimes Task Force, the Afghan Threat Finance Cell and TaskForce Spotlight have all played a role in helping to reduce the impact of corruption on government contracting in Afghanistan. However, this is not a "once and done effort." It will take years of work to change the environment while simultaneously providing pre-deployment training of Army personnel to ensure that they understand how to deal with the cultural differences in Afghanistan without wandering into questionable practices. Task Force (TF) Spotlight has been extremely effective in working with the SCO-A in the area of contracting fraud, waste and corruption by developing and implementing a comprehensive and actionable anti-corruption campaign plan. TF Spotlight campaign elements focus on informing and training the community on "need to train" PSC oversight skills. Every month, TF Spotlight hosts a Joint Interagency Incident Review Board to review incident trends, best practices, new initiatives and incident reports. This Board aids in the development of common approaches across the Departments of State and Defense, USAID and the International Security Assistance Forces to provide oversight and standardize practices.

Conclusion

Last summer, my predecessor, Mr. Ed Harrington, implemented a contingency After Action Reporting requirement to ensure that the Army captures the lessons learned in this contingency. We are trying to identify the issues and address them in a manner to ensure that they provide us with effective information in planning for the future. The C3 is also working to

transition contracting lessons learned in the Iraq drawdown and is developing the concept of an Afghan Transition Cell to capture those lessons as we prepare to reduce our troops in Afghanistan.

Army contracting continues to identify more effective ways to ensure that we get the most value for our contracting dollars and the most effective support for our Warfighters. I cannot stress enough the complexity of managing countless requirements, overseeing tens of thousands of contractors and performing billions of dollars in procurements in an environment that is hostile on so many levels. Not only is physical security still tenuous, but the business and financial environment, educational level, technology, and infrastructure – though improving – form a gauntlet of obstacles to effective contract oversight. We have no choice, but to succeed. Our dedicated contracting workforce, both military and civilian will continue to take lessons learned in these challenging missions while we make improvements, adjustments and seek innovative solutions, to enhance mission success. The U.S. Army remains committed to the protection of the interests of the United States, our Warfighters and our taxpayers through excellence in all contracting activities.

Thank you for your continued support. I look forward to your questions.

Statement for the Record**United States Agency for International Development****J Alexander Thier****Assistant to the Administrator and Director of the****Office of Afghanistan and Pakistan Affairs****Before the Senate Committee on Homeland Security and Governmental Affairs,****Subcommittee on Contracting Oversight****"Afghan Reconstruction Contracts, Lessons Learned and Ongoing Problems" June 30,****2011, 10:00 a.m.**

Distinguished members of the Subcommittee, my name is J Alexander Thier, Assistant to the Administrator and Director of the United States Agency for International Development's (USAID) Office of Afghanistan and Pakistan Affairs (OAPA). As requested, I will provide brief opening remarks but would ask that my full written statement be entered into the hearing record.

I would like to open by offering my respect for the excellent work of this subcommittee in conducting oversight and demanding accountability for U.S. taxpayer dollars. I began working on Afghanistan in 1993, and since the fall of the Taliban, I have been intensively engaged in implementing and assessing the U.S. effort to stabilize Afghanistan. I have repeatedly raised concerns about the corrosive effects of corruption, waste, and failed expectations in our efforts. Indeed, these are not only issues of fiscal importance, but of national security itself. I have long argued that the insurgency is strengthened by corruption, by lack of accountability, by weak governance.

One of the very reasons I took this job as Director of our Afghanistan and Pakistan Office with USAID almost one year ago was to improve our performance and our accountability. We owe it to both the American and Afghan people. The subcommittee's efforts are an essential element in this process. Particularly in light of the President's announcement last week that we will begin the drawdown of U.S. troops, having broken the Taliban's momentum, we jointly bear an important responsibility beyond the transition. USAID's job is to ensure that our efforts are sustainable, durable and realistic as we strengthen Afghan capacity for self-reliance.

Second, I would like to take this opportunity to draw your attention to the dramatic development achievements made in Afghanistan over the last decade, made possible due to the generous support of the American taxpayers, our hard work and the work of USAID's implementing partners. Contrary to what makes the front pages and headlines, aid to Afghanistan is something for which we should be proud. For example, we've worked with the health ministry to dramatically expand access to health services from nine to now 64 percent of the population. Our efforts to build schools and train teachers have allowed more than 7 million children to enroll in school, 35 percent of whom are girls. (Under the Taliban, less than a million boys and

no girls attended school.) Gross Domestic Product has averaged 10 percent growth per year. And GDP per capita has doubled since 2002 with five million people lifted from a state of dire poverty. We have tripled our number of USAID staff, with approximately 60 percent of our 309 current staff deployed outside Kabul, working alongside the military and other agencies. Together, we are proud of our contribution to helping reverse Taliban momentum and achieving development progress in the toughest conditions.

But under such tough conditions as exist in Afghanistan, we are constantly refining and improving our approaches to increase impact, improve oversight of projects, and build Afghan capacity. I would like to draw your attention to our work to emphasize *sustainability* and *improve oversight* that I have advanced during my short time with USAID.

Sustainability: As we embark on the path of transition – the process by which our Afghan partners will truly stand on their own feet – sustainability is of paramount concern to us. We are aligning our resources against critical foundational investments in economic growth, infrastructure, and human capital that will speed a sustainable transition. We have worked with Afghan and international partners to identify a set of core development investments that must be made to develop Afghan capacity, promote economic growth, and increase government revenue generation to support a sustainable, durable transition in Afghanistan. Those investments include:

- Agriculture, upon which 8 of 10 Afghan livelihoods depend, and which is the most promising near-term means of increasing employment, income generation, and food security.
- Extractives Industries, because robust, transparent, and environmentally-sustainable development of Afghanistan's oil, gas, and mining industries will facilitate the construction of regional infrastructure and energy networks, dramatically increase government revenue, develop local economies, and create jobs.
- Financial Inclusion, in which USAID's goal is to leverage the access that most Afghans have to mobile telephone networks (85% live within network coverage) to increase access to safe, sound financial services for the unbanked, from less than 5 percent to over 10 percent of Afghan account holders in three years, while increasing transparency in the financial system.
- Human Capacity Development will also be critical. An educated, skilled, and healthy Afghan workforce is an essential enabler for sustained economic growth. An additional year of tertiary education can raise GDP growth by 0.5%.
- Energy is a final foundational investment, and because it illustrates past achievements, and challenges, it merits particular attention in this testimony.

Analyses show that power availability and consumption are directly correlated with economic viability. Since 2002, an annual 20 percent increase in electricity supply helped fuel the GDP growth rate. Because sustainability of our investments is essential, a key component of our work is building Afghan capacity in the power sector and supporting power sector reform. In 2009, the U.S. and other donor agencies achieved a major milestone: the official launch of the Da Afghanistan Breshna Sherkat (DABS), a new commercialized Afghan electrical utility. With our assistance over the last years, their collections have increased by 30%, revenues have nearly doubled to \$40 million, and they are earning the funds needed to sustain operations. Kabul has

gone from averaging 2 hours of electricity in 2002 to 24 hour availability today. Additional investments in energy hold similar potential to leave in place in Afghanistan the means for self-reliance.

Like energy, other important foundational investments established in Afghanistan are roads, schools, and hospitals. Since Fiscal Year 2006, USAID has delivered \$9.38 billion of assistance to Afghanistan, and of that approximately \$2.1 billion has been devoted to infrastructure activities in Afghanistan. These funds have been devoted to a wide array of projects that provide critical development services to a population dealing with thirty years of sustained conflict and in need of sustained economic growth.

Yet I cannot overemphasize the challenges involved in undertaking these efforts as the Afghans, the U.S. and other international partners combat a vicious insurgency and terrorist threat. Security concerns on construction projects are paramount: in 2010, attacks on civilian efforts have risen seven-fold. Managing the safety of U.S., international and Afghan personnel, as well as the associated costs, is a central undertaking for us. Geography – remote, rough and mountainous terrain – also presents huge challenges, as does the relative lack of specialized expertise in Afghanistan to undertake complex construction efforts.

Along with others, I have been particularly concerned about our work in road construction. USAID focused on road construction on major transit routes, and more recently on increasing connections between district centers and provincial capitals. Our efforts to date have yielded over 1,600 kilometers (990 miles) of roads, and we are working closely with the Afghan government and private sector to assist with the maintenance of approximately 1,800 km (1,118 miles) of roads nationwide. USAID trains government staff on road design, conducts performance-based contracting for road maintenance, and is working to establish an independent National Roads Authority and Fund that will contract with the private sector to maintain the country's transport infrastructure.

The impact of road construction is illustrated by a study we conducted after the recently completed national highway in the north (Kishim to Fayazabad). The number of new businesses, such as fuel stations and markets, more than doubled, passenger bus activity increased, and market prices have declined along the road's path. Similar impacts were documented from our reconstruction of the Kabul to Kandahar road – freight costs were reduced by 60% and travel times reduced by 50%.

But the challenges and costs of road construction are particularly acute on a still unfinished road, the Khost-Gardez road. Recent news reports have referenced this activity which seeks to provide the first ever paved road between Khost and Gardez – two important population centers in the volatile East of the country near the border with Pakistan. The road, a high-priority for the U.S. military, the local population and the Afghan government, will be a high-speed, all-weather connector and will provide the provinces with economic and public access to the rest of Afghanistan. The recent press reports underscore the challenges in undertaking stabilization efforts in the middle of an insurgency – especially infrastructure programs that are a key aspect of our transition strategy.

Insurgents have remorselessly attacked the road to prevent the benefits the road will yield. They know that the sooner Afghanistan has a viable infrastructure, the sooner Afghans can fend for

themselves and be less vulnerable to violent extremists. Nineteen people have died while working on construction of the Khost-Gardez road to date and 364 security incidents have taken place since our work began. In 2008, when work on the road began, the security situation was far better than in subsequent years. That year there were 32 security incidents, and 2 people killed. By 2009, security incidents had increased ten-fold to 344 with 109 people killed. In 2010, incidents doubled again to 687 with an additional 101 people killed working on our programs. Sadly we have recently experienced the deaths of two security providers on this road. These individuals were beheaded by the Taliban when district elders refused to sign an agreement with the Taliban not to work with the United States.

Infrastructure programs are particularly vulnerable and insurgents take advantage of this through attacks and attempts at extortion. However, the challenges of this road and other infrastructure projects have led us to make a number of important improvements in oversight and accountability.

Oversight and Accountability: Under all conditions, USAID takes oversight of our projects extremely seriously. And under such difficult conditions as we've found in Afghanistan, we've made oversight and accountability as much a priority as our projects themselves. This is an area on which USAID's leadership, including Administrator Shah and myself, has focused intensively, as it represents a key part of our Agency's reform agenda and our team's approach in Afghanistan.

To ensure that proper procedures are in place to help protect assistance dollars from waste, fraud or otherwise being diverted from their development purpose, USAID has developed the Accountable Assistance for Afghanistan (A³) initiative. As a result, USAID is enhancing its safeguards for development assistance in the following four categories:

- **Award Mechanisms** – A subcontracting clause is being included in new awards requiring that a certain percentage of work on a contract be done by the prime contractor. It also provides for the ability to restrict the number of subcontract tiers, and to prohibit subcontracts with broker/dealers who do not perform work themselves.
- **Vendor Vetting** – The mission established a Vetting Support Unit in February 2011. The unit conducts national security checks on non-U.S. companies and non-U.S. key individuals for prime awards contractors, grant recipients and sub-awardees to determine whether or not they have a criminal history or association with known malign organizations.
- **Financial Controls** – The USAID mission is working with the USAID Inspector General to establish a new program of auditing procedures for 100 percent of locally incurred project costs.
- **Project Oversight** – The mission is devolving more project monitoring responsibilities to USAID personnel located in field offices outside of Kabul. Assigned to specific projects, USAID On-Site Monitors will have the authority to monitor implementation of USAID projects and report to the USAID Contract/Agreement Officer's Technical Representative.

Our A3 systems are already yielding results, for example with regard to the Khost-Gardez road: as our implementing partner was contracting out the final section of the road, USAID initiated its

partner vetting process and found that proposed sub-contractors were ineligible to receive USAID funds and therefore removed from consideration for the award.

Concurrent to these efforts, we are addressing oversight and accountability through our ongoing efforts to increase our civilian footprint and to revise our contracting practices. Over the last two years, USAID has increased our staffing throughout Afghanistan by 66 percent – from approximately 100 Americans in June 2009 to 309 as of June 2011, and 150 Afghans in June 2009 to the current number of 170. Approximately 60 percent of our American staff are now located outside of Kabul, as are many of our Foreign Service National personnel, who represent the backbone of USAID's mission. This allows us to have more USAID "eyes on the ground," directly supervising our projects, rather than leaving the reporting to contractors.

Our field staff serve on Provincial Reconstruction Teams (PRTs), District Support Teams (DSTs), and in Regional Platforms, bringing with them a wide variety of skills, including backgrounds in law, financial management, auditing, and contracting. Despite high-levels of insecurity, we are also taking steps to ensure that our staff gets out frequently to assess performance against a set of established targets. Being placed in the field allows these personnel to monitor and oversee USAID interventions in their regions and keep activities aligned with the priorities put forth by the Afghan people. I am grateful for the Congress' support in appropriating the resources necessary to increase our presence on the ground to ensure better oversight and accountability.

Consistent with the Agency's USAID Forward agenda, we are working to decrease our reliance on large, multi-year agreements and are instead shifting to implement an increased number of smaller and more flexible agreements. In many instances, these smaller agreements are managed outside of Kabul by our field-based staff who are closer to the actual implementation and provide a higher degree of monitoring and oversight to the project progress as well as the use of those funds.

In an effort to make projects more manageable and to improve program oversight, in some cases, we have moved from larger contracts to smaller contracts, which are more focused programmatically as well as regionally based. For example, one five-year IQC signed in 2006 with a ceiling of \$1.4 billion for infrastructure covered roads, power, and vertical structures. This has now been broken into 3 separate programmatic areas (energy/water, transportation, and vertical structures) with up to twelve (12) possible IQC award holders. Another example is the Stabilization in Key Areas (SIKA) project which will have four separate regional awards. Finally, I think it is important to note that through issuance of a Mission Order in September 2010, USAID/Afghanistan has re-delegated programmatic and administrative authorities to the field.

Interagency Coordination: As laid out in National Security Presidential Directive 1, coordinating interagency USG assistance to Afghanistan is important for maximizing the developmental impact of donor funds, avoiding duplication of effort, and strengthening our partnership with allies in Afghanistan. In Washington, USAID works closely with our counterparts at the State Department to ensure close coordination in our programming and overall assistance goals. USAID coordinates with the Department of Defense (DOD) through bi-weekly reintegration video-teleconferences, as well as through the weekly Federation Forum hosted by DOD.

In Kabul, all of USAID's activities in Afghanistan are closely coordinated with State's Coordinating Director for Development and Economic Affairs. USAID also works closely with the Embassy's Senior Agricultural Coordinator from the United States Department of Agriculture (USDA) and the Rule of Law Ambassador. USAID is also a member of various interagency working groups, and USAID co-chairs the Infrastructure Working Group (IWG) with the USFOR-A Joint Engineering (JENG) - Joint Programs Integration Office. This group meets on a regular basis to discuss infrastructure project coordination and planning. USAID leads the interagency Working Group for Reform of the Construction Sector (WG RoCS), and participates in DOD's Task Force 2010, an interagency effort begun in June 2010 to improve the visibility of USG contract funding flows in Afghanistan. USAID staff are also detailed to the International Security Assistance Force (ISAF) headquarters in Kabul, to ensure greater coordination with the military effort.

Beyond Kabul, USAID works hand-in-hand with field staff from State, USDA, DOD, and other agencies as part of the Regional Platforms, Provincial Reconstruction Teams (PRTs), and District Support Teams (DSTs). USAID field personnel, for example, have veto authority on the Commander's Emergency Response Program (CERP) review boards at Task Force and Regional Command levels. USAID field personnel also provide input and insight during the CERP proposal review process.

Conclusion: We are under no illusions about the challenges we face in Afghanistan. Every day our staff and our partners are under threat. Security increases our costs, and we must expend significant effort to safeguard taxpayer funds. If it were easy, we wouldn't be there.

The results we've delivered thus far will enable the President to carefully draw down U.S. resources in Afghanistan, handing responsibility over to a more stable, increasingly prosperous country. And it is this progress that will help bring American troops home more quickly. Civilian assistance has been central to these gains and will only increase in importance as Afghans take the lead in forging their own future.

This concludes my statement for the record. As you well understand, we work in a challenging security and political environment, often charged with uncertainty. I want to assure you of my commitment to ensuring USAID learns from past errors, builds on successes, changes our practices and programs accordingly, and seeks innovative ways to improving our oversight of programs.



THE Louis Berger Group, INC.

Senator Claire McCaskill, Chairman
Senator Rob Portman, Ranking Member
United States Senate
Committee on Homeland Security and Governmental Affairs
Subcommittee on Contracting Oversight
340 Dirksen Senate Office Building
Washington, DC 20510

June 28, 2011

Dear Senators McCaskill and Portman:

Per your request for information and documents relating to The Louis Berger Group's (LBG) contract with USAID for construction of the Gardez-Khost Highway, please find enclosed:

- (1) The names, addresses, scopes of work, and cost for all first-tier subcontractors under the contract.
- (2) The name, address and scope of work for all known subcontractors of the construction contractor responsible for the two completed sections of the highway, sections 1 and 3. The majority of these subcontracts are for one Afghan individual to perform specific services, such as stone masonry, in a limited area. LBG does not have privity of contract with these subcontractors, and therefore does not maintain records of contractual information such as cost.
- (3) All evaluations, notices to show cause and audits of the prime contract.

Please contact Jim Schweiter of McKenna Long & Alridge, LLC at 202-496-7511 should you have any questions regarding this submission.

Sincerely,

Larry D. Walker
President
The Louis Berger Group, Inc.

1250 23rd Street NW | Washington, DC 20037 USA
Tel 202.331.7775 | Fax 202.293.0787 | www.louisberger.com

(1) Names, addresses, scopes of work and cost for all first-tier subcontractors under the Gardez-Khost Highway contract

AIRP Task Order 8, Gardez-Khost Road Construction Project**LBG/B&V JV 1st Tier Subcontractors Information**

- 1) **Abatech Consulting Engineers, Inc.**
 - a. Address: PO Box 356, Blooming Glen, PA, 18911
 - b. Scope of Work: Engineering Services to conduct QA/QC of pavement between KMs 0 and 20
 - c. Contract Amount: \$18,000.00
- 2) **Afghan Builders Consortium (ABC)**
 - a. Address: Istgah, Charahi Shash Darak, Street No. 2, Opposite of DAFA, Kabul, Afghanistan
 - b. Scope of Work: Stone Masonry Wall, Gardez-Khost Road Camp
 - c. Contract Amount: \$124,130.00
- 3) **Afghan Bena Group of Companies (3 Subcontracts)**
 - a. Address: Qala-e-Fathaulah, Kabul, Afghanistan
 - b. Scope of Work: Relocate Camp Ramak in Ghazni to Camp Casper in Khost; Construct Force Protection for Camp Liz; Relocate and Install TO9 Assets to Camp Liz
 - c. Contract Amount (3 Subcontracts): \$157,480.00
- 4) **Afghan Wireless Communications Company (AWCC)**
 - a. Address: 3rd Floor Agricultural Bank, Cinema Pamir Building, Kabul, Afghanistan
 - b. Scope of Work: Microwave Internet Services, Kabul Facilities
 - c. Contract Amount: \$182,000.00
- 5) **Anwar Mandozai Construction Company (AMCC)**
 - a. Address: 4th Floor, Noor Omer Market, Pol-e-Mahmood Khan, Kabul, Afghanistan
 - b. Scope of Work: Rough grading for Camp Casper KM 80
 - c. Contract Amount: \$14,700.00
- 6) **Asix Communications Afghanistan (2 Subcontracts)**
 - a. Address: House #348, Lane 5, Street 13, Wazir Akbar Khan, Kabul, Afghanistan
 - b. Scope of Services: Internet Services (V-SAT), TO 8 Camps
 - c. Contract Amount (2 Subcontracts): \$263,505.00
- 7) **Bana Construction Company (BCC)**
 - a. Address: Selo, behind Shadab Zafar Town, Kabul, Afghanistan
 - b. Scope of Work: Renovation of the Big House in Kabul
 - c. Contract Amount: \$17,691.00
- 8) **BSC-C&C JV**
 - a. Address: Plot #70, Sector 32, Gurgaon-122001, Haryana, India
 - b. Scope of Work: Construction of the Gardez-Khost Highway
 - c. Contract Amount: \$47,123,567.00

- 9) DCS Group
- Address: House 687, Lane 4, Street 15, Wazir Akbar Khan, Kabul, Afghanistan
 - Scope of Work: Construction of Temporary Camp at Nadar Shah Kowt, Afghanistan
 - Contract Amount: \$60,267.00
- 10) Ghulam Gul Construction Company (2 Subcontracts)
- Address: Orgun Sheer Market, Paktika, Afghanistan
 - Scope of Work: Construction of B Huts at PRT Gardez; construction of 6 B Huts at Gardez Camp KM 19
 - Contract Amount (2 Subcontracts): \$205,050.00
- 11) Hekmat Afghan Construction Company (HACC)
- Address: Kabul, Afghanistan
 - Scope of Work: Construction of water well at Camp Liz
 - Contract Amount: \$14,500.00
- 12) International Specialized Services (ISS)-Safenet JV
- Address: Sher Por, Street 2, District 10, Kabul, Afghanistan
 - Scope of Work: Security Services, Gardez-Khost Road
 - Contract Amount: \$41,794,524.95
- 13) Mashriq Engineering Construction Company (MECC) (2 Subcontracts)
- Address: 2nd House, 1st Street to Salim Karwan Blocks, Charahi Arya, Airport Road, Kabul, Afghanistan
 - Scope of Work: Gardez-Khost Road, Sections 2A and 2B
 - Contract Amount (2 Subcontracts): \$33,164,962.36
- 14) Monawar Zahid General and Construction Co. (MZGCC)
- Address: Medicine Street, Lawsar Market Khost Bazar, Khost City, Afghanistan
 - Scope of Work: Emergency Repairs to Bridge 10
 - Contract Amount: \$27,824.50
- 15) Quicklink Communications (3 Subcontracts)
- Address: House #348, Lane 5, Street 13, Kabul, Afghanistan
 - Scope of Work: Internet Services (V-SAT) for Task Order 8
 - Contract Amount (3 Subcontracts): \$158,600.00
- 16) RONCO Consulting Corporation (2 Subcontracts)
- Address: 2300 N Street NW, Suite 2100, Washington, DC 20037, USA
 - Scope of Work: De-mining survey; Dog Team de-mining services
 - Contract Amount (2 Subcontracts): \$198,220.00
- 17) Spedadagh Construction & Road Building Company (3 Subcontracts)
- Address: Room No. 310, Qaisar Market, Kolola Poshta, Kabul, Afghanistan
 - Scope of Work: Electrical work for B-Huts at Camp Casper; Relocation of Temporary Camp; Construction of Water Well at Camp Casper
 - Contract Amount (3 Subcontracts): \$38,061.25
- 18) Shufai Construction Company (SCC)
- Address: 11 District Qalea Najara First Street, 7th Avenue, 5th Floor, Opposite of BBC Office

- b. Scope of Work: Transportation and re-erection of Camp in Paktia province
- c. Contract Amount: \$779,816.71

19) Shafiq Mandozai Construction Company (SMCC)

- a. Address: Room #104, 4th Floor, Afghan Tower, Khost, Afghanistan
- b. Scope of Work: Supply and Installation of HESCO and Sandbags, Camp Casper, Khost
- c. Contract Amount: \$47,400.00

20) Strategic Security Solutions International (SSSI)

- a. Address: Dutch Embassy Street, Share-e-Now, Kabul, Afghanistan
- b. Scope of Work: Security for Gardez-Khost Road Survey
- c. Contract Amount: \$1,342,752.74

21) Tarajmir Ferusko Ittehad, TFI International

- a. Address: Shash Darak, Kabul, Afghanistan
- b. Scope of Work: Gardez-Khost Road camps – Design, Construction, O&M.
- c. Contract Amount: \$3,510,006.04

22) YukseI Proje

- a. Address: Birlik Mah 9, Cadde No. 41, Cankay 06610, Ankara, Turkey (Afghan Office: Zambaq Street, House No. 167, Wazir Akbar Khan, Kabul, Afghanistan)
- b. Scope of Work: Topographical Survey, Gardez-Khost Road
- c. Contract Amount: \$526,550.00

23) Ziaullah Construction Company (ZRCC)

- a. Address: Hadil Plaza, near White Mosque, 2nd Floor, Room No. 27, Khost City, Afghanistan
- b. Scope of Work: Build a water well at Khost camp
- c. Contract Amount: \$5,701.30

24) Zurmat Construction Company (2 Subcontracts)

- a. Address: House #319, Street 10, Wazir Akbar Khan, Kabul, Afghanistan
- b. Scope of Work: Winter Maintenance on Gardez-Khost Road
- c. Contract Amount: \$792,312.60

(2) Names, addresses and scopes of work for all known subcontractors of the construction contractor on sections 1 and 3 of the Gardez-Khost Highway

BSC/C&C Stone Masonry Subcontractors

No.	Name	Address	Phone	Scope of Work
1	Mohd Khan	New Dharal Rd., Kandahar, Afghanistan	700439602	Stone Masonry Drainage and Structures Works
2	Mohd Gazi Jaan	Khost, Afghanistan	77511191	Stone Masonry Drainage and Structures Works
3	Naquib Shah	Dist Nadirshah kot V. Almara, Khost, Afghanistan	798288416	Stone Masonry Drainage and Structures Works
4	Ghafar Rahimi Cons. Company	In front of Spin Qala School, Kabul, Afghanistan	706269954	Stone Masonry Drainage and Structures Works
5	Company	NA	799697129	Stone Masonry Drainage and Structures Works
6	Karamah Khan Construction Company	Shawaq, Ibrahim Khair	799493395	Stone Masonry Drainage and Structures Works
7	Karim Mohamaddi	Mydan wadarak, Tarkhil, Afghanistan	794413143	Stone Masonry Drainage and Structures Works
8	Kashmir Khan	Nangrhar, Jalalabad	775287786	Stone Masonry Drainage and Structures Works
9	Meraj Urgeon Construction Company	Kabul, Afghanistan	797556420	Stone Masonry Drainage and Structures Works
10	Mirwais Khan	Gardez, Afghanistan	797260735	Stone Masonry Drainage and Structures Works
11	Mohd. Ali	Aia Asha Dal	799137043	Stone Masonry Drainage and Structures Works
12	Mohd. Din	Ahmadabad Dist. Pakiya, Afghanistan	799080104	Stone Masonry Drainage and Structures Works
13	Mohd. Khalid	Ansari Square, Oppsite Kabul Center, Kabul, Afghanistan	777252152	Stone Masonry Drainage and Structures Works
14	Mohd. Khawani	Walswai, Ahmadab, Pakia, Afghanistan	798223208	Stone Masonry Drainage and Structures Works
15	Mohd. Nasir	Karte Nav, Street Nawai H. No. 24 Kabul, Afghanistan	775201258	Stone Masonry Drainage and Structures Works
16	Mohd. Shahbaz	Thearah Gardez Pakiya	799601207	Stone Masonry Drainage and Structures Works
17	Moula Khan	Gardez, Afghanistan	707113085	Stone Masonry Drainage and Structures Works
18	Gul Naeem	Gardez, Afghanistan	799601207	Stone Masonry Drainage and Structures Works
19	Raj Mohd.	Vill: Rasoli Ahmad Khel, Gardez, Paktika, Afghanistan	799473692	Stone Masonry Drainage and Structures Works
20	S.A.Y.C.C.	Khost, Sarafa line, Watan plaza	700499330	Stone Masonry Drainage and Structures Works
21	Yousaf Shah	Almira, Khost, Afghanistan	700255145	Stone Masonry Drainage and Structures Works
22	Sidhqi Hashmi	Company Road Kabul	707301603	Stone Masonry Drainage and Structures Works
23	Khan Mohd.	Khost, Afghanistan	799074717	Stone Masonry Drainage and Structures Works
24	Habibullah	Kota Sengi, Kabul, Afghanistan	707492948	Stone Masonry Drainage and Structures Works
25	Khan Mohd.	Khost, Afghanistan	799074717	Stone Masonry Drainage and Structures Works
26	Esakhsai Ahmadzai Construction Company	Pakiya, Afghanistan	771174243	Stone Masonry Drainage and Structures Works
27	Abdul Khalik	Mando Zai, Afghanistan	799601013	Stone Masonry Drainage and Structures Works
28	Lahore Jan	Khosot, Matoon, Afghanistan	799745095	Stone Masonry Drainage and Structures Works
29	Lawang Khan	Khost, Daragat, Afghanistan	797488110	Stone Masonry Drainage and Structures Works
30	S.C.C	Khost, Aslam Plaza	795365197	Stone Masonry Drainage and Structures Works
31	Mohd. Ago	Ninghrar Jalalabd, Afghanistan	7954134	Stone Masonry Drainage and Structures Works

32	Inamullah Khan	Kunar, Asadabad, Jalalabad, Afghanistan	797202762	Stone Masonry Drainage and Structures Works
33	-	-	-	Stone Masonry Drainage and Structures Works
34	Jamuledeen Sadat Jaudran Con. Co	Gardez Ghani Lane Hajrat gul Market	799169969	Stone Masonry Drainage and Structures Works
35	Miehed Construction and Road Company	Khost Market Menz Bazaar	799139499	Stone Masonry Drainage and Structures Works
36	Hezi Sultan	Galgai Ibrahim Khel	772936415	Stone Masonry Drainage and Structures Works
37	Rahim Jadran	Domandozi, Afghanistan	707633234	Stone Masonry Drainage and Structures Works
38	Najeab	Mandozi Khumi Khel, Afghanistan	707395429	Stone Masonry Drainage and Structures Works
39	Abdul Aziz	Khost, Ghourambal	799047716	Stone Masonry Drainage and Structures Works
40	Mohd. Fakir	Domandozi, Afghanistan	797792197	Stone Masonry Drainage and Structures Works
41	Baddar Khan	Dragi, Khost, Afghanistan	797769626	Stone Masonry Drainage and Structures Works
42	Fajal Rahman Pri	Khost, Pringoviar, Afghanistan	707151718	Stone Masonry Drainage and Structures Works
43	Akram Abid Construction Company	Khost, Afghanistan	797064313	Stone Masonry Drainage and Structures Works
44	Moh. Shafi	Khost, Afghanistan	707820009	Stone Masonry Drainage and Structures Works
45	Akram Abid Construction Company	Khost, Insa Plaza, Afghanistan	797064313	Stone Masonry Drainage and Structures Works
46	Wali Jan	Paktia, Gardez, Afghanistan	795217628	Stone Masonry Drainage and Structures Works
47	Babrak Mangal	Khost, Afghanistan	707452399	Stone Masonry Drainage and Structures Works
48	Kashmir Khan	Jalalabad, Afghanistan	775287786	Stone Masonry Drainage and Structures Works
49	Jahan Gul	V. Sanki Distt. Dergi Khost Afghanistan	79704023	Stone Masonry Drainage and Structures Works
50	Inbrahim Khan	Mana, Spera, Khost, Afghanistan	797202762	Stone Masonry Drainage and Structures Works
51	Kareem Dad	Kabul, Afghanistan	796967178	Stone Masonry Drainage and Structures Works
52	Raj Mohammad	Makhi, Ahmad Khel, Gardez, Afghanistan	799473692	Stone Masonry Drainage and Structures Works
53	Naqbulillah	Rowdad, Jalalabad, Afghanistan	778636159	Stone Masonry Drainage and Structures Works
54	Ajmal Shah	Opposite to Soriya High School Karte - 4, Afghanistan	706137872	Stone Masonry Drainage and Structures Works
55	GeoExpert Engineering & Construction	Behind Baba High School, Kabul, Afghanistan	799810994	Stone Masonry Drainage and Structures Works
56	-	-	-	Stone Masonry Drainage and Structures Works
57	Akhaldin	Badai Kala, Baak, Khost, Afghanistan	796406520	Stone Masonry Drainage and Structures Works
Hekmat Wasi Construction and Road Making				
58	Company	Shahidan Chawk, Kandahar, Afghanistan	796539452	Stone Masonry Drainage and Structures Works
59	Ahmad Goni	Almara, Afghanistan	799065758	Stone Masonry Drainage and Structures Works
60	Noor Ali Jan	Thana Roosevelt Dargi, Khost, Afghanistan	797137616	Stone Masonry Drainage and Structures Works
61	Sayed Khanan	Lakkar Plaza	799644840	Stone Masonry Drainage and Structures Works
62	Akram Abid Construction Co	Khost, Insa Plaza, Afghanistan	797064313	Stone Masonry Drainage and Structures Works
63	Suleman Sabavon Constructioni Company	Shari New, Gardez, Afghanistan	777202081	Stone Masonry Drainage and Structures Works
64	Suleman Sabavon Constructioni Company	Shari New, Gardez, Afghanistan	777202081	Stone Masonry Drainage and Structures Works
65	Siddiqui Hashmi	New Dhara Rd, Kandhar, Afghanistan	700439602	Stone Masonry Drainage and Structures Works
66	Ali Gul	Gardez, Paktiya, Afghanistan	798006640	Stone Masonry Drainage and Structures Works
67	Ali Gul	Gardez, Paktiya, Afghanistan	798006640	Stone Masonry Drainage and Structures Works
68	Amanullah	Zahoo, Gardez, Paktiya, Afghanistan	778501071	Stone Masonry Drainage and Structures Works
69	Chinar Khan	Baanzi, Gardez, Afghanistan	772657595	Stone Masonry Drainage and Structures Works

70	Combine Construction Company	Karte Chahar, Kabul, Afghanistan	700072349	Stone Masonry Drainage and Structures Works
71	Zahir Shah Khan	Wazi, Afghanistan	799148426	Stone Masonry Drainage and Structures Works
72	Ghafar Rahimi Construction Company	Kabul, Afghanistan	706269954	Stone Masonry Drainage and Structures Works
73	Jamuledeen Sadat Jadrin Constructoin Company	Gardez, Pakiya, Afghanistan	799169969	Stone Masonry Drainage and Structures Works
74	Gul Naem	Therah, Gardez, Pakiya, Afghanistan	799601207	Stone Masonry Drainage and Structures Works
75	Abdul Sattar	Zabul, Kiya yakhel	798864702	Stone Masonry Drainage and Structures Works
76	Fajr rahman	Mandozai Khuni Khel, Afghanistan	707395429	Stone Masonry Drainage and Structures Works
77	Moh. Naleem	Domandozai, Shadal, Afghanistan	7974922019	Stone Masonry Drainage and Structures Works
78	Gulam Haider	Kabul, Gali no. -5, Shehar-e-Nab, Afghanistan	777121955	Stone Masonry Drainage and Structures Works
79	Ibrahimullah	Mandozai Hasenzai	707933234	Stone Masonry Drainage and Structures Works
80	Asfar Khan	Dakhai, Kalai, Khost, Afghanistan	7991506355	Stone Masonry Drainage and Structures Works
81	Zabar Khan	Mandozai, Khost, Afghanistan	700794811	Stone Masonry Drainage and Structures Works
82	Mohd. Ayub	Ahmad Khel, Pakiya, Afghanistan	796573478	Stone Masonry Drainage and Structures Works
83	Nek Awaz	Dragle, Khost, Afghanistan	700793685	Stone Masonry Drainage and Structures Works
84	Kafeel Raihan Construction Company	Khost Bazaar, Afghanistan	798236388	Stone Masonry Drainage and Structures Works
85	Sher Khan	Shagal, Sharnulzai, Zabul	706957750	Stone Masonry Drainage and Structures Works
86	Basharat Gardezi Construction Company	Khost Street, Gardez, Pakia	799151584	Stone Masonry Drainage and Structures Works
87	Kima Gul	Ghunzai, Ahmad Khel, Pakia	786572013	Stone Masonry Drainage and Structures Works
88	Shah Awlia Road & Construction Company	Kabul, Afghanistan	799857106	Stone Masonry Drainage and Structures Works
89	Nawar Khan	Meibai, Nadar Shan Kot, Khost	79783702	Stone Masonry Drainage and Structures Works
90	Suleman	Jani Khel, Khost	795690522	Stone Masonry Drainage and Structures Works
91	Mohd. Salim	Dannami, Madoza, Khost	708800118	Stone Masonry Drainage and Structures Works
92	Hamdard & Khaksar Construction Company (HKCC)	Hashmi Plaza, Jalalabad	700676737	Stone Masonry Drainage and Structures Works
93	Haji Naeem Jaan	Kabul, Afghanistan	771305813	Stone Masonry Drainage and Structures Works
94	Wasim Nasim Construction and Road Construction Company (WNCC)	Daipuri, Ismailkheil, Khost, Afghanistan	700791589	Stone Masonry Drainage and Structures Works
95	Noor Mohd. Shah	Almara, Nadar Shah Kot, Khost, Afghanistan	795266098	Stone Masonry Drainage and Structures Works
96	Mohd Shahbaz	Therah, Gardez, Afghanistan	799601207	Stone Masonry Drainage and Structures Works
97	Noor Ahmad	Qala e Kaka, Qarabagh, Ghazni, Afghanistan	778500718	Stone Masonry Drainage and Structures Works
98	Abdurrahman	Arambai, Khost, Afghanistan		Stone Masonry Drainage and Structures Works
99	Ajmal Azhizal Road & Building Construction Co.	Khost Plaza, Kabul, Afghanistan	777511477	Stone Masonry Drainage and Structures Works
100	Haji Kamal	Gardez, Pakiya, Afghanistan	797428936	Stone Masonry Drainage and Structures Works
101	Kalander Khan	Dannami, Mandozai, Khost, Afghanistan	799834038	Stone Masonry Drainage and Structures Works
102	Thekedar	Wazi Zadrin, Gardez, Afghanistan	799673531	Stone Masonry Drainage and Structures Works
103	Abasin	Dannami, Mandozai, Khost, Afghanistan	799152809	Stone Masonry Drainage and Structures Works

104 Akhtar Jan	Khost, Afghanistan	799668827	Stone Masonry Drainage and Structures Works
105 Farid	Matoon Khost	707932300	Stone Masonry Drainage and Structures Works
106 Mirweis	Madozi, Afghanistan	700798191	Stone Masonry Drainage and Structures Works
107 Sakr Jan	Almara, Afghanistan	708351727	Stone Masonry Drainage and Structures Works
108 Haji Zafer Khan	Khost, Afghanistan	799195386	Stone Masonry Drainage and Structures Works
109 Ahammad Ali	Ala Asha Dal	799137043	Stone Masonry Drainage and Structures Works
110 Gul Reis	Ismlie khel, Mandozai, Khost, Afghanistan	707237160	Stone Masonry Drainage and Structures Works
111 Kalander Khan	Durmami, Mondoza, Khost, Afghanistan	799834038	Stone Masonry Drainage and Structures Works
112 Duar chand	Prem Nagar Khost, Afghanistan	775235113	Stone Masonry Drainage and Structures Works
113 Rohullah Darwish	Ashidabad, Khost, Afghanistan	795288267	Stone Masonry Drainage and Structures Works
114 Ahammad Ali	Ala Asha Dal	799137043	Stone Masonry Drainage and Structures Works
115 Johari Gul	Khost, Mandozai, Afghanistan	797052462	Stone Masonry Drainage and Structures Works
116 Nig Mohimad	Mandozi, Afghanistan	700267475	Stone Masonry Drainage and Structures Works
117 Ibrahim	Khost Bazaar, Afghanistan	799892498	Stone Masonry Drainage and Structures Works
118 Haji Annan	Hasen zai, Khost, Afghanistan	797052462	Stone Masonry Drainage and Structures Works
119 Haji Murad Construction Company	Shar-E-Naw, Kabul, Afghanistan	779497455	Stone Masonry Drainage and Structures Works
120 Hasham Khan	Shorihan, Pakitya, Afghanistan	777139099	Stone Masonry Drainage and Structures Works
121 Naseem Khan	Karshi Parwan, Kabul, Afghanistan	787899238	Stone Masonry Drainage and Structures Works
122 New Hasan Jan Jamal Construction Company	Kabul, Afghanistan	707628540	Stone Masonry Drainage and Structures Works
123 Noor Sayeed	Kabul, Afghanistan	799649292	Stone Masonry Drainage and Structures Works
124 Omar Jamsheed Construction Company	Cherman Hozoni, Sakhi Zada Market, Kabul	787213785	Stone Masonry Drainage and Structures Works
125 Pakity Zadrin Construction Company	Kabul, Afghanistan	799030701	Stone Masonry Drainage and Structures Works
126 Pades Construction Company	Karte e Naw Kabul, Afghanistan	774266642	Stone Masonry Drainage and Structures Works
127 Popal Murmtaz Group	Kabul, Afghanistan	700858186	Stone Masonry Drainage and Structures Works
128 Sayeed Qaribullah	Kabul, Afghanistan	706118008	Stone Masonry Drainage and Structures Works
129 Siddiqui Hashmi	New Dhara Road, Kandhar, Afghanistan	700439602	Stone Masonry Drainage and Structures Works
130 Wali Jan	Pakitya, Gardez, Afghanistan	795217628	Stone Masonry Drainage and Structures Works
131 Wali Ahmad Zai	Gardez City, Pakitya, Afghanistan	798242654	Stone Masonry Drainage and Structures Works
132 Versatile Construction Ltd	Kabul, Afghanistan	774050205	Stone Masonry Drainage and Structures Works
133 Toorani	Gardez, Afghanistan	795841021	Stone Masonry Drainage and Structures Works
134 Syed Abid Naqvi Construction Company	Kabul, Afghanistan	785135897	Stone Masonry Drainage and Structures Works
135 Arduallah Saqib Construction Company	WAK, Kabul, Afghanistan	707106112	Stone Masonry Drainage and Structures Works
136 Abdullah	Kabul, Afghanistan	771219882	Stone Masonry Drainage and Structures Works
137 Afgan Pak Enterprises	Ghazekot, Mashar, Peshawer, Pakistan	798033434	Stone Masonry Drainage and Structures Works
138 Ehsanullah Sanikzai	Kabul, Afghanistan	700094100	Stone Masonry Drainage and Structures Works
139 Glassgo Construction Company	Shar-E-Naw, Kabul, Afghanistan	700712844	Stone Masonry Drainage and Structures Works
140 Galam Khan	NA	96343374	Stone Masonry Drainage and Structures Works
141 Haji Gulam Khan	Wasooliwali	96343374	Stone Masonry Drainage and Structures Works
142 Gul Salam	Banozi, Gardez, Afghanistan	707632134	Stone Masonry Drainage and Structures Works
143 Haji Kamal	Shawak, Gardez, Afghanistan	773415589	Stone Masonry Drainage and Structures Works
144 Rokhan Shikib Construction Company	Kabul, Afghanistan	799219138	Stone Masonry Drainage and Structures Works

145	Sharif Sherzad Construction Company	Kabul, Afghanistan	700081156	Stone Masonry Drainage and Structures Works
146	Watan Welfare Constructioni Company	Shar-E-Naw, Kabul, Afghanistan	700279945	Stone Masonry Drainage and Structures Works
147	Nabi Akbar	Khost, Afghanistan	798163575	Stone Masonry Drainage and Structures Works

BSC/C&C Earthworks Subcontractors

No.	Name	Address	Phone	TO (KM)	From (KM)	Scope of Work
1	Saif Ur Rehman	Gardez City, Paktiya, Afghanistan	797877913	36	37	Earthworks - Roadway Excavation, Rock Excavation, Embankment Removal and Disposal - Existing Structures and Asplait 37 Stone Maonsry Structures
2	Itehad Alamwal Construction	Khost, Afghanistan	799047716	90	93	Earthworks - Roadway Excavation, Rock Excavation, Embankment Removal and Disposal - Existing Structures and Asplait 93 Stone Maonsry Structures
3	Haji Kamal Khan Swaaq Shab Construction and Road	Gardez, Afghanistan	797428936	29	30	Earthworks - Roadway Excavation, Rock Excavation, Embankment
4	Building Company	Logar, Afghanistan	700017197	50	52	Earthworks - Roadway Excavation, Rock Excavation
5	Unique Wahaj Construction Co.	Khost Bazaar, Khost, Afghanistan	700798181	93	95	Earthworks - Roadway Excavation, Rock Excavation, Embankment Removal and Disposal - Existing Structures and Asplait 95 Stone Maonsry Structures
6	Sangeen Khutwal Construction Compnay	Khost Bazaar, Khost, Afghanistan	-	95	100	Earthworks - Roadway Excavation, Rock Excavation, Embankment Removal and Disposal - Existing Structures and Asplait 100 Stone Maonsry Structures
7	Khan	Domandi, Khost, Afghanistan	799169969	52	53	Earthworks - Roadway Excavation, Rock Excavation
8	Malikyaar Construction Company	Spera, Khost, Afghanistan	797202762	58	59	Earthworks - Roadway Excavation, Rock Excavation, Embankment Removal and Disposal - Existing Structures and Asplait 59
9	Abdul Hamid	Khost, Afghanistan	799005600	68	69	Earthworks - Roadway Excavation, Rock Excavation, Embankment Removal and Disposal - Existing Structures and Asplait 69 Stone Maonsry Structures
10	Yaqab Khan	Domanda, Khost, Afghanistan	-	55	57	Earthworks - Roadway Excavation, Rock Excavation
11	Oayumi	Mandozi, Khost, Afghanistan	-	69	70	Earthworks - Roadway Excavation, Rock Excavation, Embankment Removal and Disposal - Existing Structures and Asplait 70 Stone Maonsry Structures

12 HF Construction	Attock City, Pakistan		21	23	Earthworks - Roadway Excavation, Rock Excavation, Embankment Removal and Disposal - Existing Structures and Asplait
			- 25	27	Stone Maonsry Structures
13 Siddique Hashme	Pakistan			78	Earthworks - Roadway Excavation, Rock Excavation, Embankment Removal and Disposal - Existing Structures and Asplait
14 Company				40	79 Stone Maonsry Structures
Abdul Rahman Ahmadzai	Jalalabad Road, Kabul, Afghanistan		27	37	42 Earthworks - Roadway Excavation, Rock Excavation
15 Construction Company		799324842	65	75	Earthworks - Roadway Excavation, Rock Excavation, Embankment Removal and Disposal - Existing Structures and Asplait
Matrix Power System & Road	WAK, Kabul, Afghanistan			27	Earthworks - Roadway Excavation, Rock Excavation, Embankment Removal and Disposal - Existing Structures and Asplait
16 Company				28.6	28.6 Stone Maonsry Structures
17 Ibrahim	Gardez City, Paktiya, Afghanistan	797512615		34	Earthworks - Roadway Excavation, Rock Excavation, Embankment Removal and Disposal - Existing Structures and Asplait
18 Hayat Construction	Kullu Pusta, Kabul, Afghanistan			20	35 Stone Maonsry Structures
19 Company	Mia Noor, Gardez, Afghanistan	777886707		24	Earthworks - Roadway Excavation, Rock Excavation, Embankment Removal and Disposal - Existing Structures and Asplait
20 Hajji Kamal Khan	Swaag, Gardez, Afghanistan			38	34 Stone Maonsry Structures
21 HF Construction	Attock City, Pakistan			16	27 Earthworks - Roadway Excavation, Rock Excavation
					Earthworks - Roadway Excavation, Rock Excavation, Embankment Removal and Disposal - Existing Structures and Asplait
22 Gafoor Shakhhtmani	Khost, Afghanistan	700778707		63	40 Stone Maonsry Structures
23 Company	Khost, Afghanistan	779962968		64	Scaffitcation of Existing Asphalt, Foundation Preparation, Drainage Layer Construction
					Earthworks - Roadway Excavation, Rock Excavation, Embankment Removal and Disposal - Existing Structures and Asplait
					64 Stone Maonsry Structures
					Earthworks - Roadway Excavation, Rock Excavation, Embankment Removal and Disposal - Existing Structures and Asplait
					65 Removal and Disposal - Existing Structures and Asplait

Asik Zai Construction Road & 24 Building Company	Kabul, Afghanistan	777222269	62	Earthworks - Roadway Excavation, Rock Excavation, Embankment 63 Removal and Disposal - Existing Structures and Asplait
Ajmal & Tahir Construction 25 Company	Kabul, Afghanistan	-	41	Earthworks - Roadway Excavation, Rock Excavation, Embankment 43 Removal and Disposal - Existing Structures and Asplait
Wahab Karwan Construction 26 Company	Jalalabad Road, Kabul, Afghanistan	-	60	Earthworks - Roadway Excavation, Rock Excavation, Embankment 62 Removal and Disposal - Existing Structures and Asplait
Abdul Rehman Ahmadzai 27 Construction Company	Jalalabad Road, Kabul, Afghanistan	799324842	68	Earthworks - Roadway Excavation, Rock Excavation, Embankment 73 Removal and Disposal - Existing Structures and Asplait
Hayat Baba Construction 28 Company	Kullu Pusta, Kabul, Afghanistan	799304935	95 101	Earthworks - Roadway Excavation, Rock Excavation, Embankment Removal and Disposal - Existing Structures and Asplait Stone Maonsry Structures
29 Haji Kamal Khan 30 Haji Nabib	Sawaag, Gardez, Afghanistan	-	32.2 20	Earthworks - Roadway Excavation, Rock Excavation, Embankment Removal and Disposal - Existing Structures and Asplait 34 Stone Maonsry Structures 50 Winter Maintenance

*The To and From columns designate the kilometers along the highway within which one is responsible for the scope of work.

BSC/C&C Other Subcontractors

No.	Name	Address	Phone	Scope of Work
1	Mohd. Shahbaz	Thearah, Gardez, Afghanistan	79960207	Guide Post Labor Charges for Shuttering for Pipe fixing and Casting RCC
2	Rise Engineering			
3	Company	House 339, Lane 6, St 15, WAK, Kabul, Afghanistan		- Construction Material Testing
4	Arifullah	Dragai, Khost, Afghanistan	773607993	General Labor
5	Gulzar Noor	Nadar Shan Court, Khost, Afghanistan	707153380	General Labor
6	Indan Geotechnical			Geotechnical Borehole Data, Rock Coring, Axial, Compression Tests, Split Spoon Sample, Consolidation Test
7	Haji Saki Gul	L-568, Malviya Nagar, New Dehli	2667 7711	for Bridge Investigations
8	Dahlai	Sanjai, Mondozi, Khost	707237851	Lease Agreement for House Rental
9	HF Construction	Alimat Khail, Gardez, Afghanistan		- Transportation of base course from camp to project site
		Bank Chowk Office -31, Attock City, Pakistan		- Transportation of base course from camp to project site
10	EODT	PO Box 24173, Knoxville, TN, 37933-2173	(865) 988-6063	General and Technical Survey for mines. UXO and
11	Eagle Engineers	Manand Plaza, Khilola Phuteb, Kabul, Afghanistan	786450596	Detailed Roadway Survey every 20 m, from KM 23-73
12	OMAR International	Fazel Karim Fazel		- Mine Clearance
14	Mohammad Aslam	New Dhurai Road, Khandahar, Afghanistan	700439603	General Labor
15	Abdul Gaffer	Qazai Dala, Charbula, Afghanistan	708420897	General Labor
	Afghanmual			
16	Engineering Services	House 679, St 11, Nahia 6, Shura Road, Kabul, Afghanistan	700649269	Construction Material Testing
17	Gaffur	Mandozai, Hasanjal, Khost	700778707	All charges for supply of river sand for concrete batching
18	Maulakhan	Sayed Karam, Gardez, Afghanistan	79907682	GI Roofing and Materials, Double ceiling with foam
19	Mohammad Aslam	New Dhurai Road, Khandahar, Afghanistan	700439602	GI Roofing and Materials, painting with materials, labor
20	Mohammad Aslam	New Dhurai Road, Khandahar, Afghanistan	700439602	GI Roofing and Materials, painting with materials, labor
21	Mohd. Umar	Durai, Khandahar, Afghanistan	708420897	GI Roofing and Materials, painting with materials, labor
22	Royal Inc.	K14 Mureee Road, Rawalpindi, Pakistan	92-321-4270208	GI Roofing and Materials, painting with materials, labor
23	Daud Khan	Paktiya, Afghanistan	797078459	GI Roofing and Materials, painting with materials, labor
24	Gulam Mohd.	Gardez, Afghanistan	795841021	GI Roofing and Materials, painting with materials, labor
25	Lakhibir Singh	Khost City, Afghanistan	799815161	GI Roofing and Materials, painting with materials, labor
26	Ismael Khel	Mandozai, Khost, Afghanistan	707237160	GI Roofing and Materials, painting with materials, labor
27	Mirwais	Hasanzai, Khost, Afghanistan	700798191	GI Roofing and Materials, painting with materials, labor
28	Haji Jafar	Noorzai, Khost, Afghanistan	798185030	GI Roofing and Materials, painting with materials, labor

29	Mohd. Ali Khan	Gazani Rd, Gardez, Afghanistan	799752535	Construction of Accomodations at Khost Camp
30	Mohd. Lavang	Khost City, Afghanistan	799488110	Construction of Engineering Accomodations at Khost
31	Nasir Ahamad	Mandozi, Khost, Afghanistan	700797772	Construction of Accomodations at Khost Camp
32	Ibrahimullah	Hasanzai, Khost, Afghanistan	707933234	Construction of Accomodations at Khost Camp
33	Nabi Akbhar	Khost, Afghanistan	798163575	Construction of Accomodations at Khost Camp
34	Jahan Gul	Asmil Khan, Khost, Afghanistan	799145273	Construction of Accomodations at Khost Camp
35	Mohd. Nasir	Mandozi, Khost, Afghanistan	700795189	Construction of Accomodations at Khost Camp
36	Abasin	Mandozi, Khost, Afghanistan	799152809	Construction of Afghan Staff Building at Khost Camp
37	Khan Gul	Hasanzai, Khost, Afghanistan	799148595	Construction of Accomodations at Khost Camp
38	Nake. Mohd.	Mandozi, Khost, Afghanistan	700267475	Construction of Accomodations at Khost Camp
39	Gul Rais	Mandozi, Khost, Afghanistan	707237160	Construction of Accomodations at Khost Camp
40	Gul Rais	Mandozi, Khost, Afghanistan	707237160	Construction of Accomodations at Khost Camp
41	Gul Rhaish	Mandozi, Khost, Afghanistan	707237160	Construction of Accomodations at Khost Camp
42	Asal Jaan	Mandozi, Khost, Afghanistan	799440554	Construction of Accomodations at Khost Camp
43	Abdul Sattar	Sazoi, Zabul, Afghanistan	798864702	Construction DG room at HMP area
44	Abdul Gaffer	Logar, Afghanistan	708420897	Work order for cutting of bitumen drums at Khost Camp
45	Daud Shah	Mandozai, Khost, Afghanistan	700789143	Work order for cutting of bitumen drums at Khost Camp
46	Lahore Bhai	Khost City, Khost	799745095	Disposing of empty Bitumen drums
47	Lahore Bhai	Khost City, Khost	799745095	Disposing of empty Bitumen drums
48	Siddiqi Hasmi	Company Road, Kabul, Afghanistan	707301603	Erecting pre-fabricated turnkey buildings
49	Urmar	Durai, Khandahar, Afghanistan	708420897	General Labor
50	Mohd. Aslam	New Dhurai Road, Khandahar, Afghanistan	700439502	Fabrication of Steel Shuttering
51	Hayat Construction	Kabul, Afghanistan	707810544	Transportation of base course from camp to project site

(3) All evaluations, notices to show cause and audits



**U.S. Agency for International Development
Construction
Contractor Performance Report**

Source Selection Information-See FAR 2.101 and 3.104: Disclosure Restricted

Evaluation Type: Interim (5 % Completed)	Termination Type: None	Reporting Period: From: 05/22/2007 To: 05/21/2008	
Host Agency: USAID	Evaluating Organization: USAID	Contracting Office: AFGHANISTAN	
Contract Number: 306-I-00-06-00517-00	Order Number: 08		
Contractor Name and Address: LOUIS BERGER GROUP INC BERGER, LOUIS INTERNATIONAL 2300 N Street NW Washington, DC 20037 UNITED STATES		DUNS: 043881093 SIC/NAICS: 237310 Commodity Code: Procurement Method: Negotiated Contract Type: Cost-Plus-Fixed-Fee	
Amount of Basic Contract: \$1,405,000,000.00	Total Amount of Modifications: \$49,200,000.00	Liquidated Damages Assessed: \$0.00	Net Amount Paid Contractor: \$0.00
Award Date: 05/22/2007	Original Completion Date: 11/16/2009	Final Completion Date: 11/16/2009	Date Work was Accepted:
Description of Requirement: The Gardcz to Khost Road covers approximately 103 kilometers traveling in an east-southeast direction from the Gardcz city circle in Paktya Province to the City of Khost in Khost Province. This road is a natural extension of the 122-kilometer Kabul to Gardcz Road, completed under REFS. It will provide a western-standard highway from Kabul into the the heart of Khost Province near the Pakistani border.			

RATINGS

Quality of Product or Service

0=Unsatisfactory 1=Poor 2=Fair 3=Good 4=Excellent 5=Outstanding

	N/A	0	1	2	3	4	5
Quality of Workmanship					X		
Adequacy of the CQC Plan	X						
Implementation of CQC Plan	X						
Quality of QC Documentation	X						
Storage of Materials	X						
Adequacy of Materials	X						
Adequacy of Submittals				X			
Adequacy of QC Testing	X						
Adequacy of As-Builts	X						
Use of Specified Materials	X						
Identification/Correction of Deficient Work	X						

Government Comments for Quality Of Product Or Service

<https://cps.nih.gov/print.asp>

8/28/2008

The construction contract for this work was only signed in April, 2008, so most of the items are not applicable. The overall quality of the design work and construction work to-date have been good, although, serious delays have occurred throughout the design phase, due mostly to an inadequate number of design personnel and a lack of cooperation and coordination from the LBG home office. There is a current effort on the part of LBG to turn this condition around, however, the effort is being made at the local level, with little assistance from the home office.

Cost Control

0=Unsatisfactory 1=Poor 2=Fair 3=Good 4=Excellent 5=Outstanding

	N/A	0	1	2	3	4	5
Cost Control				X			

Government Comments for Cost Control

Due to the fact that the construction work has only just started, the invoices reflect only the LBG support costs and the planning stage, both of which are definable and predictable. Therefore cost control cannot be evaluated on the construction side, however the fact that the design phase was seriously delayed negatively impacted the tendering process through bid prices, which were \$25 million over the LBG estimate.

Timeliness of Performance

0=Unsatisfactory 1=Poor 2=Fair 3=Good 4=Excellent 5=Outstanding

	N/A	0	1	2	3	4	5
Adequacy of Initial Progress Schedule					X		
Adherence to Approved Schedule				X			
Resolution of Delays			X				
Submission of Required Documentation				X			
Completion of Punch List Items	X						
Submission of Updated and Revised Progress Schedules			X				
Warranty Response	X						

Government Comments for Timeliness Of Performance

These items refer to both the design phase and the construction phase, which has just started. The first construction schedule was submitted with the tender, however, the detailed schedule to control the work has yet to be submitted. The design schedule was not followed, resulting in serious delays, however there is an attempt by LBG to push the construction program. The fact that the design delays were not addressed satisfactorily was reflected in the late start of the construction phase. The submittal of documents again drifts between phases. The design work was late, while the construction effort to-date has been good. Home office support, or lack of it, caused delays in the design period, and the time lost could not be made up. There is an effort on the part of the Kabul office to move the construction phase of the project in spite of the home office, which has proved difficult.

Effectiveness of Management / Business Relations

0=Unsatisfactory 1=Poor 2=Fair 3=Good 4=Excellent 5=Outstanding

	N/A	0	1	2	3	4	5
Cooperation and Responsiveness			X				
Management of Resources/Personnel				X			
Coordination and Control of Subcontractors					X		
Adequacy of Site Clean-Up	X						
Effectiveness of Job-Site Regulations					X		

Compliance With Laws and Regulations					X		
Professional Conduct					X		
Review/Resolution of Subcontractor's Issues					X		
Change Order Activity (By Contractor)	X						
Adequacy of Work Force			X				
O & M Manuals/Instructions	X						
Spare Parts Delivery	X						

Government Comments for Effectiveness of Management / Business Relations
Here, the responsiveness refers to the design period, which was consistently delayed, plus the continued requests from AID to build the LBG staff so as to be able to meet the required schedules - these requests were essentially ignored. Again, with respect to the work force, it was insufficient during the design phase, and a lack of personnel is still producing a delay in the review of the bridges and drainage structures on the project. This should have been completed prior to the release of the construction contract. Also the plan to incorporate cost saving modifications on the project is still pending.

Compliance With Labor Standards

0=Unsatisfactory 1=Poor 2=Fair 3=Good 4=Excellent 5=Outstanding

	N/A	0	1	2	3	4	5
Correction of Noted Deficiencies	X						
Payrolls Properly Completed and Submitted					X		
Compliance With Labor Laws and Regulations With Specific Attention to the Davis-Bacon Act and EEO Req					X		

Government Comments for Compliance With Labor Standards
There have been no complaints with respect to the payroll to my knowledge, and the invoices are being submitted regularly. LBG makes an effort to employ various nationalities in their work, and the subcontractor has been requested to do the same. The project will hire as many local people as is possible.

Compliance With Safety Standards

0=Unsatisfactory 1=Poor 2=Fair 3=Good 4=Excellent 5=Outstanding

	N/A	0	1	2	3	4	5
Adequacy of Safety Plan					X		
Implementation of Safety Plan					X		
Correction of Noted Deficiencies	X						

Government Comments for Compliance With Safety Standards
As the construction phase is only just starting, the safety plan is in effect, but implementation has hardly begun. LBG does attempt to operate in a safe environment. Safety procedures prior to construction have been relevant only to design and general office facilities.

Overall Rating

0=Unsatisfactory 1=Poor 2=Fair 3=Good 4=Excellent 5=Outstanding

	N/A	0	1	2	3	4	5
Overall Rating				X			

Government Comments for Overall Rating
 LBG has suffered from a lack of personnel from the outset, and frequent requests from AID to remedy the situation have failed to obtain response until very recently, when the Kabul management endeavored to change the condition. There is sincere hope that this turnaround is permanent. However the fair rating reflects the long period through the design when nothing was done to correct the condition, and still, there is a continuing problem today with a lack of design personnel to complete the review of the bridges and drainage structures for the project, as well as cost saving measures.

Subcontracts

Are subcontracts involved ? Yes

Government Comments on Subcontracts
 A subcontract was signed in April, 2008, for the construction of the road. The present work effort involves general mobilization, camp construction and de-mining operations. The work is off to a good start, but security of the work will be a major concern, since there have been five incidents already and it is obvious that it will be serious consideration during the entire period. The US military will be directly involved with respect to protecting the project from the Taliban.

Contractor Key Personnel

Contractor Manager/Principal Investigator
 Jordano, Frank

Government Comments for Contractor Manager/Principal Investigator
 Frank Jordano operates out of the LBG home office, so I have little knowledge of his activities, however, lack of home office support and coordination has been a problem since the outset, and continues to be at this time. This general apathy has hurt the progress of the project through a lack of personnel to manage and execute the work.

Contractor Key Person
 Kitson, Rick

Government Comments for Contractor Key Person
 Rick Kitson is the Task Order Manager for the project. He is very qualified with respect to both technical and managerial skills. He has made a positive and consistent effort to move the project forward, recognizing the fact that he has three task orders to manage, and thus has a limited amount of time he can devote to each one. Once again, the home office has lacked the initiative to locate additional task order managers, which would have materially helped the situation.

Contractor Key Person
 Yahn, Steve

Government Comments for Contractor Key Person
 Steve Yahn is the LBG Site Construction Manager for the project. Although the project has only started and therefore there has been little time to evaluate his overall skills level, he has been very proactive in moving the subcontractor and the program in general. His communication skills have been very good to date, addressing the challenge of keeping the military and the provincial government informed.

Small Business Subcontracting Plan

Did the contractor make a good faith effort to comply with its subcontracting plan consistent with the goals and objectives, reporting and other aspects of the plan? N/A

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If this is a bundled contract, did the contractor meet the goals and objectives for small business participation? **No**

Government Comments on Small Business Subcontracting Plan
None entered - Contractor does not reply

Small Disadvantaged Business Goals

Did the contractor make a good faith effort to comply with its subcontracting plan consistent with the goals and objectives, for small disadvantaged business (SDB) participation, monetary targets for SDB participation, and required notifications? **N/A**

Government Comments for Meeting SDB Subcontracting Requirements
None entered - Contractor does not reply

Customer Satisfaction

Is/was the contractor committed to customer satisfaction? **Yes**
 Is/was the contractor committed to customer satisfaction (End User)? **Yes**

Government Comments for Customer Satisfaction
Although the design delays would serve to question the "yes" choice, I have based the opinion on the efforts of the LBG personnel close to the project, all of whom have worked hard to make it a success. Recognizing that there have been slow starts with respect to the design phase and completing the review of the bridges and drainage structures along the road, I still believe that LBG has a definite commitment to building a quality road for the country. I also have the opinion that LBG has customer satisfaction as an overall objective, although I do realize that this goal has yet to be achieved.

Project Officer/COTR

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CONTRACTOR COMMENTS

Contractor Comments for Quality Of Product Or Service
LBG B&V strongly disagrees these comments. The home office has been instrumental in moving the design process and

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task order implementation forward following initial delays as a result of being provided with inaccurate survey data from the client. The home office management and technical staff pushed forward the process to provide a new topographical survey in order to provide the design team with accurate and usable data to complete the design. In addition, the home office management and retention of the design staff from REFS was instrumental in allowing successful completion of the design, despite the initial surveying and security setbacks. The design team was in place well in advance of receiving the revised survey information and was able to quickly react and successfully complete the design in a compressed timeframe. In addition, managers and technical subject matter experts from the home office spent a significant amount of time on the ground in country working with the project team to push the process forward. The following deliverables, which were approved on the first submission, were a result of this integrated management effort: 1. Planning assessment report - A single alignment was performed for initial planning via map, vehicle and air reconnaissance 2. Topographic surveying - 103 kilometers of route surveying with semi-permanent ground control stations established every 250-300 meters 3. Environmental assessment - An environmental assessment exceeding the requirements of 22 CFR 216 and USAID ADS Chapter 204. 4. Highway Design - A complete design package with home office design quality assurance review which met or exceeded U.S. standards with AASHTO serving as the foundation specification.

Contractor Comments for Cost Control

LBG/B&V disputes this comment and the insinuation that delays in the design process caused the project cost to increase. Costs were impacted by factors beyond LBG/B&V control: actual on site conditions and the devaluation of US currency in this time period. The rater failed to recognize that the design process allowed us to provide USAID with a more thorough evaluation of the project. Original budgets were developed under very tight timelines leaving little opportunity to conduct full site investigations in the semi-permissive security environment Gardez-Khost. As such, we did not have full access to the site and relied upon parametric estimating techniques to prepare line item budgets. Only during design did detailed site investigations discover actual site conditions such as poor soils and other unforeseen conditions that required additional considerations in the design and construction quantities. However the real impact on 'cost control' was the effective devaluation of US currency in this time period, and the resulting increase in cost of construction commodities on unit rates. The unit rates used in our parametric estimates were derived from 2004-06 cost data and subsequently compared with unit prices awarded in 2007 on a similar USAID major road project in Badakhshan Province. But, the bids received for Gardez-Khost Road were significantly higher than our estimate—again this due to the devaluation of the dollar and significantly higher construction materials costs resulting from hyper-inflationary pressure on construction commodities such as fuel, cement, steel and bitumen which make up 20-30% of the construction cost. Further, this coupled with USAID's refusal to accept price adjustment for materials and labor cost escalation due to inflation impacts beyond the control of the subcontractor significantly influenced bid costs.

Contractor Comments for Timeliness Of Performance

LBG B&V strongly disagrees with the tone and accuracy of these comments. In less than 12 month's time: (1) all field survey and investigation work was completed even after three employees were killed by insurgents, (2) the design package was completed, (3) the construction subcontract solicitation and award was completed, (4) the subcontractor fully mobilized, and (5) the road is under construction. Where else in the world, let alone in eastern Afghanistan on the Pakistani border, could a scope of this magnitude be accomplished in so short a time period? Initial delays are incorrectly used as a proxy to define the project. Delays in the design process were a direct result of the need to re-survey the project due to inaccurate survey data provided by USAID. Further impacting the schedule was security, as the construction contractor's survey team was attacked by insurgent forces at the start of field activities resulting in three employees killed. The survey subcontractor threatened to quit the subcontract and leave the country. LBG/B&V successfully revised the security procedures and incorporated community development teams to assist with the situation resulting in the renewal and completion of the survey without further incident and the successful completion of the design package. The home office management and technical staff guided the project team through the accelerated tendering process for the construction subcontract by advertising with 30% design drawings and then awarding with the final design drawings. This action saved two months in the schedule resulting in the award of the subcontract only 39 days past the initial milestone despite the uncontrollable delays as described above. The project team has continued to push the project forward and has worked closely to start work ahead of schedule. The contractor provided a detailed schedule which is being analyzed by the project team for accuracy and for additional areas of acceleration.

Contractor Comments for Effectiveness of Management / Business Relations

LBG/B&V strongly disagree with the rater's comments and rankings. The design team has been designing and working in Afghanistan for the past four years, it was in place well in advance of receiving the revised survey information, and was able to quickly react and successfully complete the design in a compressed timeframe. In addition, managers and technical subject matter experts from the home office spent a significant amount of time on the ground in country working with the project team to push the process forward. This was true even after initial survey, security and procedural setbacks were overcome. The team continues its evaluation of bridges and drainage structures as well as its pursuit to identify possible cost saving solutions and we are continuing effective use of design team assets across multiple TOs in order to maximize cost savings to USAID. Aside from the technical aspects, the JV has forged outstanding relations with the US Military and the PRTs in Gardez and Khost, as well as local and provincial leaders (through our community outreach program) in Paktya and Khost Provinces.

Contractor Comments for Compliance With Labor Standards

LBG/B&V will continue our efforts in this area. We plan on using Afghan personnel as our site construction managers, thus strengthening the local capacity for management of major construction projects

Contractor Comments for Compliance With Safety Standards

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LBG/B&V will continue to strong adherence to safety policy procedures on this project as well as insuring as secure as possible operating environment in which to work.

Contractor Comments for Overall Rating

The Gardez to Khost road is a difficult and dangerous project that has already cost three employees their lives during the evaluation period and six more to date while implementing this work for USAID. LBG/B&V has successfully mitigated further loss of life, and schedule, and taken proactive measures to retain key technical resources from leaving the project due to seriously deteriorating security conditions in Afghanistan. However, we understand the operating environment and continue to accept the challenge to deliver a quality project for USAID with the steadfast commitment to delivering a best-in-class highway for USAID to the people of Afghanistan. The staffing shortfalls are noted, but have been corrected and there are no current staffing issues on this project.

Contractor Comments on Subcontracts

LBG/B&V will continue its close management and guidance of subcontractors along with the close collaboration with the US Military, the Government of Afghanistan and the local community to mitigate the security risks to ensure effective delivery of the project.

Contractor Comments for Contractor Manager/Principal Investigator

LBG/B&V strongly objects to the raters comments on our home office performance. He has presented a complex issue as a simplistic and personal view of 'good guys' in the field vs. 'bad guys' in the home office. Nothing could be further from the truth. These comments are baseless and it is obvious that the rater has no direct knowledge of the contributions made by the IQC Manager and home office team driving this project forward and providing the technical, contract management and human resources support and continuity necessary in delivering a successful project.

Contractor Comments for Contractor Key Person

Following several months of review and after disapproval by USAID of other qualified candidates, David Renshaw was named TOB Manager in July 2008, replacing Rick Kitson. David will continue with the proactive and dynamic approach through the implementation phase that Rick instituted in the planning and preliminary phases of the task order

Contractor Comments for Contractor Key Person

Steve Yahn's experience managing large road projects in Afghanistan's tough environments, coupled with his drive and construction management skills, will be a tremendous asset to the successful completion of the this project.

Contractor Comments on Small Business Subcontracting Plan

No Government Comments. Contractor does not reply

Contractor Comments for Meeting SDB Subcontracting Requirements

No Government Comments. Contractor does not reply

Contractor Comments for Customer Satisfaction

LBG/B&V is committed to achieve customer satisfaction – it is our number one objective. USAID is our key client, IRP is our key program, and we are committed the successful completion of Task Order 8, Gardez-Khost Road. LBG/B&V is totally dedicated to delivering a quality project to USAID and the people of the Gardez-Khost region that exceeds expectations in terms of cost, schedule and quality. We will continue to deal with security conditions which are largely beyond the JV's direct control. The successful project delivery of this road will require a continued collaborative approach with USAID, the US Military, and local and provincial governments—to which we are totally committed.

COMPLETION DATE

Report Completion Date: 08/28/2008

OMB CLEARANCE NO. 9000-0142
SOURCE SELECTION INFORMATION/CONFIDENTIAL

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8/28/2008



**U.S. Agency for International Development
Construction
Contractor Performance Report**

Source Selection Information-See FAR 2.101 and 3.104: Disclosure Restricted

THIS EVALUATION IS "IN-PROGRESS"

Evaluation Type: Interim (0 % Completed)		Termination Type: None	Reporting Period: From: 05/20/2008 To: 05/19/2009
Host Agency: USAID		Evaluating Organization: USAID	Contracting Office: AFGHANISTAN
Contract Number: 306-I-00-06-00517-00		Order Number: 306-I-08-06-00517-00	
Contractor Name and Address: LOUIS BERGER GROUP INC BERGER, LOUIS INTERNATIONAL 2300 N Street NW Washington, DC 20037 UNITED STATES			DUNS:043881093 SIC/NAICS: 237310 Commodity Code: Procurement Method: Negotiated Contract Type: Cost-Plus-Fixed-Fee
Amount of Basic Contract: \$68,557,091.00	Total Amount of Modifications: \$39,171,087.00	Liquidated Damages Assessed: \$0.00	Net Amount Paid Contractor: \$0.00
Award Date: 05/20/2007	Original Completion Date: 11/16/2009	Final Completion Date: 11/16/2009	Date Work was Accepted:
Description of Requirement: Gardez to Khost Road, provides all project management, planning, environmental assessments, surveys, design, capacity building, construction management and quality control required for the rehabilitation of the Gardez to Khost Road project. The road is a national highway requiring a high level of service because of its strategic importance. The rehabilitated road will feature two lanes paved with asphalt concretes, seven meters wide, along with 2.5 meter paved shoulders.			

RATINGS

Quality of Product or Service

0=Unsatisfactory 1=Poor 2=Fair 3=Good 4=Excellent 5=Outstanding

	N/A	0	1	2	3	4	5
Quality of Workmanship			X				

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Adequacy of the CQC Plan				X			
Implementation of CQC Plan			X				
Quality of QC Documentation				X			
Storage of Materials				X			
Adequacy of Materials				X			
Adequacy of Submittals				X			
Adequacy of QC Testing			X				
Adequacy of As-Builts	X						
Use of Specified Materials			X				
Identification/Correction of Deficient Work				X			

Government Comments for Quality Of Product Or Service
The overall quality of product and service of the contractor for reconstruction of the Khost-Gardez road is poor. The contractor reported to USAID that the QC staff of the road subcontractor performed fraudulent quality control laboratory work. In addition, the contractor is conducting forensic investigation of alligator cracking in a section of reconstructed asphalt pavement. Also, the contractor did not assure that the security subcontractor provided sufficient security resources to allow the road subcontractor to perform work according to the road subcontract.

Cost Control

0=Unsatisfactory 1=Poor 2=Fair 3=Good 4=Excellent 5=Outstanding

	N/A	0	1	2	3	4	5
Cost Control		X					

Government Comments for Cost Control
The contractor stated that the security subcontractor unit rates failed, requiring higher unit rates. The contractor later requested increased numbers of security personnel to allow the road contractor to perform according to the road subcontract. The contractor awarded a road subcontract requiring security that the security subcontractor could not or would not provide. These items, among others, have led to the budget skyrocketing on this project and leaving it undefined.

As management is cost-plus, the management cost has been increased greatly with the project delays. The construction cost has already increased significantly as well.

Timeliness of Performance

0=Unsatisfactory 1=Poor 2=Fair 3=Good 4=Excellent 5=Outstanding

	N/A	0	1	2	3	4	5
Adequacy of Initial Progress Schedule		X					
Adherence to Approved Schedule		X					
Resolution of Delays		X					
Submission of Required Documentation		X					
Completion of Punch List Items		X					
Submission of Updated and Revised Progress Schedules		X					
Warranty Response	X						

Government Comments for Timeliness Of Performance

The scheduled project completion date is not met. The contractor provided a baseline schedule for the project in February 2009; the notice to proceed for the road subcontractor was May 2008. The contractor is not able to include security activities and resources in any project schedule, even though the project is in a high threat area. The current project completion date is almost one year beyond the contract completion date. The road subcontractor claims that security is a reason that the schedule is delayed.

Effectiveness of Management / Business Relations

0=Unsatisfactory 1=Poor 2=Fair 3=Good 4=Excellent 5=Outstanding

	N/A	0	1	2	3	4	5
Cooperation and Responsiveness		X					
Management of Resources/Personnel		X					
Coordination and Control of Subcontractors		X					
Adequacy of Site Clean-Up				X			
Effectiveness of Job-Site Regulations		X					
Compliance With Laws and Regulations		X					
Professional Conduct			X				
Review/Resolution of Subcontractor's Issues		X					
Change Order Activity (By Contractor)			X				
Adequacy of Work Force		X					
O & M Manuals/Instructions		X					
Spare Parts Delivery		X					

Government Comments for Effectiveness of Management / Business Relations

The contractor is not able to coordinate activities between the road subcontractor and the security subcontractor to allow sustained construction progress. The contractor did not match construction project schedule requirements with security resources as required by the road subcontract. The contractor did not effectively mitigate threat risk in a timely manner. The project is in a high threat area. The contractor was not proactive in oversight of the security subcontractor.

For example, the contractor awarded a road construction contract on or about May 2008, which included generic clauses which stipulated security levels of effort. The contractor then awarded a contract with the security subcontractor which did not include sufficient security resources to support the road contractor planned work activities. On or about November 2008, the contractor determined that the unit rates of the security subcontractor failed; the contractor subsequently submitted a request for consent to increase the unit rates and change the mode of security followed. On or about February 2009, the contractor again determined that the security resources were not adequate; the contractor subsequently submitted a request for consent for additional security personnel.

Basically, the baseline construction schedule requires construction along three sections of the road to meet schedule. The notice to proceed for the road construction contract was on or about May 2008; the baseline schedule for the road construction was submitted to USAID on or about February 2009. The project completion date for the construction contract with the contractor is on or about November 2009; however, the baseline schedule shows a completion date of December 2009. Recent proposed road construction schedules show dates ranging from February 2010 to October 2010.

Overall, the contractor has not been responsive or has been significantly late with responses.

Compliance With Labor Standards

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0=Unsatisfactory 1=Poor 2=Fair 3=Good 4=Excellent 5=Outstanding

	N/A	0	1	2	3	4	5
Correction of Noted Deficiencies	X						
Payrolls Properly Completed and Submitted	X						
Compliance With Labor Laws and Regulations With Specific Attention to the Davis-Bacon Act and EEO Req	X						

Government Comments for Compliance With Labor Standards
Not Applicable

Compliance With Safety Standards

0=Unsatisfactory 1=Poor 2=Fair 3=Good 4=Excellent 5=Outstanding

	N/A	0	1	2	3	4	5
Adequacy of Safety Plan		X					
Implementation of Safety Plan		X					
Correction of Noted Deficiencies		X					

Government Comments for Compliance With Safety Standards
The contractor did not initially prepare an adequate security plan. The security subcontractor prepared security plans; however, the contractor did not initially submit the security plans for review by USAID, nor did the contractor initially prepare an overall security plan for review. The project is in a high threat area. Job site security is the predominant safety consideration.

Overall Rating

0=Unsatisfactory 1=Poor 2=Fair 3=Good 4=Excellent 5=Outstanding

	N/A	0	1	2	3	4	5
Overall Rating		X					

Government Comments for Overall Rating
The project is in a high threat area, which requires effective planning and allocation of security resources in a timely manner to minimize risk to personnel, cost and schedule. The contractor must assure that the security contractor is working with the road subcontractor and key stakeholders effectively. The contractor was not proactive in oversight or in providing accurate and timely information to stakeholders. The project is behind schedule, and the road contractor contributes delays in large part due to the lack of security subcontractor resources.

Subcontracts

Are subcontracts involved ? **Yes**

Government Comments on Subcontracts

The contractor apparently was not proactive in having the security contractor maintain adequate security resources to maintain schedule according to the road construction subcontract. The road construction contractor has indicated that the lack of security subcontractor resources impacted schedule.

Contractor Key Personnel

Contractor Manager/Principal Investigator Jordano, Frank

Government Comments for Contractor Manager/Principal Investigator
Frank Jordano is the interim contractor manager. He replaced Mike McGovern on or about January/February 2009. Mr. McGovern was the prime advocate for assigning a new security subcontract with higher rates to resolve the security issues. This was ultimately followed with more changes as it proved to not be the root cause.

Contractor Key Person Lien, Mary

Government Comments for Contractor Key Person
Mary Lien is the current task order manager. She replaced David Renshaw on or about January/February 2009. The project is behind schedule, and the road subcontractor has indicated that the lack of security subcontractor resources negatively impacted the project schedule. With inheriting a poorly managed project, Mary has worked diligently and kept a level head in trying to right the project. The project is not there yet, but Mary's contributions are moving the project in the right direction.

Contractor Key Person Radimeyer, Radies

Government Comments for Contractor Key Person
Radies Radimeyer is the security manager for the contractor. March 2009, the contractor added a task order security manager, Jack Blackburn, reporting to Mary Lien, Task Order Manager. The contractor provided the notice to proceed for the road construction subcontractor on or about May 2008.

Small Business Subcontracting Plan

Did the contractor make a good faith effort to comply with its subcontracting plan consistent with the goals and objectives, reporting and other aspects of the plan? **No**
If this is a bundled contract, did the contractor meet the goals and objectives for small business participation? **Yes**

Government Comments on Small Business Subcontracting Plan
An SF-294 submitted at USAID request after the appropriate reporting period indicates satisfactory performance.

Small Disadvantaged Business Goals

Did the contractor make a good faith effort to comply with its subcontracting plan consistent with the goals and objectives, for small disadvantaged business (SDB) participation, monetary targets for SDB participation, and required notifications? **N/A**

Government Comments for Meeting SDB Subcontracting Requirements
An SF-294 submitted at USAID request after the appropriate reporting period indicates satisfactory performance.

Customer Satisfaction

Is/was the contractor committed to customer satisfaction? **No**
 Is/was the contractor committed to customer satisfaction (End User)? **No**

Government Comments for Customer Satisfaction
The contractor is not proactive in oversight or in providing accurate and timely information to stake holders.

Project Officer/COTR

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CONTRACTOR COMMENTS

Contractor Comments for Quality Of Product Or Service
The Gardez-Khost Road is being constructed through an active combat zone under constant threat of attack and loss of life. The conditions faced are extreme and unlike anything we have experienced after

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successfully building roads for seven years now in Afghanistan. Our design quality meets best in class standard. We provided a complete design for 101 kms of asphalt road and 15 bridges meeting not only G1RoA highway standards, but also conforming to U.S. design standards. The design submittals were independently reviewed by home office design experts and were subsequently received, approved and implemented for construction by USAID without exception or corrective comment. We also provided this high quality service in the field during an active insurgency, while leveraging TCN labor for cost efficiency; notwithstanding the value added of local capacity building via utilization of Afghan engineers and surveyors. While we acknowledge some deficiencies stemming from quality control processes internal to the construction subcontractor, our quality of service in identifying, investigating, mitigating and reporting poor workmanship was outstanding. Further, road construction is not complete and we will ensure the final product meets all specified standards. Security services were competitively awarded to a security company fully licensed, insured, and experienced. The security strategy had been highly successful since 2002 and only recently challenged with the increasing realization of kinetic risks such as ambushes, IEDs and direct attacks. In sum, our security plan was high quality, based on field experience in Afghanistan, staffed with subject matter experts, but did require adjustments to counter threat activity beyond our reasonable control and originally budgeted.

Contractor Comments for Cost Control

These comments fail to recognize the rapidly deteriorating security situation on the ground. Security costs have escalated as the insurgent threat has been far worse than originally estimated. Casualties to date have been 13 killed, 19 wounded and 3 missing since work start. Our security subcontractor, ISS, provided a standard security "bubble" resulting in a limited 2 to 4 km secured work area. In late 2008, ISS was falling financially and Safenet offered to partner to add capital and provide a more effective operating strategy. With our construction subcontractor mobilized and work underway, it was logical to propose the ISS/Safenet JV to USAID, rather than stop work and incur additional delays and costs. USAID approved with adjusted rates in Dec 08. But, soon thereafter, different interpretations of the new security subcontract's scope arose. It was USAID's view that the limited security requested initially was the entire package required to complete the project. But, the situation on the ground required flexible response allowing adjustment and increase of security forces. At the conclusion of protracted negotiations in May 2009, USAID consented to the additional security enabling us to efficiently construct the works. The new ISS/Safenet concept of operations is proving successful in securing more than 40 kms of concurrent construction activities under exceedingly dangerous conditions. Yes, security costs have increased. However, we controlled cost in a responsive and innovative fashion avoiding failure due to subcontractor default or staff exodus.

Contractor Comments for Timeliness Of Performance

Initial security budget constraints allowed for limited security coverage to perform the extensive construction required over the 101-km roadway alignment. There were security delays that impacted our mobilization to construct camps and start work at the site in the summer of 2008 and innumerable security incidents have occurred since. The military closed access to Khost in the mountain pass due to fighting during the summer of 2008. Our construction subcontractor was slow in mobilizing assets, at least in part due to the insurgent threat; hence, the construction work commenced slowly and ran into winter weather. The subcontractor was further constrained by the security "bubble" mentioned above allowing the works to proceed only in one discrete 2 to 4 km segment at a time. With a single bubble and the deteriorating security conditions it was impossible to construct a 101 km road by the end of 2008. Thus, LBG appealed to USAID for additional security and a revised plan to meet schedule requirements. A prolonged negotiation between USAID and LBG resulted in additional security resources eventually approved in May 2009.

Contractor Comments for Effectiveness of Management / Business Relations

As previously stated, there have been 13 personnel killed and 19 wounded in the performance of this project and a western standard road is being constructed through the middle of an active combat zone. Given the rapidly deteriorating security conditions in Paktya and Khost Provinces, our ability to maintain construction productivity and security services seamlessly while the security provider was undergoing financial duress (yet another uncertainty for which we successfully managed), is quite remarkable. Under our proactive leadership, an outside financial partner was integrated into the security subcontractor's corporate structure to prevent corporate failure and leaving the project at risk to significant market prices escalations and performance delays. Our actions to minimize the impact to the project resulting from market events on the security contractor should assure USAID that we are the absolute best implementer in the industry for this type of work. Additionally, we leveraged significant construction claims acumen to minimize claims risk against USAID stemming from the construction subcontractor by ensuring the baseline construction schedule met specifications and contract requirements prior to formal acceptance. In the world of post-conflict reconstruction with substantial public and commercial risk, where planners

desire to leverage private partners in the prosecution of Clear-Hold-Build strategies, we consistently demonstrate we are a strategic resource for USAID to achieve Mission objectives in Afghanistan.

Contractor Comments for Compliance With Labor Standards
Contractor has elected not to comment

Contractor Comments for Compliance With Safety Standards
This rating reflects a seemingly purposeful negative bias from the evaluator. Security is a special function and staffed accordingly with professionals with military or para-military experience such as former military and special police, as opposed to safety professionals such as industrial hygienists or site safety supervisors. The two should not be confused and are distinct functions in post-conflict construction. We employed the services of a security subcontractor with subject matter expertise in security. The security subcontract was approved with consent by USAID prior to our execution with subcontractor. The security subcontractor's performance was communicated to the USAID representative via daily and monthly reports fully explaining security activities. We submitted security incident reports commensurate with isolated attacks by insurgents and coordinated field trips for the USAID COTRs when available to inspect the works for which security resources and quality of services was in full display. Aside from security, we apply U.S. safety culture to development projects abroad through site safety training, safety clothing and apparatus, and routine safety inspections. Further, construction projects in the developing and post-conflict environment require safety attention beyond construction to include sustainability activities like food, water, sanitation, housing, transport, and medical clinics. Our seasoned professionals understand this holistic approach to safety as evidenced by our zero lost days for accidents. We agree the project is in a high threat area, but we strongly disagree to emotively lump security under a safety umbrella as the two disciplines are separate and distinct.

Contractor Comments for Overall Rating
We understand the obvious dissatisfaction with our performance to date, but we are also absolutely committed to the successful completion of the Gardez-Khost Road. The truth is this road is being built through an active combat zone in the face of huge challenges beyond our immediate control. We are performing, work is progressing and we will complete the job. A zero rating implies the contractor is doing zero, has not shown up or has simply quit—this could not be further from the truth. This rating unfairly and inaccurately reflects the service and sacrifices being made to complete the mission. We will persevere and complete this job successfully.

Contractor Comments on Subcontracts
The Gardez-Khost Road is being performed in an active combat zone in the middle of an escalating insurgency. We believe with USAID's approval and funding of the plans we submitted, we now have adequate forces on the ground to provide the freedom of maneuver necessary to successfully prosecute the works. We cannot act unilaterally and require USAID responsiveness and approval in kind.

Contractor Comments for Contractor Manager/Principal Investigator
Mr. Jordano is the IGC Manager and served as the Interim Chief of Party for nine weeks during April through Jun 09.

Again, given the situation with the failure of ISS in the fall of 2008, the only other alternative to the ISS/Safenet JV and the associated higher rates would have been to shut the job down and formally recomplete security. We believe this would have resulted in significantly higher cost and further schedule delays for USAID.

Contractor Comments for Contractor Key Person
Len, Mary

The positive comments regarding Mary's contribution are appreciated. We also agree that the project is moving in the right direction and headed toward successful completion.

Contractor Comments for Contractor Key Person
Contractor has elected not to comment

Contractor Comments on Small Business Subcontracting Plan
Contractor has elected not to comment

<https://cps.nih.gov/print.asp>

10/9/2009

Contractor Comments for Meeting SDB Subcontracting Requirements
Contractor has elected not to comment

Contractor Comments for Customer Satisfaction

This comment is far off base and unwarranted. Since Notice-to-Proceed, we have been staunch project advocates to multiple stakeholders including the Ministry of Public Works, the Governors of Paktya and Khost, and the PRTs and U.S. Military in Gardez and Khost. Additionally, our assigned community development specialists conducted hundreds of hours of village and tribal outreach via the traditional shura modality to build the strategic grass roots support for project buy-in across the 101-km alignment. We performed these efforts with little direct support or accompaniment by the former USAID COTRs due to their unavailability, scheduling conflicts, or other reasons beyond our control. However, this did not stop us—we understood USAID's intent and executed all project tasks without issue. However, we agree there was a period of communication inefficiencies with USAID and we successfully resolved this with the replacement of the previous Task Order Manager. We also feel the current Task Order Manager is providing superior customer relations. Additionally, we believe this relationship has been further cemented with USAID's new COTR in charge who has demonstrated superior technical skills and possesses the in-country experience necessary to establish the USAID-contractor conditions for success.

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10/9/2009



A joint venture of The Louis Berger Group, Inc. and Black & Veatch Special Projects Corp.
Afghanistan Infrastructure and Rehabilitation Program

May 14, 2009

GH1308-00031-2009

Mr. Sanjay Gupta
BSC - C&C JV
Kabul, Afghanistan

Reference: USAID IQC Contract No. 306-I-00-06-00517-00 TO08
Afghanistan Infrastructure and Rehabilitation Program

Subject: Notice to Cure

Dear Mr. Gupta,

The Louis Berger Group/B&V Special Projects, JV issued a contract number IRP-04-08 GH1308-LB-AF-10 and dated 26 April 2008 for construction of the Gardez to Khost Road. Part of the work included providing for suitable laboratory and other quality control (QC) testing and procedures to ensure the work was completed in accordance with good practices and the contracts' terms and conditions.

Please accept this letter from LBG/B&V as a NOTICE TO CURE, within 10 days. This is due to the ongoing lack of performance on the part of BSC-C&C in effectively managing, testing and assuring quality construction all to comply with technical specifications for Task Order 8, Gardez to Khost Road. LBG/B&V has issued Non-Conformance Reports (see attached), and sent correspondence previously addressing these problems and requesting a plan to resolve them from BSC-C&C.

The LBG/B&V is receiving either inadequate responses and/or no responses from BSC-C&C. BSC-C&C's inaction and delays in addressing this important and necessary correction of construction and quality management deficiencies are impacting the work and schedule. BSC-C&C will be given 10 calendar days to provide "further assurances" including a Plan of Action (POA) to resolve all concerns and to demonstrate to LBG/B&V its ability, capability and capacity to perform in accordance with the Subcontract.

If the POA is accepted by LBG/B&V, BSC-C&C will be required to properly monitor the work, which will also be monitored and closely evaluated by LBG/B&V to ensure compliance to all Subcontract requirements. If the issues presented are ignored or not addressed within the timeframe of the NOTICE TO CURE, or if BSC-C&C does not take corrective action proposed in the POA, LBG/B&V will terminate BSC-C&C's Subcontract for cause. If there is a Termination for Cause, LBG/B&V will relet the work to a completion contractor and hold BSC-C&C responsible for any additional costs and expense for the re-procurement and completion of the Works.

Examples of the found deficiencies, corrections needed and robust staffing requirements are detailed below. While this list is not exhaustive, it is representative of the problems leading to the above Notice to Cure.

BSC-C&C is currently 382 days into a 600 day performance effort. The completion date of November 2010, as submitted in BSC-C&C's monthly report, is unacceptable; and does not meet our Contract requirements. **BSC-C&C must present a detailed schedule by May 20, 2009 and a Recovery Plan of Action (RPA) to LBG/B&V by May 25, 2009.** The schedule and recovery plan must be detailed and accurate and shall include all construction activities

LBG / B&V 2445 M Street, N.W. Washington, DC 20037 Tel 202 303 2626 Fax 202 293 0787



and completion dates for construction of Gardez-Khost Road. BSC-C&C shall presume that security will be provided at three camps, one 24 km secured work area, one 15 km secured work area and one 5 km paving train work area. Security as stated will be provided to specific levels that can be justified by BSC-C&C's resourcing and level of effort in each secured work area.

BSC-C&C has not provided project supervision to the level of effort included in their Schedule of Supplemental Information and to the level that would be required to meet their proposed project baseline schedule. The proposed Deputy Project Manager is currently the Project Manager at the site. His understanding of construction management is limited and his direction to BSC-C&C's field staff is ineffective. On-site work is not being effectively supervised, scheduled and managed by BSC-C&C personnel. Continuous, pro-active supervision must be conducted on site at all times. LBG/B&V has requested that BSC-C&C add experienced project managers, superintendents, quality control managers and project engineers to assist in supervising construction and insuring good quality work. BSC-C&C is not constructing to project specifications. 62 NCRs have been issued to date and very few of the NCRs have been responded to with proposed action to correct the non-conformance. Letters of non-conformance for binder aggregate, concrete and blasting work were issued to BSC-C&C by the TO Manager on April 25, 2009 requiring that BSC-C&C take immediate corrective action. BSC-C&C was also required to submit a work plan detailing how the NCRs will be corrected, including procedures, plant, equipment calibration and quality control management to bring the works back into compliance with the Technical Specifications. BSC-C&C has not responded or submitted a corrective work plan. In addition, BSC-C&C site staff are insistent on proceeding with concrete work and aggregate production without addressing a correction.

Construction security has been limited mostly to one 20 km secure work area, with expansion to as much as 30 km. Much of the work that was placed within the secure work area does not meet the requirements in the technical specifications. Lack of additional security is consistently cited by BSC-C&C as a reason for insufficient quality control, however, it is not only BSC-C&C's subcontractors that are not performing. BSC-C&C's own workforce has not placed good quality work within the area that is secured. Even when made aware of the deficiencies of work performed by BSC-C&C's subcontractors, BSC-C&C did not enforce or provide correction of the work. LBG/B&V estimates that 80% of the rock work for retaining walls, guard walls and wing walls will need to be removed and replaced or repaired. Due to the flawed calculations and calibration of concrete testing, it appears that much of the pre-cast work may also need to be replaced. The pre-cast concrete work was performed in a secure camp.

BSC-C&C's laboratory is not stocked with the equipment needed for materials testing to provide good quality control. Uncalibrated equipment is being used, unsigned reports and incorrectly calculated reports are still being submitted as of May 12, 2009. Reports of failed tests are missing. The incorrect reporting and calculations were brought to BSC-C&C's attention in mid-April and again when Rise Engineering was hired to provide QC testing for TO8 in late April. LBG/B&V removed laboratory staff and the Deputy Project Manager who were engaging in questionable testing and reporting. However, BSC-C&C staff continue to resist correcting the QC deficiencies and interfere with testing submittals and procedures.



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Afghanistan Infrastructure and Rehabilitation Program

BSC-C&C's laboratory testing was found not to be in accordance with the FP-03 technical specifications; testing has been performed using substandard specifications from other countries or outdated AASHTO guidelines.

Sincerely,
Louis Berger Group/ Black & Veatch

A handwritten signature in cursive script that reads 'Margarita Cronin'.

Margarita Cronin,
IQC Contracts Manager

- cc: Marc Steinbring (LBG/B&V)
- Frank Jordano (LBG/B&V)
- Mary Lien (LBG/B&V)
- Shep Rilovick (LBG/B&V)
- Tim Mettlen (LBG/B&V)
- Jess Zamora (LBG/B&V)
- Col. Balbir Singh (BSC-C&C)
- Mr. Rajeev Wadhawan (BSC-C&C)

Enclosures: NCR Log

LBG / B&V 2445 M Street, N.W Washington, DC 20037 Tel 202 303 2626 Fax 202 293 0787

Louis Berger Group/ Black & Veatch Gardez to Khost Road
Non-Compliance Notice Log
 Job No: TO08 Date: 5/14/2009
 Project No: GH1308 Page: 1 of 2

Type	To	From	Number	Title	Issue	Status	Date	Completed	Responded	Required	Cost
CON To: BSC C&C From: Louis Berger Group/ Black & Ve No.: 06-LB-AF-10											
NCN	BSCC	LGBBV	0002	Appearance of Cracks on Laid B		NEW	1/12/2009			1/19/2009	\$0.00
NCN	BSCC	LGBBV	0003	A prone stone masonry is not p		APR	1/17/2009			4/11/2009	\$0.00
NCN	BSCC	LGBBV	00010	Rebar/Steel not properly stored		NEW	4/7/2009				\$0.00
NCN	BSCC	LGBBV	00017	ExcessiveCracking inShoulder o		NEW	4/19/2009			4/29/2009	\$0.00
NCN	BSCC	LGBBV	00060	Slope Compaction		NEW	4/12/2009				\$0.00
CON To: Louis Berger Group/ Black & Ve From: US Agency for Int'l Development No.: 1											
NCN	BSCC	LGBBV	00001	Thickness newly laid Crushed Ag		APR	12/16/2008			12/23/2008	\$0.00
NCN	BSCC	LGBBV	00007	Appearance of Crack on laid Bin		NEW	4/6/2009			4/13/2009	\$0.00
NCN	BSCC	LGBBV	00008	Lined drain Top conc poured		NEW	4/9/2009			4/16/2009	\$0.00
NCN	BSCC	LGBBV	00009	Box Culvert at Sta.18+448,Main		NEW	4/11/2009			4/16/2009	\$0.00
NCN	BSCC	LGBBV	00011	Guardwall Damage		NEW	4/7/2009				\$0.00
NCN	BSCC	LGBBV	00012	Improper Back Filling of Guardw		NEW	4/19/2009				\$0.00
NCN	BSCC	LGBBV	00013	improper intallations/ Quality in A		NEW	4/19/2009			4/28/2009	\$0.00
NCN	BSCC	LGBBV	00014	Improper back filling/gap under F		NEW	4/19/2009				\$0.00
NCN	BSCC	LGBBV	00015	Excessive cracking in Guardwall		NEW	4/19/2009				\$0.00
NCN	BSCC	LGBBV	00016	ExcessiveCracking inGuardwall&		NEW	4/19/2009			4/29/2009	\$0.00
NCN	BSCC	LGBBV	00018	Slope &Ripe Rape Protection		NEW	4/19/2009			4/29/2009	\$0.00
NCN	BSCC	LGBBV	00019	Note removing loose stone		NEW	4/19/2009			4/29/2009	\$0.00
NCN	BSCC	LGBBV	00020	ExcessiveCrackingofConcrete fir		NEW	4/19/2009				\$0.00
NCN	BSCC	LGBBV	00021	Excessive cracking of slope prot		NEW	4/19/2009				\$0.00
NCN	BSCC	LGBBV	00022	CrackingOfHeadwall&Wingwall		NEW	4/19/2009				\$0.00
NCN	BSCC	LGBBV	00023	Back Filling		NEW	4/19/2009				\$0.00
NCN	BSCC	LGBBV	00024	CRACKING WING WALL&RET/		NEW	4/19/2009				\$0.00
NCN	BSCC	LGBBV	00025	Air entrainment Equipment		NEW	4/23/2009				\$0.00
NCN	BSCC	LGBBV	00026	ConcreteCompressiveStrength h		NEW	4/23/2009				\$0.00
NCN	BSCC	LGBBV	00027	CONCRETE BREAKS/Compres		NEW	4/23/2009				\$0.00
NCN	BSCC	LGBBV	00028	Concrete Breaks/Compressive S		NEW	4/23/2009				\$0.00
NCN	BSCC	LGBBV	00029	Stone masonry is not good		APR	1/5/2009				\$0.00
NCN	BSCC	LGBBV	00030	BACK FILLING		NEW	1/17/2009			5/4/2009	\$0.00
NCN	BSCC	LGBBV	00031	Appearance of cracks		OTHR	12/26/2008				\$0.00
NCN	BSCC	LGBBV	00032	Thickness of newly laid crush ag		APR	12/5/2008			5/5/2009	\$0.00
NCN	BSCC	LGBBV	00033	200mm CAB Thickness for caris		OTHR	12/5/2008				\$0.00
NCN	BSCC	LGBBV	00034	Lined drain top conc poured		NEW	4/7/2009				\$0.00
NCN	BSCC	LGBBV	00035	All sample not taken in the prese		NEW	4/8/2009				\$0.00
NCN	BSCC	LGBBV	00036	Binder course laying in heavy rail		RAN	4/5/2009				\$0.00
NCN	BSCC	LGBBV	00037	Gmm Bottle for Gmm of Binder c		NEW	4/6/2009				\$0.00
NCN	BSCC	LGBBV	00038	Missing Vertical Bars		OTHR	4/8/2009				\$0.00
NCN	BSCC	LGBBV	00039	Pumping of Sub Grade and Cab		OTHR	4/8/2009				\$0.00
NCN	BSCC	LGBBV	00040	Present when taking samples		OTHR	4/8/2009				\$0.00
NCN	BSCC	LGBBV	00041	GMM Testing at 76+000to 77+00		OTHR	4/8/2009				\$0.00
NCN	BSCC	LGBBV	00042	Asphalt core samples		OTHR	4/8/2009				\$0.00
NCN	BSCC	LGBBV	00043	Cab Pumping		OTHR	4/12/2009				\$0.00
NCN	BSCC	LGBBV	00044	GMM Testing		OTHR	4/12/2009				\$0.00
NCN	BSCC	LGBBV	00045	Asphalt Design		OTHR	4/12/2009				\$0.00
NCN	BSCC	LGBBV	00046	Rebar/Steel not properly stored		NEW	4/7/2009				\$0.00
NCN	BSCC	LGBBV	00047	Guard wall damage		NEW	4/7/2009				\$0.00
NCN	BSCC	LGBBV	00048	Weep Holes		NEW	4/8/2009				\$0.00
NCN	BSCC	LGBBV	00049	Retain wall and Guard wall		NEW	4/8/2009				\$0.00
NCN	BSCC	LGBBV	00050	Pumping of slab guard and cab		NEW	4/8/2009				\$0.00
NCN	BSCC	LGBBV	00051	Wall A Line A MEANT		NEW	4/8/2009				\$0.00

Expedition ©

Report R_NCN_01

Louis Berger Group/ Black & Veatch Gardez to Khost Road
Non-Compliance Notice Log
 Job No: T088 Date: 5/14/2009
 Project No: GH1308 Page: 2 of 2

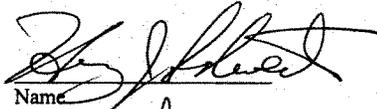
Type	To	From	Number	Title	Issue	Status	Date	Completed	Responded	Required	Cost
CON To: Louis Berger Group/ Black & Ve From: US_Agency for Int'l Developmen No.: 1											
NCN	BSCC	LBGBV	00052	Present when taking samples		NEW	4/8/2009				\$0.00
NCN	BSCC	LBGBV	00053	GMM Testing		NEW	4/8/2009				\$0.00
NCN	BSCC	LBGBV	00054	Asphalt core samples		NEW	4/8/2009				\$0.00
NCN	BSCC	LBGBV	00055	Cap Pumping		NEW	4/12/2009				\$0.00
NCN	BSCC	LBGBV	00056	GMM Testing		NEW	4/12/2009				\$0.00
NCN	BSCC	LBGBV	00057	Asphalt Design		NEW	4/12/2009				\$0.00
NCN	BSCC	LBGBV	00058	Asphalt Design		NEW	4/14/2009				\$0.00
NCN	BSCC	LBGBV	00059	Proctor Testing MDD		NEW	4/14/2009				\$0.00
NCN	BSCC	LBGBV	00061	BSC concrete bracks28days pipx		NEW	4/29/2009				\$0.00
NCN	BSCC	LBGBV	00062	Thickness of newly laid Crush A ₄		APR	5/8/2009			5/15/2009	\$0.00

CERTIFICATION

I, Henry J. Schweiter, am the counsel for The Louis Berger Group ("the Company") and have served in this position for one year. I am authorized by the Company to provide this certification to the U.S. Senate, Committee on Homeland Security and Governmental Affairs, Subcommittee on Contracting Oversight, regarding the Company's production of documents responsive to the Subcommittee's document request letter of June 13, 2011.

I hereby certify that the Company has conducted a diligent search of all files and places under its custody and control, including computer servers and other electronic storage media, which reasonably could contain documents responsive to one or more of the enumerated requests in the Committee's document request letter. I certify that as of the date listed below, the Company has produced to the Subcommittee, in accordance with the instructions and definitions provided by the Subcommittee with the document request letter, all documents located during the search that are responsive to one or more of the enumerated requests.

Under the pains and penalties of perjury, I attest that the foregoing is true and accurate to the best of my knowledge.


Name
27 June 2011
Date

DC:50790567.1
6/27/11

Albany
Atlanta
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Denver
Los Angeles

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& Aldridge**
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HENRY J. SCHWEITER
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EMAIL ADDRESS
jschweiter@mckennalong.com

July 6, 2011

VIA E-MAIL (PDF)

Senator Claire McCaskill
Chairman, Ad Hoc Subcommittee on Contracting Oversight
Committee on Homeland Security and Government Affairs
United States Senate
340 Dirksen Senate Office Building
Washington, DC 20510

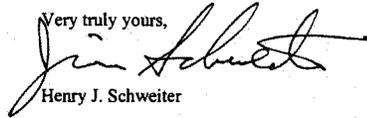
Re: Response to Questions at June 30, 2011 Hearing

Dear Senator McCaskill:

At the Subcommittee on Contracting Oversight hearing on June 30, 2011, you requested additional information regarding the Louis Berger Group's activities in Afghanistan. Attached please find the company's response to your request for additional information.

Please contact me should you have any questions regarding this submission

Very truly yours,



Henry J. Schweiter

HJS/clc
Attachment
ccs (w/attachment): Senator Rob Portman
Mr. Larry D. Walker



THE Louis Berger Group, INC.

The Gardez-Khost Road Contract

The subcommittee requested information regarding modifications to the Gardez-Khost road task order. Please see below.

The Gardez to Khost Highway is a critical link between the isolated Khost Province and the rest of Afghanistan, and it traverses some of the most dangerous terrain in Afghanistan. LBG has successfully completed two thirds of the road and construction on the remaining third is underway. As noted by Larry Walker, president of LBG, at the hearing on June 30, the deteriorating security conditions and correlated requirements are the largest factor in the cost increases. Expansion to LBG's scope of work has also required price modifications.

The timeline below outlines the contract modifications LBG/B&V has received for the Gardez-Khost road contract, and the actions associated with each cost increase.

May 2007: LBG received task order consent for \$68.6M based on:

- Construction estimate of \$50M (estimate developed prior to bidding construction subcontract)
- Period of Performance of May 2007 – Nov 2009 (30 months)
- Security estimated at \$6.3M, approximately 12% of the construction cost. (The estimate was based on historic security costs for roads constructed during the Rehabilitation of Economic Facilities and Services program.)

June 2009: The task order budget is modified to \$107.7M to incorporate the actual construction subcontract value of \$86M, which was awarded to the lowest bidder in April 2008. Other factors include:

- LBG's scope of work was adjusted from partial reconstruction of 27 kilometers of the road (km 72 to 99) to a full reconstruction job because a survey found that an overlay of the existing road would not be possible or sustainable. This scope expansion increased the project cost by \$1M.
- All other costs remained the same as the original estimate.

March 2010: The task order budget is modified to \$146.6M to extend the period of performance until October 2010.

- LBG also eliminated all fees on security costs from March 18, 2010 until project completion in this modification

April 2011: The task order budget is modified to \$175.7M. Approximately 95% of all cost increases were the result of the deteriorated security environment: 75% of this increase was directly for security costs and 20% is directly correlated with the security environment.

- Security-related cost increases include:
 1. The security subcontracts estimate increased by \$51M.
 2. Construction of three construction camps, rather than the one planned, became necessary because the security environment prohibited staff from moving freely along the road alignment. This increased the cost by approximately \$3.9M.



THE Louis Berger Group, INC.

3. The period of performance was extended by 27 months because of delays caused by security incidents. The costs for staff, camp O&M and life support, and fuel to operate the generators at the camps for the extended period totaled approximately \$8.175M.

The remaining 5% of cost increases is the result of additions to the scope of work:

1. LBG conducted survey services and redesign work valued at \$500k because the initial design provided to LBG did not include field verification
2. The extended schedule required winter maintenance to be performed for two winters (instead of one), which was valued at \$300k

Afghan Subcontractors

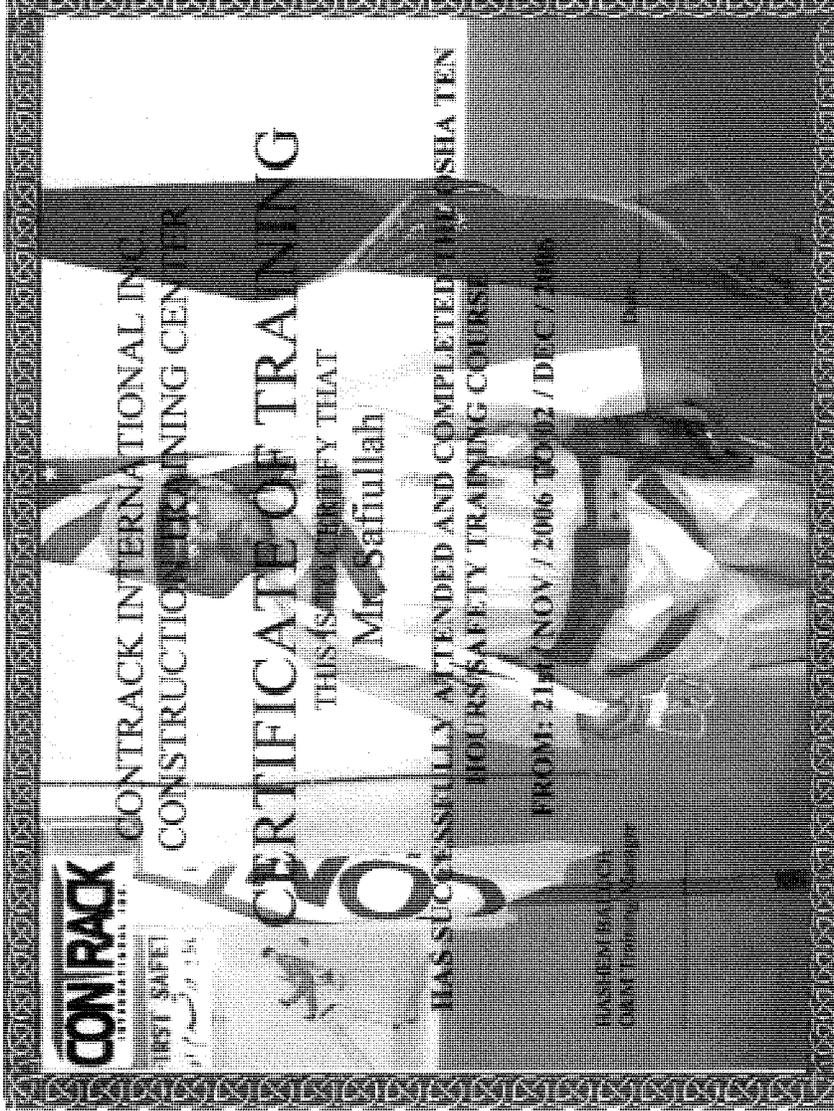
The subcommittee requested information regarding the number of first- and second-tier subcontractors on the Gardez-Khost road task order that are Afghan-owned firms. Please see below.

LBG believes that sustainability is critical to the success of reconstruction efforts in Afghanistan, and since we first began working on U.S. government-funded projects in 2002, we have made a significant effort to hire and train local Afghan firms and individuals. A major construction project such as the Gardez-Khost road provides a tremendous opportunity to hire local labor and provide licit incomes to local Afghans. As evidenced by the information below, the majority of our first-tier and nearly all of our second-tier subcontractors are Afghan.

First-Tier: Fifteen of LBG's 24 first-tier subcontractors on the Gardez-Khost contract are Afghan firms.

Second-tier: Approximately 95% of all second-tier subcontractors are Afghan firms or individuals. Please note, many of these "subcontracts" are not with a firm, they are contracts made with individuals whose role is similar to "day labor" in the United States. The information provided to the subcommittee in advance of the hearing listed the second-tier subcontractors hired by the construction company for sections 1 and 3 of the Gardez-Khost road. The number of Afghan second-tier subcontracts is as follows:

- Stonemasonry: 144 of 147 are Afghan
- Earthworks: 27 of 30 are Afghan
- Other: 45 of 51 are Afghan



Post-Hearing Questions for the Record

Submitted to

Mr. Larry Walker, President, Louis Berger Group, Inc.

From Chairman McCaskill

“AFGHANISTAN RECONSTRUCTION CONTRACT: LESSONS LEARNED AND ONGOING PROBLEMS”

Thursday, June 30, 2011, 10:00 A.M.

United States Senate, Subcommittee on Contracting Oversight,

Committee on Homeland Security and Governmental Affairs

1) What steps have you taken to improve oversight of your own contracts?

LBG has put in place a Delegation of Responsibility and Authority Manual (DRAM) that ensures significant internal controls and oversight for virtually all aspects of our contracts. Additionally, LBG hired JH Cohn, LLP, an accounting firm with extensive experience in government contracts, to monitor our internal controls and assist in conducting training when appropriate.

What steps have you taken to improve oversight of your subcontractors at all levels?

LBG has always been a company that employs a “hands-on” approach at job sites to provide direct oversight of subcontractors. This is especially true in dangerous locations such as Afghanistan. Before we sign a contract with a subcontractor, we check the company and its senior officials against the Excluded Parties List System, the US Treasury Office of Foreign Assets Control Blocked Parties List and the United Nations Consolidated List maintained by the 1267 Committee. Additionally, for subcontracts in excess of \$150,000 regardless of tier and for all Afghanistan security subcontracts regardless of amount, we provide USAID with vetting information, which must be approved by the agency before a contract can be signed.

2) Is USAID listening when you point out what works and what does not?

LBG has been working in Afghanistan since December 2001 and has more experience working “outside the wire” in Afghanistan than any other U.S. company. USAID is a large, diverse and multifaceted organization and responses to our suggestions sometimes vary, but overall and in the vast majority of instances, we have found USAID representatives receptive to our recommendations. One example is the construction of the transmission line from the Kajakai Dam to Kandahar. USAID had decided to commence construction. We admitted that while it could be built, we believed that the insurgents would bring it down. USAID considered our advice, and decided to delay construction until security would allow for the project to be successful.

Louis Berger has 24 first-tier subcontractors and 147 sub-first-tier subcontractors on the Gardez-Khost project.

LBG believes that sustainability is critical to the success of reconstruction efforts in Afghanistan. Since we first began working on U.S. government-funded projects in 2002, we have made a significant effort to hire and train local Afghan firms and individuals. A major construction project such as the Gardez-Khost road provides a tremendous opportunity to hire local labor and provide licit income to local Afghans. As evidenced by the information below, the majority of our first-tier and nearly all of our second-tier subcontractors are Afghan.

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- Stonemasonry: 144 of 147 are Afghan
- Earthworks: 27 of 30 are Afghan
- Other: 45 of 51 are Afghan

3) How is this information reported to USAID?

We request USAID consent on all subcontracts over \$150,000; hence USAID has advance knowledge of all of our large subcontracts. Additionally, we provide a number of reports and invoices to USAID that include information on our subcontracts. For all first-tier subcontracts, we invoice USAID with a detailed description of the subcontractor's charges and information about the services provided. We provide USAID a monthly report that indicates the number of Afghans and the number of ex-pats we employ under each task order.

4) What has been your experience in subcontracting with Afghan-owned firms?

Since LBG has been in Afghanistan, we have worked with many different Afghan firms and have worked extremely hard to ensure their success. Construction contractors are always concerned with cost, schedule and budget. When we add capacity building as an additional requirement, it can adversely affect cost, schedule and/or budget. Afghan firms typically do not have a great deal of technical expertise and often do not have enough cash available to keep projects going without assistance. They therefore require significant oversight and assistance to succeed. We have mentored and coached numerous Afghan-owned firms to encourage their success. We have been pleased to see the capabilities of Afghan firms increase in successfully executing increasingly complex projects.

5) What do you believe is necessary in order to make these relationships successful?

To ensure these relationships are successful, it is critical to partner with Afghan firms and to establish a mentorship program. LBG has hired a large number of Afghans and continues to hire interns and provide them training and mentorship with professionals. A number of our Afghan former employees have started their own companies or have become high-level employees in Afghan firms. Additionally, having Afghans hold key positions at LBG, such as Deputy Task Order Managers and Site Construction Managers, has provided them with professional development opportunities and, we believe, has been invaluable to achieving both their individual success and the broader goal of enabling Afghans to know how to sustain completed projects.

6) What steps do you take to vet Afghan firms?

Before LBG signs a contract with an Afghan partner, we check the company and its senior officials against the Excluded Parties List System (EPLS), the US Treasury Office of Foreign Assets Control Blocked Parties List and the United Nations Consolidated List maintained by the 1267 Committee. In addition, for all subcontracts in excess of \$150,000 regardless of tier, and for all Afghanistan security subcontracts regardless of amount, we provide vetting information to USAID that is reviewed and approved before the contract can be signed. On the Gardez-Khost Road, all security guards are checked against the US military's biometric system as an additional safeguard.

The Federal Acquisition Regulation (FAR) has now been amended to implement subcontractor reporting requirements pursuant to the Government Funding Transparency Act of 2008. The rule requires contractors to report certain information regarding first-tier subcontracts over \$25,000 to the Federal Subcontractor Reporting System (FSRS). The rule applies to all contracts over \$25,000 with the exception of contracts with individuals and classified contracts. The rule became effective on July, 8, 2010 and was implemented in phases, with full implementation completed on March 1, 2011.

7) Is the Louis Berger Group in compliance with the requirements for entering subcontractor information into FSRS?

USAID is in the process of preparing a modification to our contract that will include this FAR clause. To date, the FAR clause has not been part of our contract, and therefore we have not entered the subcontractor information into FSRS. However, we are now compiling the necessary information so that we can begin entering the information into FSRS.

8) If not, when do you expect to be fully compliant?

We expect to begin entering data into FSRS within the next few weeks and will be compliant soon after that.

Post-Hearing Questions for the Record

Submitted to

Mr. Wahid Hakki; Chief Executive Officer, Contrack International, Inc.

From Senator McCaskill

“AFGHANISTAN RECONSTRUCTION CONTRACT: LESSON LEARNED AND ONGOING PROBLEMS”

Thursday, June 30, 2011, 10:00 A.M.

**United States Senate, Subcommittee on Contracting Oversight,
Committee on Homeland Security and Governmental Affairs**

- 1) What steps have you taken to improve oversight of your own contracts? What steps have you taken to improve oversight of your subcontractors at all levels?
- 2) Are the Defense Department and USAID listening to contractors when they point out what works and what does not? Yes, DoD is. Don't know about USAID as we have not worked with them in Afghanistan.

In Contrack's written testimony, Mr. Hakki stated: "Contrack's business model in Afghanistan is somewhat different than most prime contractors in that we self-perform the majority of our work, rather than acting purely as a construction manager of major subcontractors."

- 3) Why do you think other contractors simply act as a manager of subcontractors? Most contractors do not appear willing to take the risk of expense and investment mobilizing their personnel and equipment to Afghanistan, and do not fully understand the limited resources available in country.
- 4) Why does your model work? A) More and better control of the construction activities. B) Better control of safety practices and quality control. C) When a subcontractor fails to perform, we are forced to terminate his contract, step in and take over the completion of his works. This costs us more money and time than had we self performed from the start
- 5) What actions do you take to monitor, audit, and control your subcontractor costs? We will only issue fixed-price subcontracts, as our contracts with the Government are fixed-price. They get paid based on an agreed upon schedule of values listed in the subcontract agreement and an actual percent completed for each value.

The Federal Acquisition Regulation (FAR) has now been amended to implement subcontractor reporting requirements pursuant to the Government Funding Transparency Act of 2008. The rule

requires contractors to report certain information regarding first-tier subcontracts over \$25,000 to the Federal Subcontractor Reporting System (FSRS). The rule applies to all contracts over \$25,000 with the exception of contracts with individuals and classified contracts. The rule became effective on July 8, 2010 and was implemented in phases, with full implementation completed on March 1, 2011.

- 6) What efforts are you making to adhere to the requirements for entering subcontractor information into FSRS? We are monitoring the FSRS guidelines and will report the required subcontractors' information.

In March 2010, the Undersecretary for Defense for Acquisition, Technology, and Logistics, Ashton Carter, stated that the Defense Department has been and continues to be chronically short of contracting personnel in Afghanistan and that this shortage is the area where the Defense Department has been most deficient. For example, GAO found that one Contracting Officer's Representative (COR) was overseeing more than a dozen contracts.

- 7) On average, how often does a Contracting Officer perform site visits? How about the COR? For Contracting Officer, I would say 2 or 3 times per the life of the project. As for the COR's, I would say weekly.
- 8) What has been your experience in working with contracting officers and COR? Mixed. A wide range from extremely competent to not competent at all ie, no construction background.
- 9) Has a shortage of oversight personnel and turnover adversely affected your ability to meet contract requirements? Yes.
- 10) Would it be beneficial to have more contact with contracting personnel and COR on project sites? Yes.

Contracting officials are also responsible for preparing contractor evaluations, which are important for both the government and the contractor on future acquisitions.

- 11) On average, how long does it take for evaluations of your contracts to be completed? 6 months to over a year.
- 12) Do you know the reason for the delay? It has been our experience that the biggest cause for delay is the Gov't personnel involved during construction are not available to complete the evaluations, ie turnover of personnel.

There are a limited number of airstrips in Afghanistan and the current demand for air transport exceeds capacity. With military personnel understandably receiving first priority, among the other needs for travel in the country, contractors have been required to wait for long periods of time to get to their projects. We have heard reports of some contractors having to wait for weeks to get to their project locations.

- 13) Is this a problem? Contract has been making its own arrangements for personnel and equipment air transportation for several years and does not rely on the US military facilities.

- 14) How are you traveling to your projects? For upper management and senior staff, we use private chartered planes. For labor force, we use escorted ground convoys.
- 15) Have you had to hire additional staff to account for workforce delays? Is this cost being passed on to the taxpayer? No and no.
- 16) What effect do travel limitations and the increasing demands on military air space have on your ability to complete the mission? Not a major effect with respect to air travel, but there are serious delays for ground movements.
- 17) How are you getting materials in? Shipping to Karachi and then escorted land convoys from Karachi to the job sites. In the past two years, the average shipment from Karachi into Afghanistan has gone from 20-30 days to 60-90 days.
- 18) Do you have to pay for your own security? What kind(s)? How do you incorporate that into your contract costs? Yes. One of the few things we subcontract is security. So we solicit quotes from reputable companies capable of providing us the needed security.
- On certain contracts, normally contracts for construction, the government requires contractors to provide proof of bonding as a form of guarantee that the contractor will not walk out on the contract and leave the government without any recourse. Sources informed the Subcommittee that the government, in past years, had eliminated, or significantly reduced, this requirement for contracts in Afghanistan in order to let local and foreign firms compete for the work.
- 19) What changes would you make to the bonding requirement? The government must insist on bonding. Otherwise it has no recourse in case of default by the contractor.
- 20) Did the reductions in the bonding requirements lead to unreliable firms being awarded contracts or more firms being awarded contracts which they could not perform? Yes, unreliable firms not able to perform the contract.
- 21) In your experience, when contractors are unable to satisfactorily complete the requirements of a contract, does the government terminate the contract or take other action? What potential harm does this create? It appears in most cases the Gov't is terminating for convenience instead of default (thus allowing contractors who have defaulted to continue bidding projects). TforC or TforD costs the government more time and money than if they had awarded the work to a company that will complete, even if the initial price was slightly higher.

Post-Hearing Questions for the Record**Submitted to**

**Mr. William Solis; Director, Defense Capabilities and Management, U.S. Government
Accountability Office**

From Senator McCaskill

**“AFGHANISTAN RECONSTRUCTION CONTRACT: LESSON LEARNED AND
ONGOING PROBLEMS”**

Thursday, June 30, 2011, 10:00 A.M.

**United States Senate, Subcommittee on Contracting Oversight,
Committee on Homeland Security and Governmental Affairs**

GAO has outlined ongoing problems with contracting oversight training and qualifications, continued problems in vetting contractors, and a lack of sufficient numbers of contracting oversight personnel, all of which were problems five years ago.

1) Are things better or worse now?

DOD and the services have taken some important steps to institutionalize Operational Contract Support (OCS)—for example, by issuing joint doctrine, including some training in professional military education, and establishing a vetting cell to vet non- U.S. vendors in Afghanistan, to minimize the risk of criminal groups using contracts to fund their operations, however the current system of using CORs to provide contract management and oversight still has significant weaknesses. While the department has improved contract management and oversight by adding training requirements for CORs, some gaps in training remain and not all of the required training is being conducted or completed. In Afghanistan, CORs frequently lack the required technical skills to monitor contractor performance. Additionally, DOD continues to lack a sufficient number of oversight personnel to oversee the numerous contracts and task orders used in Afghanistan. As a result, contract oversight and management issues are resulting in a waste of money and raises concerns about security, readiness, and morale.

2) What does the Defense Department need to do to fix this?

An underlying cause for contractor oversight issues is DOD's inability to institutionalize operational contract support. Army officials stated that commanders, particularly those in combat units, still do not perceive contract management and oversight as warfighter tasks. As a result, units may not always use the tools available to help prepare for contract management duties in Afghanistan. In addition, GAO and others have made recommendations to provide operational contract support predeployment training for commanders and senior leaders and

DOD has agreed with our recommendations. However, little or no operational contract support training for these personnel is available prior to deployment. As a result, commanders do not always understand their units' roles and responsibilities to provide contract management and oversight. Recently, the Secretary of Defense called for a change in culture related to operational contract support and directed the joint staff to identify the resources and changes in doctrine and policy necessary to facilitate and improve the execution of operational contract support. This reexamination of culture, policies, and resources along with implementing solutions to the contract oversight problems identified by us and others should help DOD address its longstanding issues oversight issues

The Defense Department, USAID and the State Department are required to report contract and contractor data into the Synchronized Predeployment and Operational Tracker (SPOT) system. According to the Annual Joint Report on Contracting in Iraq and Afghanistan, released in April 2011, the number of Afghan national contractors is not yet captured in the database.

- 3) Have the Defense Department, State Department, or USAID adopted any of GAO's recommendations for fixing problems identified with SPOT reporting?

To date, the agencies have not implemented the recommendation from GAO's 2009 report that they jointly develop and execute a plan with associated time frames to address limitations in SPOT's implementation and ensure the fulfillment of statutory requirements for the tracking of contracts, assistance instruments (grants and cooperative agreements), and associated personnel in both Iraq and Afghanistan. In September 2011, GAO plans to issue a report that provides additional information regarding the agencies' progress and plans for SPOT's implementation.

- 4) Who is responsible for reporting this information at the respective agencies?

DOD, State, and USAID have each developed their own policies and procedures regarding the entry of personnel information into SPOT. These policies and procedures generally require the incorporation of contract clauses or assistance instrument provisions requiring contractors or assistance recipients to enter data on personnel who meet certain thresholds into SPOT. However, there may be instances, such as when the contractor lacks access to SPOT, that contracting or assistance officials enter the information into SPOT based on reports provided by the contractor or assistance recipient. While it is generally the responsibility of the contractor or recipient to enter the information into SPOT, contracting or grants officers and/or their representatives are responsible for ensuring that the information SPOT is accurate and up to date.

- 5) What may be the impact if this information remains unavailable or unreliable in the near future?

As discussed in GAO's prior reports, reliable, meaningful data related to contracts and assistance instruments, as well as the personnel working under them, are a starting point for informing agency decisions and ensuring proper management and oversight. Absent complete and accurate information on contractors and assistance instrument recipients supporting contingency operations, the agencies are limited in their ability to develop a complete picture on the extent of their reliance, the tasks being performed, and their associated costs.

In your written testimony, you raised concerns regarding the vetting of Afghan contractors and subcontractors. According to your June 2011 report, the Defense Department does not routinely vet proposed non-US vendors for contracts under \$100,000.

- 6) In FY 2010, what percentage of the Defense Department's contracts was under \$100,000? What was the total dollar amount of these contracts?

In fiscal year 2010, CENTCOM had 8,142 awards (contracts awarded or options exercised) under \$100,000 where the place of performance was Afghanistan. The total value of those awards was \$163.8 million. In the same time frame CENTCOM had 2,153 awards over \$100,000 and these awards were valued at more than \$1.5 billion. However, the number of awards listed does not necessarily equal the number of vendors as some vendors may have more than one contract or task order. Additionally, while CENTCOM is the primary DOD contracting entity in Afghanistan, the number given does not include contracts from the U.S. Army Corps of Engineers.

- 7) USAID is having similar issues with vendor vetting. What is USAID doing differently than DOD to address the problem?

In our June 2011 report (GAO-11-355) we stated that USAID's vetting process may have limitations similar to those of CENTCOM's vetting process. However, since then USAID has issued an updated Mission Order that has directed that an Afghanistan Counter-Terrorism Team (ACTT) be established to address implementation and interagency issues related to vetting. The team is to be chaired by the Senior Deputy Mission Director, and its responsibilities are to include the establishment of an inter-agency decision making body in Afghanistan to adjudicate vetting results, establish reporting metrics for USAID's vetting process, and work with the vetting unit to modify as needed the criteria used to establish risk based indicators for vetting as needed. The Mission Order also established procedures for vetting, finalized vetting criteria such as thresholds, and established mandatory clauses for contracts and awards.

- 8) Did USAID try and coordinate their vetting efforts with DOD to avoid duplicating efforts?

USAID's vetting approach was created as a result of close coordination and consultation with CENTCOM's vendor vetting cell. Initially, USAID officials intended to use CENTCOM's vetting process to vet their contracts and awards. However, in determining if CENTCOM's vetting cell would meet its needs, the agency sent a test vet to the vetting cell and found that it took nearly 3 months for the vetting cell to provide results. As a result, USAID decided to create a process that would be more responsive to its needs and the agency assessed it had existing capabilities from its vetting process for the West Bank and Gaza that could be used to set up a process similar to CENTCOM's without duplication. Additionally, in order to reduce duplicative efforts, both USAID and DOD officials indicated that they closely coordinate and share vetting results in a variety of informal ways.

- 9) What is necessary to streamline the way that the agencies collaborate and share this information?

In our June 2011 report we recommended that DOD, USAID, and the State Department consider developing formalized procedures, such as an interagency agreement or memorandum to ensure the continuity of communication of vetting results, as well as to support intelligence information, so that other contracting activities may be informed by those results. We believe that these formalized procedures will greatly assist interagency collaboration over the long-term.

During the hearing, Defense Department officials were asked to address issues relating to sustainability and accountability for construction and development contracts in Afghanistan funded by the Defense Department.

- 11) Does the Defense Department currently have an adequate structure for determining who is responsible for planning, funding, and assuring the sustainability of Defense Department contracts for construction and development in Afghanistan?

At this time, GAO has not specifically evaluated whether DOD has an adequate structure for determining who is responsible for planning, funding, and assuring the sustainability of DOD contracts in Afghanistan. Further, we are unaware if a structure exists.

- 12) Does the Defense Department have viable mechanisms or procedures to ensure sustainability of authorized construction and development projects?

Although we have not examined all of DOD's efforts related to construction and development programs to determine if mechanisms or procedures exist to ensure sustainability, we have looked at the Commander's Emergency Response Program (CERP). CERP guidance requires that sustainability be included as a factor when a project is considered. In addition, CERP guidance requires that a sustainability agreement be signed by a representative of the Government of Afghanistan for projects valued at \$50,000 or more. In these agreements, the Afghan government pledges to provide the necessary resources to sustain the project; however the agreement notes that the sustainability agreement is not a legal document and cannot be enforced in international courts. While we have looked at CERP, we have not reviewed the program to determine if the sustainability agreements are effective.

According to a survey of relevant inspectors general, GAO, Commission on Wartime Contracting, and SIGAR reports, over 268 recommendations have been made about how to improve contract oversight. Only 159 of those recommendations have been implemented.

13) What GAO recommendations do the Defense Department and USAID need to implement in the immediate future in order to address the most pressing problems for reconstruction and development contracts in Afghanistan?

DOD faces challenges that stem from the department's failure to fully integrate operational contract support within DOD, including planning for the use of contractors, training military personnel on the use of contractor support, accurately tracking contractor use, and establishing measures to ensure that contractors are accountable. A cultural change in DOD that emphasizes an awareness of operational contract support throughout all aspects of the department, including planning, training, and personnel requirements, would help the department address these challenges in ongoing and future operations. We have made numerous recommendations to DOD to help improve the oversight and management of contractors used to support contingency operations. Specifically, we have made recommendations in the areas of developing guidance, planning for contractors in future operations, tracking contractor personnel, providing sufficient numbers of oversight personnel, and training non acquisition personnel including CORs and other key leaders such as unit commanders and senior staff. DOD has implemented some—but not all—of these recommendations.

Developing guidance. *DOD has issued some guidance to assist in planning for and conducting and assessing operational contract support, but it has yet to finalize joint policies required by Congress in the National Defense Authorization Acts for Fiscal Years 2007 and 2008. However, to provide additional assistance to deployed forces, the department and the Army introduced several handbooks and other guidance to improve contracting and contract management in deployed locations. For example in October 2008, the department issued Joint Publication 4-10, Operational Contract Support, which establishes doctrine and provides standardized guidance for, and information on, planning, conducting, and assessing operational contract support integration, contractor management functions, and contracting command and control organizational options in support of joint operations.*

Planning for operations. *While DOD has not yet implemented all of our March 2010 recommendations regarding planning for operational contract support, the Department, particularly the Joint Staff is making progress. For example, in July 2010 the Chairman of the Joint Staff directed that operational contract support equities be included in key strategic documents such as the Guidance for Employment of the Force, and the Joint Strategic Capabilities Plan. According to the Joint Staff including OCS in these key documents will influence a cultural shift and drive planning behavior. In addition, the Joint Staff has drafted detailed planning standards for planning for operational contract support. These standards will be included in a Chairman Joint Chiefs of Staff manual and are expected to be issued later this year. Finally, the Department has institutionalized the Joint Operational Contract Support Planners as we recommended.*

Providing oversight personnel. DOD continues to face challenges in ensuring that it has an adequate number of personnel to provide oversight and management of contracts. DOD has acknowledged shortages of personnel and has made some efforts to address them, but these efforts are in the early stages of implementation. Among efforts to address providing oversight personnel, DOD has added new training for CORs serving in contingencies, but some gaps in training remain and not all of the required training is being conducted or completed. Although CORs are selected from a group of candidates who have completed the basic COR training, their technical expertise, or lack thereof is not always taken into consideration when they are appointed to oversee contracts. Overall, DOD continues to lack a sufficient number of oversight personnel to oversee the numerous contracts and task orders used in Afghanistan.

Training non-acquisition personnel. DOD continues to be challenged in ensuring that nonacquisition personnel, such as unit commanders, have been trained on how to work effectively with contractors in contingency operations. As a result, officials from several units that recently redeployed from Afghanistan indicated that a lack of knowledge of contracting resulted in shortfalls in critical oversight areas. While, training is available for commanders and other senior leaders, these courses are not required prior to deployment. In 2006, we recommended that Operational Contract Support training be included in professional military education to ensure that military commanders and other senior leaders who may deploy to locations with contractor support have the knowledge and skills needed to effectively manage contractors. Both DOD and the Army have taken some actions to implement this recommendation. For example, the Army includes operational contract support topics in its intermediate leaders course and includes limited operational contract support familiarization in some but not all of its pre-command courses. However, while DOD has established a program of instruction for use in senior leader professional military education, the instruction has yet to be incorporated in this level of professional military education.

Additionally, DOD has taken some actions to improve the capability of CORs to provide management and oversight of contracts in contingency operations such as Afghanistan. These actions include developing a new COR training course, with a focus on contingency operations, and developing a COR certification program. However, according to personnel in Afghanistan, none of the required COR training provides enough specifics about contract management and oversight in Afghanistan. For example, the required training does not provide CORs with information regarding important issue areas like the Afghan First Program, which encourages an increased use of local personnel and vendors for goods and services as part of the U.S. counterinsurgency strategy, and working with private security contractors.

Screening contractor personnel. While a significant number of contractor personnel supporting DOD are local or third-country national personnel, DOD has yet to develop a department-wide policy for screening them.

Agency Coordination In recent reports, we have expressed the importance and need for better coordination between DOD, State, and USAID. For instance, in relation to Commander Emergency Response Program, in 2009, we recommended that DOD and USAID, collaborate to create a centralized project-development database for use by U.S. government agencies in Afghanistan, including establishing specific milestones for its development and implementation.

While mechanisms exist to facilitate coordination, DOD and USAID lack information that would provide greater visibility on all U.S. government development projects.

Further, this year we expressed the need for the Taskforce for Business and Stability Operations to improve information sharing among the Task Force and other federal agencies involved with stabilization and economic development efforts in Afghanistan, by DOD and USAID determining the most appropriate mechanism for integrating Task Force participation, such as formalizing the process previously used to obtain State concurrence on Task Force projects, participating in appropriate working groups in Afghanistan, and/or including Task Force project and activity information in existing databases.

We also issued a report this summer discussing that while DOD and USAID share vetting information informally, without a formal mechanism to share vetting results the two agencies cannot ensure that their current practices will endure. Further, as State expands its use of local contractors, it will become imperative that it is part of the data sharing with DOD and USAID. Therefore, to promote interagency collaboration so as to better ensure that vendors potentially posing a risk to U.S. forces are vetted, we recommended that the Commander of U.S. Central Command; USAID Mission Director, Kabul, Afghanistan; and the Coordinating Director for Development and Economic Affairs, U.S. Embassy, Kabul, Afghanistan, consider developing formalized procedures, such as an interagency agreement or memorandum of agreement, to ensure the continuity of communication of vetting results and to support intelligence information, so that other contracting activities may be informed by those results.

Post-Hearing Questions for the Record

Submitted to

Mr. Kim Denver; Deputy Assistant Secretary of the Army (Procurement), U.S. Department of Defense

From Senator McCaskill

“AFGHANISTAN RECONSTRUCTION CONTRACT: LESSON LEARNED AND ONGOING PROBLEMS”

Thursday, June 30, 2011, 10:00 A.M.

United States Senate, Subcommittee on Contracting Oversight,

Committee on Homeland Security and Governmental Affairs

1) GAO has outlined ongoing problems with contracting oversight, training and qualifications, vetting contractors, and insufficient numbers of contracting oversight personnel, all of which were problems five years ago.

a) Has the Defense Department implemented GAO's recommendations in these areas? If not, why not?

Answer: Although Army contracting cannot speak to all the recommendations implemented throughout the Department of Defense (DoD), we can speak to the initiatives undertaken by the Army and various Army contracting offices.

The GAO Report in reference noted concerns with contractor and subcontractor vetting. The requirements for Afghanistan vendor vetting were established with U.S. Forces – Afghanistan (USFOR-A) Fragmentary Order (FRAGO) 10-330. The CENTCOM Joint Theater Support Contracting Command (C-JTSCC) implemented these requirements via the CENTCOM Contracting Command Acquisition Instruction (AI), paragraph 25.7704-120, and through the theater business clearance process, all contracting activities executing on behalf of USFOR-A or within the CENTCOM Area of Responsibility, must comply with C-JTSCC policies. Per USFOR-A FRAGO 10-330, vetting applies to all non-US vendors for contracts greater than \$100K. The C-JTSCC AI also states that although not required for contracts under \$100K, vendor vetting for all non-US vendors is highly encouraged. Furthermore, vetting is required for all high-risk categories such as private security contractors and information technology contracts regardless of value.

The limiting factor for vendor vetting is the capacity of the CENTCOM Vendor Vetting Reachback cell in Tampa. Currently, the vetting process is limited by the funding and facility constraints, but the Army is pleased to report that as of August 19, 2011, the cell reviewed 574

contractors. The majority of the contractors reviewed consisted of host nation trucking and private security contractors. To supplement the formal vetting process, Regional Contracting Centers (RCCs) have developed lists of acceptable local contractors.

Due to the volume of contracts and actions in Afghanistan, C-JTSCC prioritizes the vetting of current contracts to ensure the existing contracts are proper. A Validation Panel consisting of Senior Contracting Official – Afghanistan (SCO-A), Task Force 2010, and International Security Assistance Force Joint Command (IJC) members was established and meets every two weeks to prioritize the pre- and post-award contracts to be vetted. The panel does consider risk, complexity and nature of the contract as part of the process. Of the total vetted, 56 companies were rejected. The C-JTSCC goal remains to vet prior to award.

Each Logistic Civil Augmentation Program (LOGCAP) contractor has an established process for vetting subcontractors. Contractor and subcontractor employees are also vetted for access to U.S. military bases. Defense Contract Management Agency (DCMA) also monitors the contractor's adherence to standards set forth in the LOGCAP base contract, the specified task order, and all applicable incorporated references regarding Trafficking in Persons.

Additionally, DCMA-Afghanistan (DCMA-A) has a process in place to ensure that current contractors are re-vetted during the execution of contract option modifications. However, Army contracting cannot speak to the procedures and processes used by DCMA.

Another concern in the GAO report was that DOD is not sharing the vetting information with U.S. Agency for International Development (USAID) or State. The DoD does in fact provide vetting data to USAID and State. When a vendor is rejected through the vetting process for SCO-A, IJC publishes a Fragmentary Order and it is shared with USAID and State. Discussions with State are ongoing on the use of this system to vet State contractors; however, additional collaboration with USAID and State is needed to establish a formal process to share information and data.

To address the GAO's concerns regarding contract management and oversight the Army has made great strides in improving these functions during contingencies. Since December 5, 2009, deploying Army units' commanders have been mandated to designate and train specified numbers of their Soldiers to serve as Contracting Officer Representatives (CORs) for contracts supporting their units when deployed. Each brigade must train enough CORs prior to deployment to fill all known COR requirements in theater. If the brigade cannot determine its COR requirements, then a minimum of 80 CORs must be trained. Units are required to identify COR requirements no later than 180 days before the latest arrival date (LAD) for their deployment (LAD – 180), to nominate CORs no later than LAD – 90, and to ensure their Soldiers nominated to serve as COR complete on-line COR training no later than LAD – 90.

Additionally, CENTCOM Acquisition Instruction dated November 5, 2010, section 1.602-2 Responsibilities and 5153.120 DOD Standards for Certification of CORs for Service Contracts provide guidance to Contracting Officer and COR duties and responsibilities. The Army also publishes a quarterly COR newsletter to provide up-to-date information and guidance, and produced Deployed COR Smartcard and handbooks that identify COR duties, contract formats, basic contracting processes, forms, file documentation requirements and online training resources. Further, the Army developed a COR Management Tool to track individual COR nominations, appointments, training status, and reporting. The Office of the Secretary of Defense is considering making the COR Management Tool available for use across DoD. The U.S. Army Training and Doctrine Command will release online contingency COR training this fall for non-acquisition soldiers.

In April 2011, to ensure that technically qualified personnel are involved in the oversight of construction contracts in Afghanistan, the SCO-A provided guidance on the appointment of Construction Inspectors (CIs) to provide technical expertise and support to the construction CORs. We believe that this initiative will help CORs provide effective oversight of construction contracts in theater.

A related initiative is the quarterly briefs that the Principal Military Deputy to the Assistant Secretary of the Army (Acquisition, Logistics and Technology) provides to new Army General Officers and members of the Senior Executive Service on Army Acquisition Corps priorities, including their responsibility for CORs and COR training, and the General Officer (GO) Procurement Course, a 2-day class that has trained over 80 new GOs and Senior Executive Service (SES) members.

The Defense Acquisition University (DAU) developed an online course CLC 206, COR in the Contingency Environment, to supplement its more basic installation-focused course, CLC 106, COR with a Mission Focus.

In addition to the required DAU training, the Army Contracting Command (ACC) coordinates with deploying units and provides augmentation training tailored to contingency environments. As of 8 June 2011, the ACC provided COR training to 36 brigade-sized units, and since October 2010 has trained 2,327 Soldiers to serve as COR.

The Army is striving for more in-depth training prior to deployment, specifically, understanding contract terms and conditions, and the statement of work, a periodic refresher training in theater, COR continuity files specific to the contracts for easy reference and transition purposes, and coordination with DCMA in developing quality assurance checklists.

Additionally, coordination between DCMA, Army contracting offices, and deployed units has significantly increased the number of CORs in Afghanistan and consequently increased the number of quality assurance compliance reviews. Between April and August 2011, the number of CORs provided by deployed units in Afghanistan increased from 474 to 685.

The C-JTSCC reports a nearly 100% fill in the required number of CORs deployed to theater – over 3,000 CORs – another testament to the Army's increasing effectiveness in contractor oversight.

Over the course of two decades, the contracting workforce decreased approximately 25% while the contracting workload increased 1000% as a result of Operation Enduring Freedom and Operation Iraqi Freedom. With Congress' assistance, Army contracting has made great strides in growing the acquisition workforce to satisfying the largest scale contracting oversight mission the U.S. has ever managed. The Army Section 852/Defense Acquisition Workforce Development Fund (DAWDF) Management Team reports that the Army hired 890 contracting (1102) acquisitions civilians since 2009 and a total of 808 contracting interns and 82 journeymen have been hired as of June 30, 2011. The Army plans to hire a total of 1,500 contracting (1102) acquisition civilians by FY15 utilizing the DAWDF. All 1,500 positions are documented as new growth. This increased workforce, as it becomes more skilled and experienced, will further improve contractor oversight.

b) What is the Department of Defense doing to improve these problems?

Answer: Although Army contracting cannot speak to all the initiatives implemented throughout the Department of Defense, we can only speak to the initiatives undertaken by the Army and various Army contracting offices.

The **Answer** to Question #1 addresses a number of the GAO concerns on contracting oversight and vetting. This **Answer** will address some of the issues regarding the training and number of contracting oversight personnel.

The Army has made significant improvements in the areas of contract oversight and the numbers of contract oversight personnel in the past few years. In theater, we have a COR for virtually every contract that requires one. The exceptions might be when a unit redeploys prior to the arrival of the new unit. However, that is an unusual occurrence and our contracting offices work hard to ensure that there is COR coverage even in those circumstances. In the absence of a COR, the contracting officer provides the necessary oversight.

Staffing sufficient number of CORs is one of DoD's High Priority Goals. The COR assignment rate to support Afghan contingency contracting is tracked and monitored weekly by DCMA to support the DoD Strategic Management Plan and weekly performance rate is reported to senior leaders weekly. Since the Goal inception, DoD has made significant improvement in achieving this Goal from 39% in FY2009 to 92% in FY2011 Q3.

C-JTSCC requires CORs to have the mandatory training prior to nomination to the COR position. Additional Phase II training with focus on challenges unique to overseeing contracts in

Afghanistan is provided once CORs arrive in theater by the Contracting Officer. C-JTSCC validates contract compliance during inspection visits.

Working directly with the CORs, DCMA performs contract administration for many of the critical contract services in theater. DCMA provides CORs with contract-specific training encompassing such areas as DCMA procedures, Theater Quality Plan familiarization, contract-specific checklists, and training on how to draft DCMA Corrective Action Requests.

Another innovation of the Army is inserting a Contracting Officer Forward in Afghanistan in order to provide immediate integration with DCMA on any contracting administration issues. The Contracting Officer Forward provides direct feedback to contracting officers and contracting management in the U.S.

The U.S. Army Acquisition Support Center (USAASC) has accomplished several things to resolve the ongoing issues within our Army contracting community. At the Army General Officer and SES level, it has added several Procurement modules to the current Force Management Course in order to better inform Army Leaders of the roles and responsibilities that contracting plays in sustaining and supporting the operational force. The enhanced Force Management Course includes 1.5 days of relevant contract training.

The Army Acquisition Center of Excellence (AACoE) and the Army Logistics University (ALU) now offer more robust acquisition and contracting curricula. Specifically, AACoE has enhanced the training focus to include a "Contracting Officer Representative (COR) train-the-trainer" curriculum as part of the Senior Leaders Course (SLC). This one-week course teaches our 51C Noncommissioned Officers (NCOs) the duties and responsibilities of the COR as well as how to train CORs when they are in the field. At ALU, a two-week Operational Contract Support class has been added in order to train the Army operational force. This class will train approximately 5,000 students per year.

The U.S. Army Training and Doctrine Command has developed a 40-hour distance learning course on contingency CORs. It will be online this fall.

Other Army organizations, such as the Army Contracting Command (ACC) and the U.S. Army Corps of Engineers (USACE), are focusing on how CORs are used and trained. Within the ACC, a senior civilian (General Schedule (GS)), establishes and maintains an industrial property management capability that assists the contracting workforce with COR duties. This team assists with the development of a Quality Assurance Surveillance Plan (QASP) for service contracts. The QASP also helps CORs manage and improve contractor performance.

Army contracting has taken measures to correct the deficiencies that were noted in the GAO report. Training, COR classes, coaching, and instruction have been made available to the acquisition workforce as well as the Operational Army. Army Contracting organizations have implemented a more robust curriculum ensuring that the roles and responsibilities of CORs are

clearly understood. This training covers all elements of the workforce from CORs to NCOs to the GO/SES levels.

c) Does the Department of Defense have a database capable of accurately tracking the number of Contracting Officer Representatives (CORs) in Afghanistan for the Defense Department?

Answer: Each Regional Contracting Center (RCC) maintains information regarding the CORs assigned to their contracts. RCCs screen new requirements to ensure that the requiring activity is providing a trained and certified COR. If proof of COR training is not provided with the requirements package, the package is not accepted by the RCC. Additionally, the RCCs monitor COR information to identify and prevent gaps during COR transitions.

Additionally, DCMA-Afghanistan (DCMA-A) has a "Service/Audit Tracker" database system that was developed internally to track Contracting Officer Representatives assigned to contracts delegated to DCMA-A, as well as the Quality Assurance Representatives, Government Technical Product Representatives, Subject Matter Experts, and the audits to be completed down to the Forward Operating Base level. The tool allows DCMA-A to sort, analyze and report on contractor performance from a single data repository.

The SCO-A explored the development of a centralized database for CORs. However, with the upcoming Office of the Secretary of Defense mandated implementation of the Contracting Officer Representative Tracking Tool (CORT Tool), further effort into a separate database system was not pursued. The most recent published guidance is that the CORT Tool will be implemented in the summer of 2012.

Additionally, the Army's Digital Training Management System is being modified by the Army G3/5/7 to enable tracking of soldier COR training throughout their careers and will be fully deployed by the end of Fiscal Year (FY) 2012.

2) The Special Inspector General for Afghanistan Reconstruction (SIGAR) recently announced that it will conduct a follow-on audit to its October 2010 report SIGAR Audit-11-4, "*DOD, State, and USAID Obligated Over \$17.7 Billion to about 7,000 Contractors and Other Entities for Afghan Reconstruction During Fiscal Years 2007-2009*," which SIGAR has removed from its website due to gross inaccuracies. As you know, this report contained information from the Department of Defense that incorrectly reported several hundred million dollars in contract awards from the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) (now called the Joint Theater Support Contracting Command under CENTCOM Contracting Command (CCC)).

a) Who is responsible for the oversight of contracting within JCC? What are the responsibilities within your office, as the Deputy Assistant Secretary of the Army for Procurement, and what are the responsibilities within the office of the Central Contracting Command? Do these responsibilities overlap? Who is ultimately in charge?

Answer: U.S. Central Command (CENTCOM) is responsible for the oversight of C-JTSCC in the exercise of Command and Control Authority. The Army is responsible for oversight of C-JTSCC in the exercise of its contracting authority.

The Army has been designated by DoD as the Executive Agent for theater contracting since 2003. The Secretary of the Army receives procurement authority through Title 10 U.S. Code Section 3014. This authority is delegated through the Assistant Secretary of the Army (Acquisition, Logistics and Technology) (ASA(ALT)) to the Commanding General of CENTCOM Joint Theater Support Contracting Command (C-JTSCC) which is informally referred to as the CENTCOM Contracting Command (C3). The current Head of Contracting Activity (HCA)/Commander of C-JTSCC is RDML Nicholas Kalathas. As the HCA, he provides contractual policies and procedures for procurement of mission-essential supplies, services and minor construction that is unavailable through normal logistical channels for U.S. and coalition forces deployed to Iraq and Afghanistan and exercises contract coordination authority over other contracting organizations in both Combined Joint Operations Areas as well as Kuwait and Pakistan to ensure synchronization of resources, effective contract planning, and compliance with CENTCOM policies. The HCA provides guidance and acts as the approving authority as stipulated by the Federal Acquisition Regulation and the Defense Federal Acquisition Regulation Supplement. Each Head of the Contracting Activity gives that authority to their Senior Contracting Official (SCO)/Principal Assistant Responsible for Contracting (PARC).

Oversight of contracting actions is a hierarchy. Each contracting office is responsible for primary oversight of their own contracts both through the implementation of policies and procedures as well as through peer reviews, higher level reviews and internal reviews. Each command headquarters office supplements that oversight with additional reviews and approval authorities. The SCOs in Iraq and Afghanistan perform front line oversight of the contracting actions under their authority. RDML Kalathas has overall responsibility for the C-JTSCC mission execution and is responsible for the contracting function within C-JTSCC.

The Deputy Assistant Secretary of the Army (Procurement) (DASA(P)) is responsible for contracting oversight for all Army Contracting Offices which includes C-JTSCC/C3. The DASA(P) was named the focal point for the Executive Agent for Contracting in 2010. The DASA(P) performs oversight for all Army contracting through a variety of means. Procurement Management Review (PMR) teams perform contract reviews on contracts in theater as well as those in other Army contracting offices throughout the world. DASA(P) personnel act as desk officers to provide Army data management for Army, federal or DoD systems. They ensure that required data is entered and captured and work to increase and improve data collection and data integrity. This helps to provide oversight of contracting actions. Some contract actions require headquarters-level approvals for high dollar value contracts or other contract requirements. These documents are reviewed and analyzed to ensure that the actions are appropriate prior to signature. In addition, the DASA(P) contingency staff works on all issues related to theater

contracting and oversight of contingency issues. This ensures that that individuals working on these issues are familiar with contingency issues and concerns. This office supports the PMRs that are done in theater, performs oversight on theater contracting policies and implementation of regulations, provides contracting technical advice and support, and works to resolve a variety of problems in support of oversight of contracting in theater.

b) How could CCC have provided information that was so drastically inaccurate?

Answer: Contracting data provided to SIGAR on April 6, 2010, in response to SIGAR Audit 18-A contained dollar inaccuracies. Specifically, the submitted spreadsheet labeled "JCCIA-TAB A-AFG Contracts" overstated the dollar value of contracts awarded to two specific vendors. This data was inaccurate due to errors in the query design used to extract the data for SIGAR.

By way of explanation, C-JTSCC extracts contracting data from the Procurement Desktop Defense (PD2) system using the Army Contracting Business Intelligence System (ACBIS). The ACBIS system is used to extract data elements from the PD2 system and allows it to be filtered and compiled, making it useful for compiling reports and data calls. Because ACBIS relies on user-defined queries, however, it is subject to user error.

The report in question required a data extraction for all C-JTSCC contract awards that supported Afghanistan reconstruction efforts sorted by company. When this query was compiled, it included an extra data field causing a computational error. At the time the report was developed, it was unknown that the inclusion of this additional data field would result in inaccurate summary fields.

SIGAR requested the data directly from C-JTSCC and received it directly from C-JTSCC. The DASA(P) has requested that C-JTSCC now route such data calls through the DASA's contingency directorate to help ensure data accuracy.

We fully appreciate the need to provide accurate data to requesting members of Congress and audit agencies, and we will work to ensure we are providing accurate and timely data at all times.

c) How many other errors were in the information that was provided to SIGAR?

Answer: C-JTSCC conducted analysis of the 39,000 contracting actions submitted for SIGAR audit 048 A in 2010. The error identified in the cited audit will appear with any contract having the same data query characteristics. C-JTSCC has determined that there is no issue within the database, only the independent query that was built to provide data to SIGAR generated this error.

C-JTSCC continues to extract data from the ACBIS system in order to determine whether other query combinations also result in inaccurate data. C-JTSCC will restrict the use of query fields that result in errors to prevent inaccurate reports in the future. As an additional step, C-JTSCC

will immediately begin to perform additional quality assurance checks on all reports and data provided to outside organizations. All requests for data currently being processed are also being verified for accuracy.

C-JTSCC has provided corrected data to SIGAR and continues to work with both Business Transformation Agency representatives and SIGAR representatives to resolve this issue and to ensure it is not repeated.

d) Does the Defense Department adequately track how much it is spending on contracting in Afghanistan and who we are spending it on? How? What databases are used to produce this information? What are the accurate contract spending figures on reconstruction and development spending over the last five years in Afghanistan?

Answer: The DASA(P) has the means to ascertain such metrics on unclassified contracts through automated and manual processes using automated enterprise business intelligence query tools designed to extract and store contracting data in various Federal, DoD, and Army-owned contract data warehouses. When the use of automation is not feasible, the Army implements manual data calls requiring a physical review of contract records to retrieve the data.

There are several databases used by the Army to produce contract spending and contractor data. The Federal Procurement Data System-Next Generation (FPDS-NG), the Standard Procurement System's (SPS) embedded "Cognos" business intelligence query process, the Army Contracting Business Intelligence System (ACBIS) enterprise query tool, and the Joint Contingency Contracting System (JCCS) contingency contract reporting process are among these databases. It must be noted that contracts awarded in Afghanistan prior to 2009 (other than contracts issued by the U.S. Army Corps of Engineers), were not created using an automated, electronic process. Contracts awarded by C-JTSCC (formerly the JCC-I/A) were created using manual processes (e.g., Microsoft Word) and the data was stored using a myriad of processes to include spreadsheets, CD ROMs, Microsoft Access databases, thumb drives, external hard drives, and paper files. At that time, none of this data was available to be queried by any of the aforementioned automated processes, nor were awards being individually reported to FPDS-NG, although they were reported in the aggregate.

Although the collection of data through an automated contract writing process clearly provides more accurate data than our old methodology of manual reports, there are still flaws. Not all data is inputted accurately in the system when contracts or contract modifications are written. Although our systems can prevent some errors through restricted entry fields, human error can account for some data errors.

Another area of difficulty is that different systems collect data for different purposes and, thus, do so differently. For example, FPDS-NG collects data at the award level, not at individual line items. The contract is reported in FPDS-NG based on the estimated predominance of the contract value determined at the time of award. A contract could, for example, contain line

items for the delivery of additional Bradley fighting vehicles, as well as the maintenance of those vehicles throughout the world. The cost of the vehicles exceeds the cost of the anticipated maintenance. The contract would be coded as a supply contract. The maintenance costs, which can amount to millions of dollars, would not be captured in Afghanistan or any other country. As such, the contract writing systems must be queried to review the line items in more detail.

Finally, data for other methods of expenditures, such as grants and cooperative agreements, are not collected in this system.

Reports can be run out of these systems to obtain information on expenditures, though the accuracy of these reports is dependent upon the exact parameters that are requested as well as a strong knowledge of the content of the various fields. However, two experienced people making independent decisions on the method of running a report to collect certain data could arrive at discrepant data.

Contract data systems do not track the type of funding used on a contract, so to obtain the expenditures related to a particular type of money, a financial data system would provide the most comprehensive and accurate data.

Although Army contracting cannot speak to all of the contract figures spent on reconstruction and development over the last five years for the Department of Defense, we can speak to the Army and various Army contracting offices figures for the contracts awarded for construction. This may include projects that are construction but do not constitute "reconstruction" expenditures and may omit reconstruction and development projects that are not construction.

The U.S. Army Corp of Engineers reports the following annual contract obligations for work in Afghanistan:

FY2006	\$704 M
FY2007	\$786 M
FY2008	\$1.523 B
FY2009	\$1.394 B
FY2010	\$1.899 B
FY2011	\$1.812 B (as of 30 June 2011)

We have requested additional data from other Army organizations and will provide the information no later than September 15, 2011.

3) The Defense Department, USAID, and the State Department were required to report contract and contractor data under the Synchronized Predeployment and Operational Tracker (SPOT)

system. According to the Annual Joint Report on Contracting in Iraq and Afghanistan, released in April 2011, the number of Afghan national contractors is not yet captured in the database.

a) What improvements has the Department implemented to ensure full compliance with SPOT?

Answer: We maintain a high level of confidence in the accuracy of U.S. and Third Country National (TCN) contractor data in Afghanistan, and have seen continued improvement in the registration of local national (LN) contractor personnel since the April 2011 report was published. The improvement in LN contractor registration in the database is a result of a renewed focus on compliance and added functionality in SPOT. Where necessary, the SPOT program manager has assisted CORs in uploading registrations of local national contractors off-line when they had difficulty accessing a network.

Because we are still facing challenges associated with distinguishing individual identities based upon name, birth date, and national ID (identification methods SPOT currently relies upon), we are continuing to work to better leverage biometric registration tools. We are making progress in federating the Biometric Automated Toolset system (the installation access control database) with SPOT, to allow for the sharing of information between databases. Recognizing that many LN contractors do not require installation access, we are also developing a handheld biometric registration tool which will allow CORs to register LN contractors in remote locations.

Finally, DoD continues to conduct a quarterly manual census of contractors in Afghanistan. The data from the manual census is compared to and analyzed against the information in SPOT. Once an organization establishes a minimum of 85% accuracy, DoD will discontinue the manual census and rely solely on SPOT for contractor counts. As an outcome of this strategy, each organization controls when it is no longer required to perform a manual census, resulting in an incremental increase in DoD's exclusive use of SPOT. This phased-in approach will begin 1st quarter FY2012. DoD intends to ensure SPOT data remains accurate by conducting periodic random samplings via the manual census process.

b) How is the Defense Department tracking your subcontractors and auditing their costs?

Answer: Contractors and subcontractors are registered and tracked in SPOT as required by DFARS 252.225-7040. Both U.S. and non-US vendors are included in SPOT. Steady progress in capturing data on local national contractors is being made and SPOT compliance is on the rise. While SPOT is used to register and track contractor personnel and contractor capability, it is not used to audit costs.

Most contracts awarded in the theater by C-JTSCC are Firm Fixed Price contracts which do not include tracking/auditing of cost. C-JTSCC cost contracts are administered by DCMA.

Although Army contracting cannot speak to the procedures and processes used by DCMA, DCMA-A uses SPOT to track all prime and subcontractors on contracts delegated to DCMA-A for administration. In addition to tracking in SPOT, DCMA-A also participates in a manual reporting process through both Logistics Civil Augmentation Program (LOGCAP) and Theater Wide Contract Administration (TWCA) contracts to track local nationals. In LOGCAP, DCMA-A receives monthly reports on local nationals and has access to daily accountability records. On TWCA contracts delegated by C-JTSCC, required contracting clauses ensure all prime contractors report on subcontractors being used in the performance of the contracts. DCMA-A does not perform a specific cost audit function but does utilize the Defense Contract Audit Agency for cost auditing when appropriate.

4) Limiting subcontracting is a major part of the COIN strategy. In the COIN memo, Gen. Petraeus states several key facts and goals: “Gain and maintain visibility of the sub-contractor network; Contract with vendors that have fewer sub-contractors; Excessive sub-contracting tiers provide opportunities for criminal networks and insurgents to divert contract money from its intended purpose; Hold prime contractors responsible for the behavior and performance of their sub-contractors; And, ensure that prime contractors provide detailed information on all subcontractors consistent with coalition requirements and with CENTCOM Contracting Command’s new sub-contractor clause.”

a) What is the Department of Defense doing to limit subcontracting?

Answer: The Army does not expressly limit subcontracting, but all contractors are required to provide subcontractor visibility through mandated subcontracting required clauses. C-JTSCC has developed a provision and clause that allows visibility on excessive subcontracting tiers. Special Provision 952.225-0014 – Notification of Subcontracting Requirements is incorporated in full text in all solicitations. In addition, all contract awards contain clause 952.225-0015 – Subcontracting Requirement requiring local national subcontractors to be approved by the contracting officer. These contract requirements ensure that prime contractors provide detailed information on all subcontractors consistent with coalition requirements. Note: See Appendix A.

Additionally, at Task Force 2010’s request, the Defense Procurement and Acquisition Policy (DPAP) submitted the following legislative proposals that would give USCENTCOM Commanders additional authority to gain and maintain visibility of any contractor’s network for contracts supporting USCENTCOM Theater of contingency contracting operations. The proposed Act (Section 861/821) does address the requirement that the contractor, or the recipient of the grant or cooperative agreement, to exercise due diligence to ensure that none of the funds under the contract, grant, or cooperative agreement are provided directly or indirectly to a person or entity who is actively supporting an insurgency or otherwise actively opposing U.S. or coalition forces in a contingency operations.

Proposed for FY2012 NDAA, Section 861 (Senate Bill)/Section 821 (House Bill) - Prohibition on contracting with the enemy in the USCENTCOM Theater of Operations. This Act provides contracting officers the authority to restrict the award, terminate for default, or void in whole or in part of any DoD contracts, grant, or cooperative agreement upon a written determination by the HCA that funds through DoD contract, grant, or cooperative agreement directly or indirectly support the enemy.

Proposed for FY2012 NDAA, Section 862 (Senate Bill)/Section 823 (House Bill) - Additional access to contractor and subcontractor records in the USCENTCOM Theater of Operations. This Act provides contracting officers the authority to examine any records of the contractor or subcontractor to ensure that funds through the DoD contracts, grant, or cooperative agreement are not subject to extortion or corruption and not support directly or indirectly the enemy.

b) What is the Department of Defense doing to ensure that prime contractors are holding their subcontractors accountable?

Answer: In the eyes of the government, all performance, whether by a prime or subcontractor, is prime contractor performance. If a prime contractor or its subcontractors fail to perform, the appropriate termination for default procedures are followed against the prime contractor. These procedures include issuance of a notice of concern and/or cure notice, show cause notice, and finally a default termination contract action. By taking action against the prime contractor for their inability to perform in accordance with the terms and conditions of the contract, the government in essence holds their subcontractors accountable.

Army contracts contain all mandatory clauses to strengthen subcontract oversight to include requirements to identify all proposed subcontractors and their key personnel, the cost applicable to the subcontracted effort and a description of the added value of the work provided by the subcontractors. Additionally, all subcontract agreements with host nations firms entered into after award must be approved in advance by the Contracting Officer. The subcontracting requirements are mandated for flow down to lower-tier subcontractors.

In addition to the above, examples of proactive procedures to ensure transparency of all tiers of subcontractors and suppliers are included in Appendix B. Additionally these requirements ensure contracting actions execute the intent of COIN. The requirements listed in Appendix B were incorporated in the Afghan Women Business Set Aside Procurements awarded August 2010. Note: See Appendix B

Although the Army's goal is that not a single contract dollar flows into the hands of the enemy, we also know that it is impossible to track where every dollar goes after it leaves the hands of the prime contractor. Continued vetting of prime and subcontractors and biometric processes, in which individuals are registered into a biometric databases to help identify insurgents, will provide additional deterrence and risk mitigation.

c) Can you provide a specific example of something the Department of Defense did to hold one of your prime contractors accountable for the improper actions of their subcontractors?

Answer: Suspension of work is a tool for holding prime contractors accountable for their subcontractor's improper actions. This provides financial leverage of the prime's earning potential. When a subcontractor under a prime is accused of improper actions we send a Letter of Concern or a Cure Notice to the Prime and suspend the company from performing until they submit a plan for corrective actions addressing problem resolution as well as preventive measures to avoid reoccurrence of the action. The contracting officer will put the prime back on mission upon satisfactory resolution of the matter. However, the contractor may be put back on mission sooner if it significantly effects mission accomplishment in an adverse manner. While off mission, the contractor loses all possible work which could be substantial.

One specific example occurred in June 2011 when the Army held a particular prime contractor accountable for its subcontractor actions. Work was suspended and the prime contractor was not permitted to resume work until an acceptable corrective action plan (CAP) that addressed all concerns was submitted.

June 27, 2011: Letter of concern (LOC) was issued to the prime contractor stating evidence of inter transit visibility (ITV) (vehicle-mounted transporters/locators) stacking. The prime contractor was suspended indefinitely until satisfactory resolution of the matter.

June 28, 2011: The prime contractor responded to the LOC with a proposed Corrective action plan, stating the ITV's were allocated to its subcontractors and this was a testing coincidence.

June 30, 2011: USG rejected the hastily prepared corrective action plan by the prime contractor due to lack of evidence of a thorough investigation. Additional direction was given to the prime contractor.

July 1, 2011: The prime contractor submitted new corrective action plan

July 2, 2011: USG accepted the revised corrective action plan and allowed prime contractor to resume work with USG closely monitoring prime contractor performance to ensure compliance.

d) How is the Department of Defense ensuring compliance with entering information into the Federal Subcontracting Reporting System (FSRS)?

Answer: The FAR requires clause 52.204-10, Reporting Executive Compensation and First-Tier Subcontract Awards be included in all contracts over \$25K. This clause requires the contractor to enter the required data into FSRS. In addition, the CENTCOM Contracting Command Acquisition Instruction (AI) paragraph 25.7703-5 "Solicitation Provisions and Contract Clauses"

requires the below clauses be included in all contracts over \$25K in order to obtain as much data as needed regarding subcontractors:

952.225-0014 - Notification of Subcontracting Requirements

952.225-0015 - Subcontracting Requirements.

The data required by 952.225-0014 is provided to the contracting officer with their proposal. The information required by 952.225-0015 is provided by the contractor to the contracting officer at time of award for approval of their subcontract agreement with the host nation contractor.

The U.S. Army Corp of Engineers (USACE) is developing implementing guidance and oversight for FSRS. The USACE Regional Contracting Chief responsible will be visiting Afghanistan in August 2011 to provide training and one of the topics being covered is FSRS. USACE will appoint a staff member at the USACE Middle East District office who will be responsible for validating information in FSRS for contracts in Afghanistan. USACE expects full compliance for other than Afghan firms by the second quarter of FY12. However, it's anticipated that Afghan firms will have difficulty fulfilling the requirements due to language and cultural barriers, including the issues of addresses and no last names.

5) Construction has been a major part of DOD spending in Afghanistan, yet guidelines for Quality Assurance have only been around since April 2011. Please describe how these guidelines will improve the oversight of construction projects.

Answer: The initiative described in the April 2011 guidance is the use of U.S. Air Force Prime Base Engineer Emergency Force (Prime BEEF) construction inspectors (CI) for the execution of construction contracts across Combined Joint Operations Area - Afghanistan. In an effort to ensure successful completion of construction projects in Afghanistan, CI's duties and responsibilities are to provide CORs with additional technical proficiency, advice, and assistance. CI's can be contractors, Department of Defense (DoD) civilians or military personnel that possess technical expertise regarding the construction engineering trade.

Prime BEEF CI's develop inspection schedules based on contractors project schedule, conduct periodic inspections and surveillance, and verify the contractor performs the technical requirements outlined in the specification.

The Army will partner with the Air Force Expeditionary unit to ensure success with Afghanistan contingency construction. Contingency construction will place greater emphasis on standardizing plans, keeping construction as simple as possible, meeting the minimum needs of the end user and maximizing use of existing facilities in Afghanistan.

In addition, there are other initiatives being implemented by Army contracting offices to assist and educate CORs who may not have the technical expertise necessary for proper oversight.

One such initiative is providing construction management services consisting of a cadre of subject matter experts in vertical construction. These personnel will train assigned CORs to identify commonly seen construction problems, provide advice on inspections, material submittals, and how to track and maintain project progress schedules.

On March 21, 2011 the Office of the Under Secretary of Defense (Acquisition, Technology and Logistics), DPAP issued a Class Deviation for the designation of CORs. This deviation clarifies that a COR must be an employee, military or civilian, of the U.S. Government, a foreign government, or NATO/Coalition partners. This will increase the pool of available CORs, especially at remote sites without a significant US military presence.

6) According to GAO, DOD is not routinely vetting non-U.S. firms for a proposed contract under \$100,000. A sizeable portion of DOD's FY 2010 contract actions in Afghanistan were for contracts under \$100,000.

a) If we are not routinely vetting these contracts, are any other actions being done to mitigate the risk of U.S. funds being diverted to bad actors?

Answer: Although we are focusing our efforts on vetting prime contractors for contract awards in excess of \$100,000, it is not unusual for many contractors to receive more than one contract from a contracting office. Therefore, some vendors receiving awards lower than \$100,000 are already cleared by the vetting system. Vendors in high-risk categories such as private security contractors and information technology are vetted regardless of the value. Further, contractors who are subcontractors on one contract may be vetted as a prime contractor on another.

The rapid growth of past performance data on Host Nation vendors that has been input to the modified Joint Contingency Contracting System (JCCS), provides valuable information when making contract awards. From the inception of this system modification on April 29, 2011, through July 29, 2011, over 300 past performance evaluations were recorded on host nation vendors.

Identification of vendors lacking in business integrity as non-responsible for contract award is another tool that was recently been used to prevent award to contractors who have not met the standards set by the U.S. government.

Additionally, DASA(P) personnel have been refining data analysis to evaluate contractors that have received multiple awards that are under \$100,000 to provide that analysis to C-JTSCC to assist them in selecting appropriate, additional smaller vendors for vetting.

The biometrics process for providing solid identification of host nation contractor employees will also assist in identifying and weeding out contractor and subcontractor employees with ties to insurgents. As of July 2011, the Armed Contractor Oversight Directorate reported 81.26% of armed security guards have been confirmed as being biometrically enrolled.

The struggle to ensure that no U.S. contracting dollars flow into the hands of the enemy is a difficult issue but the Army's work in vetting contractors will add a significant amount of assurance that there is no direct relationship of the company with any suspect organizations or individuals.

Lastly, the Army relies significantly on the Task Forces that are working in Afghanistan as well as the investigative bodies such as the Army Criminal Investigative Division to assist in mitigating the risk of U.S. funds being diverted to bad actors. Although our goal is that not a single contract dollar flows into the hands of the enemy, we know that it is impossible to track where every dollar goes after it leaves the hands of the prime contractor. Continued vetting of prime and subcontractors and biometric process to identify their employees will reduce this risk.

b) What is the cost to the U.S. Government for funding an insurgency we're supposedly fighting?

Answer: Army contracting cannot speak to the strategic objectives of the Department of Defense and total mission cost; therefore, we recommend that this question be redirected to the Office of the Secretary of Defense.

7) The Afghan First policy has officially been reiterated again and again by the Defense Department and in 2010, General Petraeus issued a memo including the policy as part of the Counterinsurgency (COIN) strategy, stating: "We must be better buyers and buy from better people. Consistent with NATO and national contracting laws and regulations, we must: Hire Afghans first, buy Afghan products, and build Afghan capacity."

Despite the critical nature of this policy the number of Afghan nationals being contracted with has declined, from 86% of total contractor personnel in 2008 to 51% in 2011. In its first Joint Report to Congress on Contracting in Iraq and Afghanistan, required by last year's National Defense Authorization Act, the Defense Department reports 80,725 Afghan nationals working on DOD contracts at the beginning of FY 2010, but by the end of the year it declined to 34,222. How does the Defense Department explain this decline? Is the policy working?

Answer: DoD and the Army fully support the Afghan First policy which supports COIN initiatives and improves the viability of business in Afghanistan by developing a more skilled workforce, increasing business opportunities, increasing community cash flow, improving public infrastructure such as roads and utilities, and growing community organizational capacity to maintain economic governance.

The reported decrease in the number of local nationals (LNs) contracted to support DoD in Afghanistan is not due to a large reduction in the number of contractor personnel, but rather reflects a correction to the count and modification in the quarterly census process. A portion of

the decrease in numbers resulted from a correction in counting errors that had been perpetuated over several quarters. A further decrease in the numbers was a result of a change in the way local national contractors were being counted during the quarterly census. Contractors working on contracts for less than 30 days are not required to be registered in the automated contractor database SPOT. During FY 2010, DoD modified its guidance as to how contractors should be counted during the quarterly census. Rather than including day laborers in the count, which some contracting activities had been doing, to better reflect and reconcile the manual census with the SPOT database, it was determined that the quarterly census would include only those contractors who would meet the SPOT registration thresholds.

With respect to the use of Afghan companies, not all contracts that are awarded to Afghan Firms are awarded through the Afghan First Program. Many Afghan firms are able to compete successfully in open competitive awards. There is no reporting requirement for Afghan First awards; however, a report based on the usage of Afghan First clauses indicates 157 contract actions totaling in excess of \$9 million for the period from FY09 through July 2011. However, this does not capture all the awards to Afghan firms, since the majority of the awards are not based on Afghan First preference program. During that same period, over 12,600 awards were made overall to Afghan firms for a total obligated amount of over \$1.8 billion. This supports the COIN initiatives and ensures the establishment of merchant class and middle class, which helps to stabilize the country.

APPENDIX A

The Special Provision and Clause are as follows:

**C3 PROVISION 952.225-0014
NOTIFICATION OF SUBCONTRACTING REQUIREMENTS
(JUL 2010)**

(a) Performance of work by a host nation contractor when utilizing a subcontractor.

The offeror shall provide, with its proposal, the following for each subcontractor:

(i) The total proposed amount of the work (in terms of proposed price/cost) to be performed by the offeror;

(ii) Name and address of the subcontractor;

(iii) A copy of Iraqi/Afghan business license;

(iv) The banking information for each subcontractor to include but not limited to the bank name, routing identifier, account number and name(s) on account(s);

(v) The information on the subcontractors' key personnel (to include full name, address, nationality, passport # - as applicable, date of birth); and

(vi) The total proposed amount of work (in terms of proposed price/cost) to be performed by the subcontractor under the contract, task order, or delivery order, or other contract mechanism.

(b) If the offeror intends to subcontract work to be performed under the contract, task order, delivery order, or other contract mechanism, the offeror shall identify in its proposal a description of the added value provided by the offeror as related to the work to be performed by the subcontractor (s).

(c) If any subcontractor proposed under the contract, task order, delivery order, or other contract mechanism, intends to subcontract to a lower-tier subcontractor for work to be performed under its subcontract, the offeror shall identify in its proposal:

(i) The amount of the subcontractor's costs applicable to the work to be performed by the lower-tier subcontractor(s); and

(ii) A description of the added value provided by the subcontractor as related to the work to be performed by the lower-tier subcontractor(s).

(d) If any contractor and its subcontractors at all tiers require arming or private security under this contract they shall agree to obey all respective laws, regulations, orders, and directives applicable to the use of private security personnel in Iraq and Afghanistan, including U.S.

APPENDIX A

CENTCOM, United States Forces – Iraq (USF-I) and United States Forces – Afghanistan (USFOR-A) Commander orders, instructions and directives. Contractors will ensure that all employees, including employees at any tier of subcontracting relationships, armed under the provisions of this contract, comply with the contents of clause 952.225-0001, Arming Requirements and Procedures for Personal Security Services Contractors and for Requests for Personal Protection.

**C3 CLAUSE 952.225-0015
SUBCONTRACTING REQUIREMENTS
(JUL 2010)**

(a) Performance of work by a host nation contractor when utilizing a subcontractor. All subcontract agreements with host nation firms entered into after contract award must be approved in advance by the Contracting Officer. The contractor shall provide the information identified below to the Contracting Officer with any request for subcontract agreement approval.

(1) The contractor shall provide the following in its request for each subcontractor:

(i) The total proposed amount of the work (in terms of proposed price/cost) to be performed by the offeror;

(ii) Name and address of the subcontractor;

(iii) A copy of Iraqi/Afghan business license;

(iv) The banking information for each subcontractor to include but not limited to the bank name, routing identifier, account number and name(s) on account(s);

(v) The information on the subcontractors' key personnel (to include full name, address, nationality, passport # - as applicable, and date of birth);

(vi) The total proposed amount of work (in terms of proposed price/cost) to be performed by the subcontractor under the contract, task order, or delivery order, or other contract mechanism.

(vii) Description of the added value provided to the contractor as related to the work to be performed by the subcontractor

(2) If an approved subcontractor, under the awarded contract, task order, delivery order, or other contract mechanism, intends to subcontract to a lower-tier subcontractor for work to be performed under its subcontract, the contractor shall provide the following to the Contracting Officer identified in its proposal:

(i) The amount of the subcontractor's price/costs applicable to the work to be performed by the lower-tier subcontractor; and

APPENDIX A

(ii) A description of the added value provided by the subcontractor as related to the work to be performed by the lower-tier subcontractor.

(b) Payrolls and basic records. The contractor and its subcontractors shall maintain payrolls and basic payroll records for all personnel working on the contract during the performance and shall make them available to the government until 3 years after contract completion. The records shall contain the name of each employee, labor classifications, hourly rates of wages paid, daily and weekly number of hours worked, deductions made, and actual wages paid.

(c) Lower-tier Subcontracts. Lower-tier Subcontracts. The contractor shall insert the provisions set forth in paragraphs (a) and (b) of this clause in subcontracts that may require or involve the employment of laborers and mechanics and require subcontractors to include these provisions in any such lower-tier subcontracts. The contractor shall be responsible for compliance by any subcontractor or lower-tier subcontractor with the provisions set forth in paragraphs (a) and (b) of this clause.

(d) Private Security. If any contractor and its subcontractors at all tiers require arming or private security under this contract they shall agree to obey all laws, regulations, orders, and directives applicable to the use of private security personnel in Iraq and Afghanistan, including U.S. CENTCOM, United States Forces – Iraq (USF-I) and United States Forces – Afghanistan (USFOR-A) Commander orders, instructions and directives. Contractors will ensure that all employees, including employees at any tier of subcontracting relationships, armed under the provisions of this contract, comply with the contents of clause 952.225-0001, Arming Requirements and Procedures for Personal Security Services Contractors and for Requests for Personal Protection.

APPENDIX B

Example #1:**The Joint Venture must be at least 51% owned by an Afghan Woman Owned**

Business; the Afghan Woman must possess a National ID card with proposal submission. In addition, all companies that are part of the Joint Venture must possess an AISA license allowing them to do business in Afghanistan. A company that is part of a Joint Venture must submit a legally binding joint venture agreement. Joint Ventures must include a copy of the legal joint venture signed by an authorized officer from each of the firms comprising the Joint Venture with the chief executive of each entity identified and must be translated into English, if the original agreement is in a language other than English. Joint ventures shall submit the following additional documentation regarding their business entities:

- a. A copy of their Joint Venture agreement in English.
- b. A detailed statement outlining the following in terms of percentages, where appropriate.
 - (1) The relationship of the joint venture parties in terms of business ownership, capital contribution, and profit distribution or loss sharing.
 - (2) The management approach of the joint venture in terms of who will conduct, direct, supervise and control the project and have custody and control of the assets of the joint venture and perform the duties necessary to complete the work.
 - (3) The structure of the joint venture and decision making responsibilities of the joint venture parties in terms of who will control the manner and method of performance of the work.
 - (4) Identification of the key personnel having authority to legally bind the joint venture to subcontracts and state who will provide or contract for the labor and materials for the joint venture.
 - (5) Identification of the party maintaining the joint venture bank accounts for the payment of all expenses and the deposits of all receipts, keep the books and records, and pay applicable taxes for the joint venture.
 - (6) Identification of the party furnishing the facilities, such as office supplies and telephone service.
 - (7) Identification of party having overall control of the joint venture. Other sections of the proposal shall identify, where appropriate, whether key personnel are employees of the individual joint venture parties and identify the party, or hired as employees of the joint venture.

A complete and legally binding document with all the information required under this section titled "Joint Ventures" shall be included.

APPENDIX B

Example #2:**Subcontracting Requirements:**

If a prime contractor will be subcontracting some of the manufacturing and/or supply efforts that is not the prime contractor or part of the joint venture, Prime contractors must be cognizant of the fact that subcontractors are also required to locally (Afghanistan) manufacture 50% of the products within 6 months and 100% of the products within 12 months of contract award. In addition, a commitment letter must be submitted even if the firm is in some way related to a joint venture partner (for example, the subcontractor is subsidiary of a joint venture partner, or a subsidiary of a firm to which the joint venture partner is also a subsidiary). Offerors **MUST** submit a signed letter of commitment for each individual subcontractor who will be performing any of the work which in turn will be continually verified by the United States Government throughout the duration of the contract if selected for award. In addition, letters of commitment shall include the following current company socioeconomic information as well as the respective percentages of Afghan employment within the company:

1. Local nationals
2. Local national women
3. Third Country Nationals
4. US/Coalition Nationals

If offeror's proposal results in a contract award, the prime contractor shall not deviate from subcontracting commitments without prior written approval from the Contracting Officer. Written request to deviate from subcontracting commitments must be submitted to the Contracting Officer in the form of "Request for Subcontractor Consent".

Post-Hearing Questions for the Record

Submitted to

Mr. David S. Sedney; Deputy Assistant Secretary of Defense for Afghanistan, Pakistan, and Central Asia, U.S. Department of Defense

From Senator McCaskill

“AFGHANISTAN RECONSTRUCTION CONTRACT: LESSON LEARNED AND ONGOING PROBLEMS”

Thursday, June 30, 2011, 10:00 A.M.

United States Senate, Subcommittee on Contracting Oversight,

Committee on Homeland Security and Governmental Affairs

- 1) According to testimony from the hearing, there is a new office within in Office of the Secretary of Defense that oversees the Afghanistan Infrastructure Fund (AIF). What is the name of that office and who is the head of that office? To whom does that office report?

Answer: On May 10, 2010, the Deputy Secretary of Defense issued guidance to improve the oversight of the Commander’s Emergency Response Program (CERP) activities. Among the actions directed was the establishment of a CERP Management Cell (CMC), led by an SES-level director. The CMC Director, Mr. Robert Doheny, leads the activities of the CMC working group, including the review, assignment, and tracking of OSD/Joint Staff/Military Department/Combatant Command-level CERP issues and tasks. The Department is in the process of establishing an Afghanistan Resources Oversight Council that will be chaired at the Under Secretary-level and will provide oversight of CERP in Afghanistan as well as oversight of certain other DoD programs and funds related to Afghanistan.

- 2) During the hearing, I asked you about road construction, power transmission, and other development projects being funded by the Department of Defense. Who within the Department of Defense is responsible for determining how Defense Department funded reconstruction and development spending in Afghanistan on projects such as roads, bridges, other infrastructure, power, and government services is directed?

Answer: The Department of State has the lead for U.S. reconstruction and development efforts in Afghanistan. However, Congress has authorized the Department of Defense to execute projects that support counterinsurgency objectives, such as the Commander’s Emergency Response Program (CERP), which authorizes U.S. military commanders to carry out small-scale projects that meet urgent humanitarian relief or urgent reconstruction requirements within their areas of responsibility—and the Afghanistan Infrastructure Fund (AIF).

In Afghanistan, U.S. military commanders in the field and, for higher threshold CERP projects costing more than \$500,000 up to \$1 million, the Commander, U.S. Forces-Afghanistan, decide which CERP projects to fund. CERP projects costing more than \$1 million up to \$5 million require Commander, USCENTCOM approval, and projects costing \$5 million up to \$20 million require Commander, USCENTCOM endorsement and Deputy Secretary of Defense approval. In addition, the congressional defense committees are notified of any CERP project with a total anticipated cost of \$5 million or more at least 15 days before funds are obligated. Beyond that, appropriate congressional committees are provided with a listing of all CERP projects on a quarterly basis.

Afghanistan Infrastructure Program (AIP) projects can be funded by the Department of Defense, through the Afghanistan Infrastructure Fund (AIF) established in the DoD Appropriations Act, 2011, or by the Department of State, using its existing authorities, reflecting the projects' immediate stabilization objectives and longer-term development benefits. These projects are developed by the interagency Infrastructure Working Group in Afghanistan and then nominated by the Commander, U.S. Forces-Afghanistan and the U.S. Ambassador in Afghanistan to the Secretary of Defense and the Secretary of State for approval. After both Secretaries (or their designees) approve projects funded with AIF, the Secretary of Defense—not fewer than 15 days prior to making transfers to or from the fund or obligations from the fund—will notify the appropriate congressional committees.

- 3) In preparation for the hearing, Defense Department officials told Subcommittee staff that the Defense Department does not fund reconstruction and development projects in Afghanistan.
 - a) How does the Defense Department define reconstruction and development projects in Afghanistan?
 - b) How does the Defense Department define projects funded by the Commander's Emergency Response Program, the Afghanistan Infrastructure Fund (AIF), and the Afghan Security Forces Fund, including projects for road construction, government infrastructure, power generation, provincial justice centers, and fuel, operations and maintenance for all DOD and USAID-procured generators in Afghanistan, which were listed as projects funded under the AIF?
 - c) How much has the Defense Department spent on contracts for reconstruction and development in Afghanistan since 2002? Please provide information by fiscal year, type of project, dollar amount, and contract number (where applicable).

Answer: The Ike Skelton National Defense Authorization Act for Fiscal Year 2011 (NDAA for FY 2011) authorizes the Department of Defense to carry out several activities, the primary purpose of which is to promote our counterinsurgency objectives, but that also benefit Afghanistan's reconstruction and development, e.g., the Commander's Emergency Response Program (CERP). Thus, although the primary objectives of CERP projects—which are executed by U.S. military commanders in the field—are to improve stability and weaken the insurgency

by addressing urgent humanitarian or urgent reconstruction needs, some projects could also contribute to longer-term development. The Afghan Infrastructure Fund (AIF), a DoD fund established in the DoD Appropriations Act, 2011, may be used to fund infrastructure projects developed jointly by the Department of Defense and Department of State; AIF projects are more likely to address both counterinsurgency and reconstruction objectives.

Similarly, the Afghanistan Security Forces Fund (ASFF) also provides funding for certain infrastructure projects, although those projects are only authorized if the security forces of Afghanistan are the beneficiaries. Typical ASFF projects include construction of garrisons and military and police training facilities.

DoD is in the process of compiling the contract data requested and will provide it as soon as it is available.

4) The Afghan Infrastructure Fund, which includes \$400 million in Defense Department funding, contains projects that include \$40 million for maintaining and operating power generators in Kandahar, building power transmission networks at a cost of several hundred million, and \$23 million for a new road connecting Nawa to Lashkar Gah.

a) Has the Defense Department estimated how much it will cost to sustain these projects? If so, what metrics does it use to reach these estimates? How are projections regarding the Afghan economy made? Is foreign aid provided to the Afghan government a part of these calculations?

Answer: Yes, sustainment cost estimates are part of the development and approval process for each Afghan Infrastructure Fund (AIF) project, with metrics derived from a combination of technical cost estimates by engineers and the Department of Defense's past experience maintaining various Afghan infrastructure over the last ten years. The Department of Defense recognizes that, in the near-term, the Afghan economy will only be able to support a portion of the sustainment costs.

The source of sustainment funds will vary depending on the type of project. For example, the majority of AIF funds in Fiscal Year 2011 are spent on electrical infrastructure projects, which will be sustained by revenues generated by the national power utility company, Da Afghanistan Breshna Sherkat (DABS). The U.S. Agency for International Development (USAID) is working with DABS on capacity-building and commercialization efforts. Other AIF projects will require other non-U.S. funding sources, such as international donor support or funds from the Government of Afghanistan.

b) Is the provincial governor aware of the likely costs to maintain the road connecting Nawa to Lashkar Gah? Does his government have the capacity to actually maintain the road?

Answer: As is done for most CERP projects in Afghanistan, the Nawa District Governor signed a Memorandum of Agreement (MOA) with U.S. forces that establishes the Government of Afghanistan's (GoA) responsibility for sustainment of the Nawa to Lashkar Gah road. The MOA addressed projected annual sustainment costs and assigned operations and maintenance tasks, such as staffing, routine maintenance, signage, and cleaning to the appropriate GoA entity. To encourage compliance, the MOA included a provision to reserve the right to cancel future

CERP projects in the area if the road is not properly maintained. Based on consultations with the Nawa District Governor and an assessment on the ground, it is clear that the GoA has the capacity to maintain the road.

- c) Has any attempt been made to determine whether the Afghan government will be ready to take over operation and maintenance of the infrastructure projects for power generation and transmission by 2014? What is the support for any claims that the Afghan government will be able to sustain these projects in the future?

Answer: The Afghan Infrastructure Fund (AIF) power transmission projects are jointly implemented by the Department of Defense (DoD) and USAID. To ensure that these projects are sustained, USAID is engaged in a robust initiative to build the capacity of the national power utility company, Da Afghanistan Breshna Sherkat (DABS), to generate revenue and sustain necessary infrastructure. These efforts are already showing promise, with continued expansion of power delivery and subsequent revenue collections by DABS. Currently, DABS revenues are approximately \$175 million per year, which has allowed the Government to cease providing them with a \$150 million annual operating subsidy.

Regarding road operations and maintenance, in June 2010, 23 senior level Afghan government officials and private sector leaders gathered in New Delhi for the “*Conference on the Management and Financing of Roads*” to learn about best practices in road management and road finance. The conference concluded with a resolution and an action plan for the creation of an independent road authority to manage the private sector delivery of both road construction and maintenance, and for the establishment of a dedicated revenue source. With proper staffing and management, a road authority will provide increased accountability, increased management efficiency, improved implementation efficiency, de-politicized financing, and improved market incentives. The Government of Afghanistan is currently deliberating on the proposed roads authority plan, and USAID is poised to provide start-up technical assistance if the authority is created.

Both DoD and USAID are increasingly confident that the Government of Afghanistan will be able to sustain all AIF projects.

- d) What steps is the Defense Department taking to ensure that other government agencies will not be responsible for unsustainable projects and programs once the military leaves Afghanistan?

Answer: The Department of Defense (DoD) continues to coordinate with the Government of Afghanistan, interagency partners, and international donors to develop and implement sustainability plans and funding sources for infrastructure projects. For example, the majority of the Afghan Infrastructure Fund is devoted to a series of joint DoD-USAID-implemented projects to construct power transmission networks. To ensure that these projects are sustained, USAID is engaged in a robust initiative to build the capacity of the national power utility company, Da Afghanistan Breshna Sherkat (DABS), to generate revenue and sustain necessary infrastructure. Through interagency and intergovernmental partnerships such as this, DoD is working to ensure that all infrastructure projects are sustained by the Government of Afghanistan.

e) What direct planning and coordination is happening now between USAID and the Defense Department on an overall comprehensive plan for Afghanistan following 2012 and 2014? Who within the Defense Department is in charge of this planning?

Answer: Section 1217 of the Ike Skelton National Defense Authorization Act for Fiscal Year 2011 (NDAA for FY2011) that authorized the Secretary of Defense and the Secretary of State to establish the Afghanistan Infrastructure Program (AIP) requires that: “The Secretary of State and the Secretary of Defense shall jointly develop any project under the program.” Pursuant to this requirement, the Department of Defense and State/USAID coordinate in the field and in Washington. The closest interagency collaboration on U.S. infrastructure efforts in Afghanistan occurs in Kabul, largely through the civil-military working groups hosted by the U.S. Embassy, such as the Infrastructure Working Group and the Economic and Financial Policy Working Group. These groups also contributed to the drafting of the U.S. Integrated Civil-Military Campaign Plan for Afghanistan, which the U.S. Ambassador and the Commander, U.S. Forces-Afghanistan both approved. In Washington, the CERP Management Cell has led coordination efforts with the Department of State on which specific AIF projects to fund. In addition, the Department of Defense has been coordinating with the Department of State and National Security Staff on an economic strategy for Afghanistan, to be submitted to Congress pursuant to Section 1535 of the Ike Skelton National Defense Authorization Act for Fiscal Year 2011.

5) In his written testimony, William Solis, Director, Defense Capabilities and Management for the U.S. Government Accountability Office, outlined ongoing problems with contracting oversight training and qualifications, problems in vetting contractors, and a lack of sufficient numbers of contracting oversight personnel, all of which were problems five years ago.

a) Has the Defense Department implemented GAO’s recommendations in these areas? If not, why not?

Answer: The Department of Defense (DoD) continues to make strides in addressing the GAO’s recommendations in areas such as developing guidance, tracking contractor personnel, providing oversight personnel, and training.

DoD has a policy in place regarding oversight of contract support during contingencies (DoD Directive 3020.49, March 24, 2009), as well as an ongoing and proactive, multi-pronged plan to address related GAO concerns. U.S. Government-funded contracts in contingency areas require that contract employees be accounted for in personnel reporting systems. The Synchronized Predeployment Operational Tracker (SPOT) performs this function for DoD, Department of State (DoS), and U.S. Agency for International Development (USAID) in Iraq and Afghanistan. In addition to these initiatives, Operational Contract Support (OCS) is a recently recognized joint capability area. As such, there is joint doctrine in place (Joint Publication 4-10), for which a review cycle has begun to update and enhance this joint doctrine. In addition, the Chairman of the Joint Chiefs of Staff initiated an ongoing, multi-year project that focuses on refining and developing OCS policies, processes, and tools intended to integrate OCS fully into planning, operations, assessments, and metrics.

The Defense Contract Management Agency Afghanistan (DCMA-A) provides Contracting Officer Representatives with contract specific training, encompassing such areas as DCMA procedures, Theater Quality Plan familiarization, and contract-specific checklists. With regard to the GAO report's identified problem of insufficient personnel, DCMA-A has increased its staffing in Afghanistan from 97 personnel in July 2009 to currently more than 208 personnel. Additionally, DCMA has a process in place to ensure that current contractors are re-vetted during the exercise of contract options. Beyond its own actions, DCMA teams with other organizations in Afghanistan, providing input and feedback on such matters as the drafting of contract-related operational orders, the updating of acquisition instructions, and new vetting procedures.

b) What is the Department of Defense doing to improve these problems?

Answer: The Department of Defense (DoD) continues to make strides in addressing the GAO's recommendations in areas such as developing guidance, tracking contractor personnel, providing oversight personnel, and training.

After a precipitous reduction in the acquisition workforce throughout the DoD, the Department instituted Resource Management Decision 802 in 2009, which reduced funding for contracted services while also funding 33,400 new civilian manpower authorizations—10,000 of which are to increase the size of the DoD acquisition workforce. This increase in the acquisition workforce will occur over several years and will require an expansion of existing education and training capabilities and refinement of curricula to ensure that acquisition personnel—both military and civilian—have the skills and knowledge to be effective stewards of DoD resources. Simultaneous to the increase in the acquisition workforce, DoD continues to develop contracting course materials and training for non-acquisition personnel—both military and civilian. This is intended to spread understanding of contracting principles to those who develop requirements for contracted support, and to those non-acquisition personnel who perform Contracting Officer Representative (COR) duties in support of the contracting officer. Additionally, DoD business systems are being modified to enable full accounting and transparency for contracts and contracted capabilities.

The Defense Contract Management Agency Afghanistan (DCMA-A) is able to provide specific contract training and mentoring to its CORs because DCMA quality assurance personnel have been tasked with providing COR training and assistance. DCMA provides CORs with contract specific training, encompassing such areas as DCMA procedures, Theater Quality Plan familiarization, and contract-specific checklists. With regard to the GAO report's identified problem of insufficient personnel, DCMA-A has increased its staffing in Afghanistan from 97 personnel in July 2009 to currently more than 208 personnel. Additionally, DCMA has a process in place to ensure that current contractors are re-vetted during the exercise of contract options. Beyond its own actions, DCMA teams with other organizations in Afghanistan, providing input and feedback on such matters as the drafting of contract-related operational orders, the updating of acquisition instructions, and new vetting procedures.

6) The Senate Foreign Relations Committee recently reported that that 97% of Afghanistan's GDP is composed of spending related to the military operations and international support. Both the Committee and the Commission on Wartime Contracting have recently reported that the

Defense Department, State Department, and USAID are not making plans to address whether the Afghan government is able to sustain reconstruction and development projects that the U.S. government is currently funding.

a) How do you plan to limit contract spending to only what the Afghan government can sustain?

Answer: A key aim of U.S. assistance is to help Afghans take responsibility for their own future and ensure they develop the capacity and the resources needed to reduce reliance on international aid. The design of USG-funded projects is increasingly focused on Afghan capacity for self-sustainment. There are a range of estimates as to how dependent the Afghan economy is on spending related to the military operations and international support. However, in any case, the reduction of such funding from the international community will have a major impact on Afghanistan, particularly after the transition in 2014. In recognition of this fact, the Administration's has started an Economic Strategy Task Force to provide high level planning for economic transition. The interagency task force will develop an economic strategy to "soften" the blow of declining war and donor funding in Afghanistan, while encouraging key infrastructure and development initiatives to strengthen Afghan economic sustainability and stability.

One example of this effort was new guidance for the "Afghan First" policy issued in late 2010, which actively solicits Afghan suppliers who can meet procurement requirements. With proper oversight, this program helps create jobs and strengthens Afghan self-sustainability.

Sustainability is also a crucial factor in selection and execution of CERP projects. All levels of DoD guidance for CERP identify sustainability as a critical factor in project selection and identify thresholds for mandatory coordination with the host nation government. Any project costing \$50,000 or more must be coordinated with a U.S. civilian interagency team, allowing the project to be evaluated within the context of longer-term development plans for the local area. Further, projects costing \$500,000 or more must document a transition plan to transfer responsibility for the project to the local government and the local government's commitment to sustain the project. All projects must identify sustainment or operating requirements during the project planning process. Commanders in the field know that the U.S. Forces – Afghanistan CERP Board will not approve a project without plans for sustainment and project manning.

b) Does your office, which falls under the Under Secretary of Defense for Policy, have any responsibility to address the role that contracting has played in the increasing problems with sustainability that have been identified by the Commission and the Foreign Relations Committee Report? If not, who in the Defense Department has this responsibility?

Answer: Multiple actors in the Department of Defense play a role in contingency contracting, with each bringing unique competencies, and each addressing sustainability issues. Broadly speaking, the commander in the field sets the requirements; U.S. Central Command reviews those requirements; the U.S. Army executes those contracts (and closes out the contracts via a state-side cell, thereby reducing the in-theater footprint); the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (AT&L) provides acquisition policy

guidance and oversight; and the Office of the Under Secretary of Defense for Policy provides strategic policy guidance.

Within the Office of the Secretary of Defense, key actors include the Contingency Contracting office within AT&L and the CERP Management Cell. At U.S. Central Command, the Joint Contracting Command-Afghanistan is responsible for the integration, management, and execution of the contingency contracting mission in support of Operation Enduring Freedom, and issues policy, directives, and guidance to ensure the effective execution and oversight of theater support contracts.

The Administration's review of an economic strategy for Afghanistan (as mentioned in QFR #6a) will address the implications of contracting on the future economy of Afghanistan. The Office of the Secretary of Defense and the Joint Staff are both participating in this review, and will seek input from U.S. Central Command and the commander in the field.

7) A recent Counterinsurgency Advisory & Assistance Team (CAAT) Report on the CERP concludes that there is "[n]o persuasive evidence that the Commander's Emergency Response Program (CERP) has fostered improved interdependent relationships between the host government and the population – arguably the key indicator of counterinsurgency success. The report finds that the program has no guidance or accountability and that there is no documentable evidence that CERP is effective."

a) Do you agree with this finding?

Answer: No. CERP's strength is in its flexibility and adaptability to evolving conditions on the ground throughout the shape, clear, hold, build, and transition stages of the counterinsurgency campaign. To ensure adequate flexibility and accountability, CERP guidance (i.e., the theater-specific *Money As A Weapons System Standard Operating Procedures* and the *Department of Defense Financial Management Regulation*) provides direction on the implementation and oversight of a multitude of projects, spanning twenty different categories. To ensure that projects are optimally selected and implemented in accordance with this guidance, CERP implementers complete a rigorous pre-deployment and in-theater training program.

CERP has also clearly played a role in the remarkable successes in Iraq as well as in the emerging success in Afghanistan. Although it is not typically possible to draw direct linkages between the tactical results of CERP projects and overall strategic success in the campaign, the cumulative effects of individual projects—when combined with sustained security and adequate governance—do make populations resilient against insurgency over time, as seen in Iraq following the 2006 surge, and as we are increasingly seeing in Afghanistan. Notable contributions to the campaign from CERP projects include:

- 900,000 Afghan lives improved by agriculture projects to develop 125,100 hectares;
- 336,580 Afghan students benefited from education projects;
- 1.67 million Afghans provided medical care through new or improved facilities;

- 446,000 Afghans provided transportation, water, and sanitation through rural development projects; and
- 507,265 Afghans in 27 provinces provided more than 1.4 million kilograms of various humanitarian assistance supplies (food, blankets, and medical items).

Seen in isolation, these accomplishments may not appear to have strategic impact, but seen in the context of the overall campaign, their effects are both strategic and indispensable.

b) The report concludes that the way CERP projects are executed is unsustainable. Do you agree with this conclusion?

Answer: No. A significant number of CERP projects do not require sustainment. For example, as of March 2011, there were more than 3,000 battle damage repair projects, 250 microgrants, and 250 condolence payments funded by CERP in Fiscal Year 2011. The majority of these projects are intended to address critical short-term resource gaps, with no additional sustainability required.

For those projects that do require sustainment—such as irrigation canals, wells, and vehicles—the Department of Defense continues to coordinate with the host government and interagency partners to improve sustainment agreements with the Government of Afghanistan, and to develop sustainment plans and ensure sufficient host government funding for sustainment. Specifically, for CERP projects larger than \$50,000 requiring sustainment—like the Hezar Joft Beltway project in Helmand Province—there must be a Memorandum of Agreement signed by a responsible Afghan Government official to acknowledge sustainment responsibility to budget and execute project operations and maintenance. In addition, CERP infrastructure projects are reviewed by U.S. and international stakeholders, with the additional requirements that all projects more than \$1M and up to \$5M will be reviewed and approved by Commander, U.S. Central Command, and all projects with a total estimated cost of \$5M or more will be approved by the Deputy Secretary of Defense and notified to Congress. The OSD CERP Management Cell reviews all projects valued at more than \$1M.

8) USAID is required by law to conduct sustainability analyses and certify a project's sustainability for infrastructure projects over \$1 million. Should this requirement apply to the Defense Department?

Answer: Sustainability is critical to the success of infrastructure projects. Recognizing this, the Department of Defense continues to develop and implement a number of processes to ensure that the infrastructure it builds can, and will, be sustained by the local government and population. For example, the electrical, water, and other infrastructure projects in the Afghan Infrastructure Fund (AIF) are reviewed for sustainability by a variety of stakeholders, including the Government of Afghanistan (GoA), the Department of State, the U.S. Agency for International Development, international donors, and regional and local government officials and citizens. These projects are developed by the interagency Infrastructure Working Group in Afghanistan and then nominated by the Commander, U.S. Forces-Afghanistan and the U.S. Ambassador in Afghanistan to the Secretary of Defense and the Secretary of State for approval. All AIF

projects must have sustainability plans, which identify local Afghan responsibilities, non-U.S. funding sources, and maintenance and operation requirements.

The infrastructure projects funded by the Commander's Emergency Response Program (CERP) also prioritize sustainability. For those projects larger than \$50,000 requiring sustainment, there must be a Memorandum of Agreement (MOA) signed by a responsible GoA official to acknowledge responsibility to budget and execute project operations and maintenance. In addition, CERP infrastructure projects are reviewed by similar U.S., local Afghan, and international stakeholders, with the additional requirement that all projects with a total estimated cost of \$5 million or more be approved by the Deputy Secretary of Defense and notified to Congress.

With these and other processes in place to improve the sustainability of DoD infrastructure projects, the requirement for additional sustainability analyses and certifications would be redundant.

9) When President Obama addressed the nation last month to announce his decision to begin withdrawing forces this year, he stated:

“We will not police [Afghanistan's] streets or patrol its mountains indefinitely. That is the responsibility of the Afghan government, which must step up its ability to protect its people, and move from an economy shaped by war to one that can sustain a lasting peace.”

a) Has the Department planned for sustainability in its development plans for the Afghan National Security Forces (ANSF)?

Answer: As the ANSF develop, the Department of Defense has been working with other US government agencies to lay groundwork to help ensure the ANSF can sustain itself as we draw down. Key elements of this effort include institutional literacy and professionalization training guided by mentors and embedded trainers at all levels. The objective is for Afghans to manage and employ the ANSF independently from the ministerial level down to the local policeman. Part of that professionalization includes increasing, at a responsible pace, the amount of funding that is controlled directly by the Afghan ministries so that their systems, processes, and decision-making can be exercised with Coalition oversight. There is ongoing analysis to determine the long-term sustainment costs of the ANSF while that country's economy continues to grow. One obstacle to determining future sustainment costs for ANSF is the insurgency itself. As the insurgency recedes, Afghanistan's national security requirements can be expected to change accordingly.

Recognizing that the ANSF will require continued international funding, former Secretary of Defense Gates called on our allies and ISAF partners to contribute one billion euros annually for that purpose (at the March NATO Defense Ministerial, and, again, at the June NATO Defense Ministerial). This Department is working with our international partners to pursue that initiative.

b) When does the Department anticipate that Afghanistan will be able to pay for its own Army and Police force?

Answer: The Afghan Government already devotes a significant share of its GDP to fund its own national security requirements, and the absolute amount will increase year-over-year as the Afghan economy continues to grow. It will be many years, though, before Afghanistan can fully fund the Afghan National Security Forces without outside assistance.

The United States continues to participate in a concerted interagency effort to improve Afghanistan's overall economic sustainability, economic development, revenue generation, and budget execution. Aided by the United States, Afghanistan increased its revenue collection by 26 percent between March 2010 and March 2011 by improving tax and customs administration. DoD has also implemented programs through its Task Force for Business Stability Operations to connect outside investors to potential Afghan producers to help Afghanistan build the capacity to develop its mineral and other natural resources in environmentally sound and sustainable ways.

Such efforts will help, over time, to enable the Afghans to take on increasing responsibility for their own security forces. As the Coalition draws down combat forces, we have emphasized to our Allies and partners the importance of maintaining their overall financial commitment to security in Afghanistan. Our Allies continue to make contributions to Afghan security force sustainability through multi-donor trust funds like the Law and Order Trust Fund for Afghanistan. Former Secretary of Defense Gates called on our Allies and ISAF partners to contribute up to one billion euros annually in support of Afghan security requirements. Follow-up discussions on that goal are in progress.

10) The Subcommittee recently released a report titled *New Information About Counternarcotics Contracts in Latin America*, which found serious problems with the management and oversight of counternarcotics contracts in Latin America. Many of the same contractors are doing similar work for the State Department and Defense Department in Afghanistan.

a) What has the Defense Department done to improve the management of counternarcotics contracts in Afghanistan?

Answer: The Department of Defense (DoD) has taken steps to improve the management of counternarcotics contracts in Afghanistan. Contractors now provide weekly and monthly reports on each project. The Department also has a robust team of government project managers and Contracting Officer's Technical Representatives that oversee each project on a daily basis. DoD also meets with interagency partners in country on a semi-annual basis to conduct a program management review of ongoing and future programs, which also allows senior management to correct deficiencies as necessary.

To increase the quality, consistency, and accuracy of oversight of counternarcotics contracts more broadly, DoD has significantly increased the number of USG personnel involved in contractor oversight, including on-site personnel performing inspection. DoD is also implementing automated tools and procedures to support and increase the capacity for contract administration activities and is sustaining a continuous learning program that emphasizes the unique aspects of counternarcotics program contracting.

b) What efforts have been made to involve Afghans in counternarcotics programs? Will the Afghan government be able to take these programs over from contractors?

Answer: Department of Defense (DoD) counternarcotics programs in Afghanistan are largely designed to build the capacity of specialized counternarcotics units such as the National Interdiction Unit, the Aviation Interdiction Unit, and the Sensitive Investigations Unit. These units have made significant progress since this support began in 2004. The goal of these efforts is to turn over full responsibility for counternarcotics efforts to the Government of Afghanistan by 2014. These programs are set up to provide training and mentoring in logistics, finance, administration, communications, medical, management, facilities, maintenance, academy management, as well as operations – skills necessary to operate an organization and to manage programs.

Today, the Counternarcotics Police of Afghanistan (CNPA) is capable of providing professional training to its personnel, and has created a development system at the strategic and operational levels. It is also capable of understanding illicit narcotics flow at the national level and coordinating support among various units within Afghanistan. DoD contractors have trained CNPA personnel to carry out training, intelligence and development tasks independently and to reduce support requirements. These efforts have resulted in improved host nation capability and increased prosecutions.

U.S. Government departments and agencies also work with the Government of Afghanistan to develop host nation capacity in alternative livelihood and development areas. The Afghan Ministry of Counternarcotics works closely with the U.S. Embassy to develop and implement Afghan-led programs. Governor-led eradication is a program that is designed and implemented by Afghan Governors and the Ministry of Counternarcotics.

c) Can you speak to any specific milestones that have been reached as a result of counternarcotics contracts?

Answer: Department of Defense (DoD) Counternarcotics (CN) programs have resulted in significant capability improvement for Afghan counternarcotics forces. The Counternarcotics Police of Afghanistan (CNPA) is able to put together intelligence products in support of operations as a direct result of the training and mentoring provided by the contractors funded through DoD.

Between May 15 and June 15, 2011, ISAF—in partnership with the Drug Enforcement Agency (DEA) and host nation police forces, including CNPA and its specialized units—conducted ninety-four missions aimed at breaking the narcotics-insurgent-corruption nexus. These operations resulted in denying the enemy approximately \$5 million in drugs and currency, seizure of five metric tons of home-made explosives – enough to make 236 improvised explosive devices – arrest of twenty-five suspects, and the elimination of approximately one hundred insurgents from the battle space. These operations have substantially disrupted several drug trafficking networks and their ability to provide funding and material support to the insurgency. These operations demonstrate improved collaboration among the military, law enforcement, and host nation forces. This significant progress in the capability of Afghan counternarcotics units is a direct outcome of our work with the Afghans.

CNPA officers have been trained as trainers and are now capable of teaching forty percent of the courses required for personnel. The establishment of the CNPA Tactical Operations Center

(TOC), for the first time, has enabled the CNPA to maintain awareness of CN operations across Afghanistan and coordinate efforts among the provincial units, specialized units and other police forces. The TOC has also helped CNPA improve its understanding of the drug flow. The TOC is an Afghan-led initiative, supported by DoD CN contracts.

The CNPA has also developed the capability to manage its development at both the strategic and operational level. The CNPA Development Unit has trained Afghan personnel in the required skills to manage the development program and to plan and execute programs necessary to achieve goals defined at the strategic level.

DoD-sponsored CN programs have resulted in CNPA's capability to refer more cases for prosecution at the Counternarcotics Judicial Center (CNJC). These cases have resulted in prosecution of several hundred persons involved in trafficking significant quantities of illicit narcotics. CNJC is a vetted unit established to prosecute medium to high-value traffickers. The investigators, judges, and prosecutors in this unit are vetted and trained by international personnel.

Today, the CNPA is capable of providing professional training to its personnel. It is also capable of understanding illicit narcotics flow at the national level and coordinating support among various units within Afghanistan. The CNPA also has a development system that is led and managed by host-nation personnel. These efforts have resulted in increased prosecutions.

d) Has there been interagency coordination between the Defense Department and USAID regarding the Defense Department's interdiction programs and USAID's agricultural programs?

Answer: Department of Defense (DoD), Department of State (DoS), and USAID principals are familiar with the challenges in working effectively together in closely-related fields and, in response, have pursued new initiatives that help to facilitate interagency coordination. All counternarcotics activities in Afghanistan, as elsewhere, are reviewed and approved by the U.S. Embassy Country Team. The Department of Defense works closely with Department of State's Bureau of International Narcotics and Law Enforcement Affairs (DoS/INL) to coordinate interdiction programs. The Department meets bi-annually with the Drug Enforcement Administration and DoS/INL to coordinate support for interdiction-related requirements. Interdiction and agricultural development programs are complementary efforts that support the goals of the U.S. Counternarcotics (CN) Strategy for Afghanistan.

In Washington, D.C., the interagency CN working group meets monthly to discuss counternarcotics programs in Afghanistan and Pakistan. The CN working group includes representatives from ONDCP, DoS/INL, DoD Counternarcotics & Global Threats, Department of Justice, Joint Staff, Drug Enforcement Administration, and USAID. Washington-based CN meetings are designed for headquarters personnel to discuss programmatic issues, strategy, and implementation plans.

DoD (U.S. Forces-Afghanistan and U.S. Central Command), DoS/INL, ISAF, and DEA interact on a daily basis in country to coordinate efforts and requirements. ISAF also hosts CN-related

meetings (at least on a monthly basis) to improve collaboration within the U.S. Government and with the Government of Afghanistan.

11) The Defense Department, USAID and the State Department were required to report contract and contractor data under the Synchronized Predeployment and Operational Tracker (SPOT) system. According to the Annual Joint Report on Contracting in Iraq and Afghanistan, released in April 2011, the number of Afghan national contractors is not yet captured in the database. What improvements has the Department implemented to ensure full compliance with SPOT?

Answer: The Department of Defense (DoD) maintains a high level of confidence in the accuracy of U.S. and Third Country National (TCN) contractor data in Afghanistan, and has seen continued improvement in the registration of local national (LN) contractor personnel since the April 2011 report was published. The improvement in LN contractor registration in the SPOT database is a result of a renewed focus on compliance and added functionality in SPOT. Where necessary, the SPOT program manager has assisted Contracting Officer Representatives (COR) in uploading registrations of local national contractors off-line when they had difficulty accessing a network.

Because we are still facing challenges associated with distinguishing individual identities based upon name, birth date, and national identification card (the identification methods SPOT currently relies upon), we are continuing to improve the use of biometric registration tools. We are making progress in federating the Biometric Automated Toolset system (the installation access control database) with SPOT, to allow for the sharing of information between databases. Recognizing that many LN contractors do not require installation access, we are also developing a handheld biometric registration tool, which will allow CORs to register LN contractors in remote locations.

Finally, DoD continues to conduct a quarterly manual census of contractors in Afghanistan. The data from the manual census is compared to and analyzed against the information in SPOT. Once an organization establishes a minimum of 85 percent accuracy, DoD will discontinue the manual census and rely solely on SPOT for contractor counts. As an outcome of this strategy, each organization controls when it is no longer required to perform a manual census, resulting in an incremental increase in DoD's exclusive use of SPOT. This phased-in approach will begin in the first quarter of Fiscal Year 2012. DoD intends to ensure SPOT data remains accurate by conducting periodic random samplings via the manual census process.

12) Limiting subcontracting is a major part of the COIN strategy. In the COIN memo, Gen. Petraeus states several key facts and goals: "Gain and maintain visibility of the sub-contractor network; Contract with vendors that have fewer sub-contractors; Excessive sub-contracting tiers provide opportunities for criminal networks and insurgents to divert contract money from its intended purpose; Hold prime contractors responsible for the behavior and performance of their sub-contractors; And, ensure that prime contractors provide detailed information on all subcontractors consistent with coalition requirements and with CENTCOM Contracting Command's new sub-contractor clause."

a) What is the Department of Defense doing to limit subcontracting?

Answer: The Chairman of the Joint Chiefs of Staff created Task Force 2010 to help commanders in Afghanistan better understand those persons and entities with which they contract in Afghanistan, and to ensure contracting dollars do not empower the wrong people or undermine the U.S. Government and international community's efforts in Afghanistan. The organization uses intelligence, law enforcement, auditors, and forensic accountants to gain visibility into the flow of contracting funds below the prime contract level to determine where issues and concerns exist, and to identify actions to mitigate fiscal and force protection risk. It is critical to provide commanders and acquisition teams with situational understanding regarding the flow of contract funds and property losses, and to recommend actions to be taken to deny power-brokers, criminal networks and insurgents the opportunity to benefit from the stolen property and illicit revenue. If a linkage exists, actions are taken to deny those entities the opportunity to benefit further from contracting funds.

Further, the Department submitted a legislative proposal that can be found at Section 862 of the Senate-proposed National Defense Authorization Bill for Fiscal Year 2013 entitled, "Additional Access to Contractor and Subcontractor Records in the United States Central Command Theater of Operations." If enacted, this provision would help trace funds to ensure that they are not: (1) subject to extortion or corruption, or (2) provided directly or indirectly to persons or entities that are actively opposing U.S. forces in Afghanistan.

b) What is the Department of Defense doing to ensure that prime contractors are holding their subcontractors accountable?

Answer: DFARS 252.225-7997, "Additional Requirements and Responsibilities relating to Alleged Crimes by or against Contractor Personnel in Iraq and Afghanistan" (DEVIATION) (August 2010), is required in all new solicitation and resultant contracts performed in Iraq or Afghanistan, where practicable. The clause flows down to any subcontract at any tier issued under such a contract, or any task or delivery order at any tier issued under such contract. This clause requires the contractor to report to the appropriate investigative authorities any alleged offense under (1) the Uniform Code of Military Justice, or (2) the Military Extraterritorial Jurisdiction Act. Further, in the new Host Nation Trucking contract, for example, the statement of work requires all contractor employees—including all sub-contractors—be enrolled in the biometrics automated tracking system, as well as the Synchronized Pre-Deployment and Operational Tracker. Contracting officers are also required to make a determination of contractor responsibility prior to contract award, which includes determining a subcontractor's responsibility. Part of this determination is to have a satisfactory performance record and have a satisfactory record of integrity and business ethics. As prescribed in FAR 3.1004(a), the clause at FAR 52.203-13, "Contractor Code of Business Ethics and Conduct," contractors are required to have a written code of business ethics and conduct, and to make the code available to each employee engaged in performance of the contract. Finally, the Department has submitted a legislative proposal that would allow the head of the contracting activity to void a contract or restrict the award of future contracts to a contractor or subcontractor who has been determined by the Commander of the U.S. Central Command to be actively opposing U.S. forces in Afghanistan.

c) Can you provide a specific example of something the Department of Defense did to hold one of your prime contractors accountable for the improper actions of their subcontractors?

Answer: Task Force 2010 submitted Watan Risk Management (WRM), a private security company highlighted in the Report of the Majority Staff of the House Subcommittee on National Security and Foreign Affairs, Warlord, Inc., for proposed debarment. As a result of Task Force 2010's investigations, WRM, Watan Group, and eighteen subsidiaries were suspended from doing business with the U.S. Government in December 2010. A final decision on debarment actions is pending.

d) How is the Department of Defense ensuring compliance with entering information into the Federal Subcontracting Reporting System (FSRS)?

Answer: DoD contracting officers include Federal Acquisition Regulation (FAR) clause 52.204-10, "Reporting Executive Compensation and First-Tier Subcontract Awards," in all new contract awards valued greater than \$25,000—in accordance with Subpart 4.1403. Additionally the Department is adding metrics to its procurement data validation plan, which has historically been focused on contract award data reported to the Federal Procurement Data System (FPDS), to track prime contractor compliance with reporting to the Federal Subaward Reporting System (FSRS), as well as other reporting requirements. We anticipate that the data validation plan will be updated and the components will begin to report metrics in the first quarter of Fiscal Year 2012. Additionally, as of August 4, 2011, DoD prime contractors have submitted almost 4,000 reports that identify more than \$2.6B in awards to subcontractors in FY2011. Information from these reports is available at <http://www.usaspending.gov>.

13) According to GAO, the Defense Department is not routinely vetting non-U.S. firms for a proposed contract under \$100,000. A sizeable portion of the Defense Department's FY 2010 contract actions in Afghanistan were for contracts under \$100,000.

a) If we are not routinely vetting these contracts, are any other actions being done to mitigate the risk of U.S. funds being diverted to bad actors?

Answer: Although the Defense Federal Acquisition Regulation (DFAR) does not require vetting of contracts under \$100,000, Commander, International Security Assistance Force (ISAF) counterinsurgency (COIN) guidance with respect to contracting recognizes the challenges associated with the scale of contracting in Afghanistan and the dangers that contracting with entities aligned with or affected by malign actors can pose to successful operations in Afghanistan. As a consequence, the COIN guidance recognizes that the scale of Afghan contracting efforts represents both opportunities and danger and states that contracting is the Commander's responsibility. To mitigate risks, ISAF policy is to:

- Buy from better people
- Spread the wealth
- Reduce barriers to market entry
- Conduct open, transparent solicitations
- Hold contractors accountable

- Develop Afghan capacity
- Leverage ISAF market demand

In order to execute this guidance, guidelines have been developed, tasks to units are being articulated, and metrics and reporting have been put in place. To facilitate this guidance, training aids have been developed that include a community development plan template, analysis tools, evaluation and reporting tools, instruction at a "COIN Academy," pre-mobilization training for units assigned to Afghanistan, and pre-deployment site surveys. Taken together, these initiatives bolster the effectiveness of the contracting performed in Afghanistan while simultaneously improving the contractor base and contractor capability.

Additionally, according to CENTCOM Joint Theater Support Contracting Command Acquisition Instruction 25.7704-1203, "Procedures Under Vendor Vetting," contracting officers are to vet all non-U.S. vendors. There are two types of vendor vetting requests submitted to the U.S. Central Command vetting cell: standard/routine and urgent. Contracting Officers request expedited/urgent vetting based on customer notification that a delay in the acquisition timeline caused by waiting for a vetting determination will cause an operational crisis outweighing the risk of awarding the contract to a contractor who might potentially be rejected as a result of vetting.

- b) Has the Department evaluated the costs associated with potentially funding an insurgency that we are supposedly fighting?

Answer: As was stated in the response to Question 44, contracting in contingencies is a Commander's responsibility. Consequently, when potential contracts do not meet mandatory vetting thresholds, contracting officers perform risk assessments based on mission, enemy, requirement sensitivity, requirement duration, and potential cost. These factors, along with documented results of earlier vetting activities performed within the Joint Contingency Contracting System (JCCS), determine whether a potential contractor should be awarded a contract. Ultimately, the decision to award a contract is a contracting officer's call based on the relevant Commander's guidance.

14) The FY 2011 NDAA authorized \$50 million to be transferred from Department of Defense operation and maintenance funds for reintegration programs in Afghanistan. The funds were authorized until December 31, 2011.

- a) Which agency was responsible for overseeing and dispersing these funds?

Answer: The Department of Defense is responsible for overseeing and dispersing these funds.

The Ike Skelton National Defense Authorization Act for Fiscal Year 2011 authorizes the Secretary of Defense, with the concurrence of the Secretary of State, to utilize not more than \$50,000,000 from funds made available to the Department of Defense for operation and maintenance for Fiscal Year 2011 to support the reintegration into Afghan society of those individuals who pledge (1) to cease all support for the insurgency in Afghanistan; (2) to live in accordance with the Constitution of Afghanistan; (3) to cease violence against the Government

of Afghanistan and its international partners; and (4) that they do not have material ties to al Qaeda or affiliated transnational terrorist organizations.

b) How were these funds primarily used?

Answer: The Department of Defense's (DoD) support of Afghan reintegration efforts is closely coordinated with the Afghan Government's Afghanistan Peace and Reintegration Program (APRP). DoD's support has been critical while the APRP financial mechanisms are being developed. In the first half of Fiscal Year 2011, the Department's projects in support of the APRP focused primarily on outreach and the establishment of provincial joint secretariat teams. Since the APRP was established last summer after the Consultative Peace Jirga—which endorsed the program—the Afghan Government has worked to spread awareness about the new program and encourage insurgents to enroll in the APRP. In addition to the national-level organizations created to guide and administer the APRP (the High Peace Council and Joint Secretariat, respectively), the program depends on provincial-level organizations to facilitate local insurgents' enrollment into the APRP.

c) What, if any, reports were generated that tracked the use of the funds?

Answer: Pursuant to the Ike Skelton National Defense Authorization Act for Fiscal Year 2011 (NDAA for FY 2011), the Secretary of Defense is required to submit to the appropriate congressional committees a report on the activities carried out using this authority 180 days after the enactment of the NDAA for FY 2011 and every 180 days thereafter.

d) Was there a party responsible in Afghanistan for disbursing these funds? Who was this individual?

Answer: U.S. military commanders decide how to support the Afghanistan Peace and Reintegration Program in their respective areas of responsibility, in line with the guidance issued by Congress, the Office of the Secretary of Defense, and the U.S. Forces-Afghanistan Standard Operating Procedures for the Afghanistan Reintegration Program (ARP)—the Department of Defense (DoD) mechanism for supporting the Afghan Government's Afghanistan Peace and Reintegration Program (APRP).

Depending on the nature and size of the ARP project, U.S. commanders rely on a range of key staff to execute ARP projects, including disbursing funds. These DoD officials include reintegration program managers, warranted contracting officers at Regional Contracting Centers, contracting officer representatives, field ordering officers, and pay agents.

e) How much of the \$50 million was dispersed in 2010 and 2011?

Answer: In the first half of Fiscal Year 2011, ending March 31, 2011, the Department of Defense executed approximately \$850K of the authorized funds.

f) Is this program still in operation? If so, does it have an expected sunset date?

Answer: Yes, the U.S. Forces-Afghanistan (USFOR-A) Afghanistan Reintegration Program (ARP)—the Department of Defense's mechanism for supporting the Afghan Government's five-

year Afghanistan Peace and Reintegration Program (APRP)—is still in operation. The Department of Defense expects that, as the APRP's financial mechanisms mature and the APRP's ability to reach potential reintegration candidates throughout Afghanistan expands, the need for U.S. funding support through the ARP will diminish.

**Post-Hearing Questions for the Record
Submitted to the Honorable David Sedney
From Senator Susan M. Collins**

**“Afghanistan Reconstruction Contracts: Lessons Learned and Ongoing
Problems”
June 30, 2011**

U.N. mismanagement of ANP payroll fund

1. According to an April 2011 SIGAR audit, the \$1.5 billion Law and Order Trust Fund for Afghanistan (LOFTA), used to pay the salaries of the Afghan National Police (ANP), is poorly managed by the U.N. Development Program (UNDP). UNDP was chosen by DOD and other donor nations to manage LOFTA. UNDP has overall responsibility for oversight and monitoring of LOFTA funds and the reimbursement of eligible ANP costs. However, UNDP is unable to validate the ANP payroll to ensure payments went to those eligible to receive the funds. SIGAR also found that there is insufficient documentation that UNDP is taking action to appropriately resolve issues brought to light by audits of the program.
 - (a) What are the deliverables that UNDP agreed to perform when it was chosen to manage LOFTA? Please provide a copy of the funding agreement with your answer.
 - (b) Was the U.S. government (including GAO, DOD, and the State Department) granted audit authority (unfettered access to all records and documents that support or detail expenditures made under the LOFTA program) in the terms of the funding agreement? If not, why was this left out?
 - (c) What is the justification for choosing the UNDP to manage LOFTA?

Answer: UNDP agreed to provide the following deliverables when it was chosen to manage LOTFA in May 2002, at the request of the Government of Afghanistan and the United Nations Mission Afghanistan (UNAMA): (1) Payment of Afghan National Police salaries, allowances, and benefits nation-wide; (2) Institutional development; (3) Procurement, maintenance, and operations of non lethal police equipment and supplies; (4) Rehabilitation, maintenance, and operations of police facilities; (5) Selection, recruitment, and training of police; and (6) Payment of salaries for uniformed personnel employed by the Central Prisons Department through specially earmarked contributions. LOTFA funds are expended through a project mechanism entitled “Support to Law and Order in Afghanistan,” which is implemented by the Afghan Ministry of the Interior. The Department of Defense is not aware of any particular restrictions that were placed on U.S. Government audit agencies tasked to examine LOTFA.

The UNDP Administrator established LOTFA in May 2002 at the request of the Afghan Government and UNAMA. At the time, UNDP had more than 50 years experience working development issues in Afghanistan. The funding agreement governing LOTFA transactions is the UNDP LOTFA Phase VI Project Document, which has been provided separately.

Post-Hearing Questions for the Record
Submitted to the Honorable Alexander Thier
From Senator Susan M. Collins

“Afghanistan Reconstruction Contracts: Lessons Learned and Ongoing Problems”
June 30, 2011

LBG defrauding the U.S. government

1. Last year, the Louis Berger Group (LBG) was forced to pay \$70 [\$69] million in criminal and civil fines, the largest ever imposed on a contractor in Iraq or Afghanistan, for defrauding the U.S. government. Two top executives pled guilty, and the company worked out an agreement to continue its work with USAID but have further prosecution delayed for two probationary years. Earlier this year the Special Inspector General for Iraq Reconstruction, Stuart Bowen, testified to the War Time Commission that he knew of no other instance where a company involved in this type of fraud with top officers being found guilty was permitted by the government to keep winning and carrying out contracts rather than being debarred.

Are there any other instances where a USAID contractor was found defrauding the U.S. government to the extent that LBG did, yet wasn't debarred?

Answer: Every allegation of fraud, waste or abuse on taxpayer-funded programs is taken seriously by USAID, and in each instance the best government response is made after careful deliberation of the facts and circumstances. However, no two cases are the same. In the Louis Berger Group case, the company had initiated and undertaken significant remedial measures prior to USAID's awareness of the nature and scope of the issue. USAID worked closely with the Department of Justice (DOJ) and within the USG ongoing processes to secure full restitution for the overbilling and impose substantial fines for the misconduct.

The Administrative Agreement between Louis Berger Group and USAID outlines many of these remedial measures. Some of these steps are:

- The separation from the company of the persons responsible for the misconduct
- An extensive overhaul of the accounting system and internal controls based on the recommendations of outside experts and consultants
- The implementation of an extensive corporate compliance training program
- The imposition of an Independent Monitor to review compliance with the Deferred Prosecution Agreement, and an Independent Consultant to review and report on the company's corporate compliance program, both at company expense

- The appointment of Chief Compliance and Ethics Officer and the creation of an internal audit department

Details from the settlement of \$69 million with DOJ can be found on the DOJ website at: http://www.justice.gov/usao/md/Public-Affairs/press_releases/press08/SchemetoDefraudGovernmentLeadstoCriminalChargeandCivilPenaltiesforLouisBergerGroupInc.html.

LBG poor performance

2. According to a 2004 IG audit, LBG had significant quality problems with construction of the Kabul to Kandahar Highway—even having to remove and repave 30 km of road. A 2005 IG audit found that LBG was removed from a school and clinic construction project due to poor performance. A 2005 investigative report from the *Washington Post* revealed the program suffered from major construction flaws with almost 90 buildings having to be repaired due to poor quality of work. Photo evidence submitted to the record of a 2007 hearing of this Committee appears to show LBG submitted false progress reports on clinic and school construction, and may have been paid for work not completed at the time. The *New York Times* also reported that LBG has cost overruns of more than 100% on a newer highway project that will end up costing U.S. taxpayers \$2.6 million a mile. A May 2011 IG audit found that LBG had significant performance deficiencies on an Iraqi agribusiness contract. The IG found that performance results were not measured, reported, or supported; field monitoring was not used effectively; and several subcontracts and grants associated with the project were susceptible to fraud.

Even without considering the fraud, based on the performance track record of LBG, how can USAID justify its continued reliance on LBG to carry out projects in Afghanistan, Iraq, or anywhere else in the world for that matter?

Answer: It is true that, in addition to LBG's conduct that was subject to the Department of Justice settlement, LBG performance on certain projects was inadequate, but both LBG and USAID have taken significant steps to address and mitigate the problems. LBG demonstrated its willingness to take corrective actions, including as detailed in the response to Question 1, and thereby improved its performance and systems. USAID, for its part, improved our management and oversight of the LBG/Black and Veatch Joint Venture for activities in Afghanistan. We conducted a thorough internal assessment, which led us to changes in key programmatic personnel and placement of third-party quality assurance engineers at every site as well as other increased monitoring steps.

LBG now has a staff of 500 supporting the Afghanistan Infrastructure Rehabilitation Program (AIRP), including locally employed staff, and LBG awards construction subcontracts to qualified Afghan subcontractors. While the capacity of the Afghan subcontractors was initially low, their capacity has increased in recent years, partly through LBG's subcontractor mentorship and training programs. Through separate contracts, USAID furnishes independent third party quality assurance inspections, and this oversight serves as "checks and balances" for LBG and their subcontractors to assure compliance with the specified standards.

Some examples of successful performance during the past few years include: LBG completed 715 km of the Ring Road and has completed 68km of the Gardez-Khost Highway in Paktya and Khost provinces; rehabilitated turbine 3 at the Kajaki hydroelectric station and trained the local Afghan staff to operate and maintain the hydropower plant; and completed the Kishem-Faisabad road which has brought much needed economic development to the area.

Noting the successes and the effort LBG has put forth into improving its performance and addressing program management issues, we felt comfortable continuing working with them in Afghanistan. LBG won AIRP through full and open competition, and they met the bonding and management requirements for a \$1 billion program.

We should note that USAID is currently working on multiple award indefinite quantity contracts (IQCs) for the Energy and Transportation sectors that will replace the single-award AIRP contract.

In addition, with respect to your question, USAID would like to address the assertion that the school and clinic construction program "suffered from major construction flaws with almost 90 buildings having to be repaired due to poor quality of work." The roofs for the schools and clinics posed a special design challenge. The roofs had to be strong enough to hold several feet of snow, yet light enough to be carried by donkey up the mountains as there were no roads in many locations. In addition, a priority was placed on using Afghan labor to build the schools and clinics. So the design had to be simple enough for unskilled labor to assemble. The design attempted to address these challenges.

Likewise, USAID would like to address the comment that "photo evidence submitted to the record of a 2007 hearing of this Committee appears to show LBG submitted false progress reports on clinic and school construction, and may have been paid for work not completed at the time." What the photos did not take into account is that a percentage of materials on site are counted towards the percentage complete. Therefore, the indicated percentage may reflect the fact that the sub-contractor has

procured other project materials and billed for them, but these materials may not yet be in place. This is an accepted practice to report on percent complete in construction-based projects.

The buildings in question were in fact close to the percentages noted on the photos. The completion rates are based on a series of items; the completion of each item is counted as a defined percentage. The items include: mobilization; clearing and grubbing; site preparation/leveling; foundation excavation; foundation; lower bond beam; columns; walls; electrical work; plumbing; upper bond beam; floor/sidewalks/ramps; windows/doors; roof system; plaster/tiling; paint; well; septic tank; latrines; guard house/gate; and final clean-up.

LBG probation and protecting taxpayers from further exposure to risk

3. The U.S. government and LBG worked out an agreement to delay further prosecution of the company contingent upon a 2-year probation period. It is reported that an outside monitor is reviewing LBG compliance.

- (a) What are the terms of the probation agreement? Please provide documentation of the agreement and terms with your answer.

Answer: As noted above, the DOJ website contains initial details on the agreement with Louis Berger Group. The agreement can be seen at: <http://www.justice.gov/usao/nj/Press/files/pdffiles/2010/LBG%20DPA.pdf>. For further information, please contact DOJ.

- (b) Who is the outside monitor and how will the monitor be managed?

Answer: Information related to the Independent Monitor imposed pursuant to the Deferred Prosecution Agreement and the monitor's management should be directed to the DOJ.

- (c) Debarment and suspension are tools agencies can use to protect the American people's investment in programs that are poorly executed, mismanaged, or undermined by illicit actions by contractors. Given the record of LBG fraud, mismanagement, lack of internal controls, and subpar performance, has USAID considered bringing suspension or debarment proceedings against LBG? If not, why not?

Answer: Suspension and debarment, among other tools such as administrative agreements and corrective action plans, provide USAID and other government agencies with the capabilities to safeguard U.S. taxpayer funds as the situation warrants. However, suspension and debarment, per the regulations (*e.g.* Federal Acquisition Regulation Subpart 9.4) are explicitly non-punitive in nature; they cannot be utilized for punishment. To move forward with suspension and

debarment, the Agency must assess a number of factors that relate to present responsibility of the contractor. The seriousness of the misconduct is a significant factor, among other considerations, in making the present responsibility determination.

At the time USAID learned of the full nature of LBG's fraud, some restitution had already been received by USAID and a number of remedial actions were underway within the company. USAID considered all of the available options to protect U.S. taxpayer funds and to recover the money owed to the U.S. Government. Taking into account the circumstances of the case at the time, the decision to continue working within the ongoing USG process, led by DOJ, was made. USAID therefore moved forward with an administrative agreement that placed strict controls on the firm and required that systemic checks and balances be applied within the organizational framework. We continue to carefully monitor the company pursuant to the terms and requirements of this administrative agreement.

Additionally, in February 2011, USAID stood up a new division called Compliance and Oversight of Partner Performance within the Office of Acquisition and Assistance. This division focuses on suspension, debarment, and administrative actions for all USAID partners. The division is working closely with the USAID Office of Inspector General and USAID Contracting Officers and technical teams to more carefully track trends of poor performance or weak internal controls of USAID partners. The division takes a proactive role in tracking matters of concern more effectively for USAID.

Security vs. development

4. At the hearing, it was suggested that lack of security and other hardships in Afghanistan make it difficult for USAID contractors, such as LBG, to carry out the terms of their agreements with USAID.
 - (a) Why, after almost a decade of operations in Afghanistan, have we not yet learned sufficient lessons about what type of work can be conducted securely and effectively in Afghanistan?

Answer: USAID's work in Afghanistan and other insecure environments has produced many lessons learned that inform our current work in Afghanistan. USAID works closely with other USG agencies, including the military, to tailor stabilization and development activities for different areas of Afghanistan, depending on the security situation. This "whole of government" approach recognizes that USAID has a role in civilian and military counterinsurgency (COIN) efforts. Strategically integrated USAID program activities correspond to key phases in COIN operations: 1) Shape – assessing community grievances and

assisting coalition forces with shaping activities; 2) Clear – implementing quick-impact activities to meet recovery needs in priority communities; 3) Hold – addressing priority grievances of at-risk populations, and; 4) Build – implementing activities that support the transition from stabilization efforts to longer-term development. Our stabilization programs support COIN during the Shape, Clear, and Hold phases and then strive to transition to our development programs during the Build phase.

Also, based on our experiences, we continue to refine our processes and systems to more effectively operating in an environment like Afghanistan. For example, the recent issuance of the USAID Administrator’s Sustainability Guidance for Afghanistan provides formal guidance to ensure that USAID’s investments will be sustainable over the long-term. Similarly, USAID’s Accountable Assistance for Afghanistan initiative (A3), launched last fall, responds to a number of lessons learned on how to prevent funds from going to malign actors and from being diverted from their development purpose by extortion, corruption or terrorism. As a result, USAID/Afghanistan is implementing safeguards in four areas, two of which strengthen our pre-award processes and two that strengthen our post-award implementation.

Pre-Award

- Award Mechanisms – USAID/Afghanistan is increasing its usage of assistance awards that provide the most visibility on projects costs, such as cost-reimbursable contracts, and limited layers of subcontracts. The mission now includes a subcontractor clause in new awards that permits USAID to restrict the number of subcontract tiers, requires the prime contractor to perform a certain percentage of the work and prohibits subcontract “brokering” or “flipping” which is when a subcontractor passes the work to someone else and increases the risk for corruption.
- Vetting – In February 2011, USAID/Afghanistan established an internal Vetting Support Unit to perform security checks on potential USAID implementing partners. Vetting is only executed on third-country and Afghan companies and key individuals, and occurs for all prime and subcontractors with awards exceeding \$150,000. All awards or sub-awards for private security contracts are vetted regardless of the award dollar value.

Post-Award

- **Financial Controls** – USAID/Afghanistan established a joint program with the USAID Inspector General to audit all locally incurred costs of program-funded implementing partners. The audits will be performed by internationally-accredited regionally based audit firms and checked by the Inspector General.
- **Project Oversight** – The mission is devolving more project monitoring responsibilities to USAID personnel in the five regional commands through the establishment of On-Site Monitors (OSMs). Each USAID project will be assigned an OSM that will provide real time data to contract staff in Kabul on project performance and accountability.

One of the complex challenges in Afghanistan is that the security environment is very fluid. USAID is supporting a whole-of-government effort in the midst of a military conflict. Though we have learned many lessons that inform development practice, not every situation can be anticipated. The stability level of a particular area can change very rapidly. We must be able to adapt quickly, according to the situation, in order to meet our responsibilities as a partner with the U.S. military and to achieve our nation's short-, medium- and long-term objectives in Afghanistan

- (b) How does USAID measure the risks of poor performance or harm to USAID partners and personnel before proceeding with a development project in insecure environments found throughout Afghanistan?

Answer: USAID/Afghanistan has utilized a Partner Liaison Security Office (PLSO) that is focused on the security of USAID implementing partners. The PLSO reviews the security plans of implementing partners, that include details of their physical and procedural security as well as communication plans. USAID/Afghanistan also requires implementing partners to report security incidents that occur on USAID projects. The PLSO tracks, on a daily basis, implementing partner security incidents and shares the incident reports with the partners to provide up-to-date information on the security situation in the areas in which they operate. The PLSO also maps these incidents, enabling USAID to better visualize the areas of Afghanistan where implementation of programs are at highest security risk.

Monitoring, evaluations, and audits are also critical tools that allow us to identify problems early enough so that we can take action to fix them. For example, because of our concerns about the Tarakhil Power Plant, USAID requested our IG do an audit. This audit uncovered a number of weaknesses. USAID worked

with the implementing partner to address them. As a result, Tarakhil is evolving from a troubled project to a success story.

Post-Hearing Questions for the Record

Submitted to

Mr. J. Alexander Thier

From Senator McCaskill

“AFGHANISTAN RECONSTRUCTION CONTRACTS: LESSONS LEARNED AND ONGOING PROBLEMS”

Thursday, June 30, 2011, 10:00 A.M.

United States Senate, Subcommittee on Contracting Oversight,

Committee on Homeland Security and Governmental Affairs

- 1) In October 2009, the USAID Inspector General concluded that the lack of contract management and oversight personnel has “significantly” impaired USAID’s mission in Afghanistan. In April 2009, Michael Walsh, the former director of USAID’s Office of Acquisition and Assistance and Chief Acquisition Officer, testified that many USAID staff are “administering huge awards with limited knowledge of or experience with the rules and regulations.” Today, there are currently 85 Foreign Service Contracting Officers within the agency, 18 of whom will be assigned to Afghanistan. According to recent findings in a report by the Senate Foreign Relations Committee, USAID would need to send almost all of the 85 officers to Afghanistan to reach the U.S. Government’s civilian average ratio of number of dollars per contracting officer.**

- What is USAID doing to increase the number and training of its contracting officers?

In Afghanistan, USAID has dramatically increased staffing levels overall from 85 in FY 2008 to 365 U.S. civilian positions as of November 2011. We aim to have 40 percent of staff in Kabul with 60 percent of staff in the field, positioned at Regional Platforms, Provincial Reconstruction Teams (PRTs), District Stabilization Teams, and on interagency task forces. Of these positions, USAID has 72 staff in oversight positions, which includes contracting, auditing, and financial management actions. Afghanistan currently has 11 Contracting Officers (COs) in Kabul and, as you mentioned, USAID has authorized eight (8) additional CO positions to assist specifically with the administrative demands upon the acquisition and assistance team in country.

Furthering concurrent oversight capabilities for the USG, the USAID Office of Inspector General (IG) established an office in Kabul with a staff of 13 as of November 2011.

Under the USAID Forward: Implementation and Procurement Reform initiatives and with support from the Acquisition Workforce Initiative via OMB, USAID is taking the necessary steps to strengthen our acquisition and assistance workforce across the Agency, including COs and Contracting Officer’s Technical Representatives (COTRs). The Development

Leadership Initiative (DLI) program, which Congress has supported, has helped us to bring the right people into the Agency to strengthen our internal capabilities. We have now brought on board 64 DLIs for the CO backstop specifically, with 42 of them already posted overseas. In Washington D.C., where we provide CO services for many of our sector-based bureaus, including Global Health and emergency response/conflict management teams, we are increasing our acquisition and assistance team by 21 persons, thanks to funds received under OMB's Acquisition Workforce Initiative.

Of course, as we bring on board new DLIs and as we reform our processes, procedures, and policies under the USAID Forward initiatives (for more on USAID Forward please visit: <http://forward.usaid.gov>), USAID must consider the training we provide to staff. Under the guidance of the Office of Acquisition and Assistance, we undertook an aggressive revision of our CO, as well as COTR, training courses this past year. New courses, which are already being incorporated into the design of the existing training program will now include specifics on: performance-based contracts, fixed-price contracting, construction contracting, cost realism, a fraud course, an A&A bootcamp course for new specialists, writing scopes of work, technical evaluation committee trainings, and more.

- Are there sufficient Contracting Officer's Representatives (COR) to handle the workload? If not, what are you doing to increase their numbers?

As of January 2012, USAID has assigned an Agreement or Contracting Officer's Representative (A/COs) to all 90 active projects for which an A/COR is needed in Afghanistan representing 87 personnel serving as either a primary or alternate A/COR. In response to the move away from larger awards to smaller, more regionally based contracts with 18-month performance periods that require more eyes, ears, and hands to help manage the issues on the ground, we have instituted the On Site Monitoring Program. This program provides formal training and then designates On Site Monitors (OSMs) at the field level who will provide monitoring capabilities within the PRTs as well as teams outside of Kabul to assist the current certified and designated A/CORs in carrying out their award monitoring and evaluation duties—especially when they are limited in traveling beyond safe zones. To date we have nominated or appointed 206 OSMs representing 111 personnel covering 23 active projects with an eventual goal for all projects having a field presence to be appointed OSMs.

- Does USAID have sufficient funding, independence, and authority to effectively manage and oversee all of the contract activities it is responsible for in Afghanistan?

USAID works and collaborates closely with the Department of State and Department of Defense to ensure that all activities meet USG needs, as a whole. At times, additional scrutiny is required. USAID works closely within the interagency teams, processes, and oversight measures set up for this reason.

The challenges of working within a combat arena, such as Afghanistan, on development programs are well documented. To achieve our USG goals, we must have the manpower, capabilities, and flexibility to respond to long-term and, of course, immediate development needs. We have significantly increased our manpower since 2008 and have instituted new

processes, such as the Accountable Assistance for Afghanistan Initiative (A3), to manage the multi-billion dollar portfolio in country.

2) Mr. Thier, you testified before the Commission on Wartime Contracting in January that USAID would begin using more cost-type contracts in Afghanistan. Cost-type contracts require more resources for administration, both Contracting Officers (CO) and COR.

- How are you going to address the additional need for qualified COs and CORs for these types of contracts?

The need for additional and well-trained COs and COTRs within USAID stems from the current portfolio we carry in country as well as the kind of development activities we seek to utilize for sustainability. USAID traditionally applies cost-reimbursement contracts within the challenging development arenas where we engage. The Agency, as a whole, seeks ways to apply more fixed-price measures within these awards and to use fixed-price contracts when risks and costs can be adequately estimated. However, cost-reimbursement contracts potentially allow USAID to have more information, and thus transparency and oversight, on costs post-award.

As noted above, USAID is dedicated to strengthening its acquisition and assistance workforce specifically to place more oversight controls in place and uncover any cost or performance issues within our programs. Both cost-reimbursement contracts and fixed-price contracts require manpower and capability in order to conduct proper oversight over USAID-funded programs. Already we have added more than 30 new COs to our overseas staff of approximately 84 direct-hire COs. Through the DLI program, USAID is also staffing up the much-needed expertise on different development sectors so we can be sure that we have COTRs that understand the technical needs and are well trained in cost-control measures. USAID is putting in place more stringent training on cost realism measures specifically for COTRs within the Agency.

- What plans do you have in place to get COs out of Kabul and in the field to oversee and administer contracts? Are the Defense Department and State Department able and willing to assist you in this effort?

In September 2010, USAID/Afghanistan issued a Mission Order to delegate programmatic and administrative authorities to those posted outside of Kabul and the Mission compound. This enables USAID to improve its oversight capacity and place project managers closer to where projects operate. As mentioned above, USAID recently instituted a new position, On Site Monitors, to help in monitoring and evaluation of ongoing projects throughout the country. Further, with the additional eight CO's, the Mission will be able to hold regular field visits to, among other things, provide training on project oversight.

In accordance with USAID's Automated Directive System (ADS) Guidance on Monitoring in High Threat Environments, USAID is increasing its use of other Agency personnel (Department of Defense, State, Agriculture, and Treasury) as extensions of USAID to confirm work completion and check on quality control as well. Furthermore, USAID encourages the utilization of technology, such as telecommunications, photography, GIS systems, etc., in monitoring project activities, especially in areas where security presents higher risks. Third party monitoring contracts may be carefully utilized as well and when necessary to ensure an independent third-party analysis is completed.

3) In his testimony before the Subcommittee, Mr. Walker from the Louis Berger Group credited the cost overruns on the Gardez-Khost highway to the deterioration of security situation in the region.

- **Do you agree this statement? Why did no one predict that the security situation may deteriorate given the location of the highway?**

Most of the cost increase of the task order is attributable to the deterioration of security in the area. In fact, the previous construction sub-contractor left due to security, leaving 38km of road unfinished. Recompeting this section of the road has also added to the cost increases.

While we knew that the security in the east was a challenge, we did not predict that it would deteriorate as much as it did, nor did we predict the number of casualties.

- **Why does USAID award cost-type contracts for construction when it is the preference of the government to award fixed-price type contracts for construction?**

USAID will award cost-reimbursement contracts that often are more of a hybrid between fixed price and cost reimbursement awards when working in volatile arenas. The reason often involves the difficulty in defining requirements and uncertainties that do not permit costs to be estimated with sufficient accuracy. It is often unknown in a war zone or period of host-country turmoil whether the price of construction materials will remain, fall, and or increase in country and during the three to five-year span of an award. The risks of increased pricing can be great, as we have seen in Afghanistan, and many vendors are unwilling to solely take on that risk when working in a volatile arena.

Additionally, a cost-reimbursement contract potentially allows USAID to have more information, and thus, transparency and oversight, on costs post-award, especially as prices, situations, and security risks fluctuate during the period of award.

For example, under cost-reimbursement contracts, detailed monthly invoices are submitted and are reviewed by COTRs who can question and suspend payment or, with CO concurrence, deny payment.

- **Was USAID concerned that the prime contract was essentially a pass-through contract with most of the work being done by subcontractors that it had little to no authority over?**

While we do not have authority over the subcontractor, we do have authority over the prime and do hold them responsible for the contract performance, including subcontractor performance.

To ensure that the project is progressing appropriately, USAID staff, from both Kabul and the local PRT, visits the project site whenever possible. Additionally, the staff of USAID's quality assurance/quality control contractor monitor the progress of the project and report back key issues to USAID.

- **Has USAID changed any of its policies for projects in insecure areas based on the experience with the highway and in light of the deteriorating security situation?**

USAID undertakes projects for a number of reasons, including contribution to stabilization of a certain area through the benefits of development projects. As the result, we have not shied away from working in insecure areas, as evidenced by our work on the Khost-Gardez road.

We have, however, increased the amount of security on the projects and further improved our coordination with the military to help with security and share necessary information.

- **USAID has stated that its missions have taken it into "hot spots" before and that USAID goes where the military goes. What has been different about Afghanistan?**

USAID has decades of experience working in conflict environments, and providing humanitarian and reconstruction assistance. This is still the case, particularly with stabilization and infrastructure projects, such as those in Afghanistan. In fact, most of USAID's construction and energy projects are in restive eastern and southern Afghanistan. USAID has strategically planned road programs with the military to support counterinsurgency objectives, such as the Khost-Gardez and Kishem-Faizabad roads. The Infrastructure Working Group, co-chaired by USAID and US Forces-Afghanistan (USFOR-A), is charged with the planning and coordination of infrastructure projects in Afghanistan. It is here that the merits of a project are discussed and weighed, to include both stabilization and development factors.

Some USAID implementing partners conduct stabilization activities in post-conflict environments after kinetic operations conclude. This remains true in Afghanistan and some implementing partners assume a higher risk by agreeing to operate in these insecure areas. However, USAID staff are often not permitted to accompany implementing partners to these high risk areas due to Chief of Mission security requirements.

- 4) **The performance evaluations for the Gardez-Khost project depict LBG's performance as unsatisfactory. According to USAID, the overall quality of the service was poor, LBG suffered from a lack of adequate personnel from the onset of the contract, and LBG was unable to adequately manage its subcontractors.**

- **Why was this contract not terminated?**

The project was beset with problems, due in large part to deteriorating security. A worsening security environment extended timelines, increased costs, and resulted in subcontractor problems.

The Joint Venture (JV) of Louis Berger/Black& Veatch did experience management and performance problems. However, the JV improved its performance and management, which included changing some key staff. USAID, as was noted in a SIGAR audit, proactively commissioned an assessment of USAID management of the JV contract. Based on the findings and recommendations from the assessment, USAID improved its management and oversight of the contract.

On several occasions, USAID deliberated whether the task order should be terminated due to the mounting challenges as the result of deteriorating security. However, as the road is a high Government of the Islamic Republic of Afghanistan (GIROA), development, and military priority, USAID decided to complete the construction of the road.

- Was anyone at USAID held accountable for the cost overruns and the lack of oversight over LBG?

As noted above, we did hold ourselves accountable for the management and oversight of the Joint Venture, which is why we launched a proactive assessment in order to determine and address management issues on USAID's part.

However, oversight is not the only issue: the cost overruns are due in large part to the deteriorating security environment that slowed implementation and led to an increase in construction materials and prices. As noted above, USAID considered ending the project as the costs and insecurity rose, but we decided to complete it, given the strategic and developmental importance of the road.

5) In November 2010, The Louis Berger Group agreed to pay \$69 million in penalties for False Claims Act violations alleging that the company charged falsely inflated overhead rates. Two of its former employees plead guilty in connection with the charges. How was LBG able to overbill the government for six years without USAID noticing?

The existence of Louis Berger Group's (LBG) fraud was brought to light when a whistleblower alerted the U.S Government that former LBG executives and management caused certain indirect costs to be improperly included in the indirect cost rate that was paid by USAID and other U.S. Government agencies, resulting in The Louis Berger Group's intentional submission to the U.S. Government of false claims for corporate overhead. Only after the whistleblower's report and ensuing investigation by the USAID's Office of Inspector General (IG) and USAID offices, working closely with the Department of Justice and LBG, was the extent of the fraud understood. In review of all prior audits (nine via the Defense Contract Audit Agency in total) and bills, USAID found no indications that would be telling of the overbilling fraud.

Like this committee, we asked a number of questions on what we could have done better and how we can avoid this in the future. In response, LBG has implemented significant remedial measures and improvements in internal controls, in addition to putting in place an Independent Monitor and an Independent Consultant to review and monitor the effectiveness of these controls. USAID continues to share these lessons learned and the resulting best practices for internal controls with our broader audience of contractors and grantees. We are also conducting fraud awareness programs, in collaboration with the IG.

Details from the settlement of \$69 million with DOJ can be found on the DOJ website at: http://www.justice.gov/usao/md/Public-Affairs/press_releases/press08/SchemetoDefraudGovernmentLeadstoCriminalChargesandCivilPenaltiesforLouisBergerGroupInc.html.

6) Who is USAID working with to establish an independent National Roads Authority and Fund?

- Who are the strategic partners in the planning for this authority and fund?

Our primary GIROA counterpart for the establishment of the Independent Roads Authority and fund is the Ministry of Public Works. USAID has also engaged other key ministries involved in the transport sector.

The World Bank and the Asian Development Bank (ADB) are the key donor partners joining USAID in supporting the road authority and fund.

In June 2010, USAID funded a conference to address the creation of a roads authority and road fund, with participants from the Ministry of Finance, infrastructure cluster, transport ministries, governors of Kabul and Kunar provinces, members of parliament, and a presidential advisor.

We have encountered some lack of political will on the part of GIROA to establish the independent road authority. A working group of donors was established in mid-2011 to draft a letter to President Karzai encouraging GIROA to move forward on establishing the road authority and fund. However, donors could not agree on the language for the letter, with USAID recommending a stronger approach than the other donors were willing to agree to. The letter was not completed and the donor community is now pursuing alternatives. We understand that ADB has put language in their new transportation agreements with GIROA that requires establishment by GIROA of a sustainable mechanism to maintain roads constructed with ADB funding. USAID continues to meet with the Ministry of Public Works to develop a workable strategy for establishing an independent Road Authority or Road Fund, or any other efficient mechanism for sustainable financing and management of the Afghan road network.

- How far away are we from the Afghan government being able to maintain the 990 miles of road we've built so far?

Currently, the U.S. Government is funding the maintenance of over 1,700 kilometers of roads. We estimate that maintenance of Afghanistan's road network – 6,000 km of regional and national highways and 11,000 km of rural roads – requires an annual budget of \$140 million, not including security costs. Additionally, operating costs for the road authority could range from \$7 - \$11 million per year (not including security). The World Bank (WB), under the National Rural Access Program, has allocated funds for the maintenance of WB-funded rural roads to fill the maintenance gap until GIRoA establishes a sustainable road management and financing mechanism.

As noted above, we have encountered some lack of political will on the part of GIRoA to establish an independent road authority. However, GIRoA is thinking through the road sustainability issue and alternatives to an independent road authority and fund. In fact, for this year, GIRoA has allocated approximately \$25 million for road maintenance. While a good signal, it is still far from the \$140 million necessary to maintain Afghanistan's transportation assets.

The donors still believe that the best option is an independent road authority and fund. The donors are urging GIRoA to move forward with establishing the road authority and fund or another, efficient mechanism to sustain the Afghan road network.

7) Your written testimony states that Gardez-Khost highway was a high-priority for the US military, the local population, and the Afghan government.

- What has the role of the military been in the planning, construction, oversight and maintenance of this road and others? What continued role do you expect the military to play?

The Infrastructure Working Group (IWG), co-chaired by USAID and US Forces Afghanistan (USFOR-A), is involved in the coordination and planning of USG infrastructure projects, including location of the road projects.

The military has been involved through the IWG at the central level and at the PRT level. The military meets on a regular basis with our implementing partner and the USAID field program officer to discuss security issues in the area affecting the project. However, the military is not involved in the day-to-day management of the USAID projects.

We cannot speak for the military with respect to its plans for the transportation sector.

8) The Foreign Assistance Act requires a sustainability analysis and a certification of a host nation's ability to sustain any infrastructure project over \$1 million for projects funded out of development accounts that USAID utilizes in Afghanistan. In preparation for the hearing, USAID officials stated that USAID was following the requirements but were unable to provide supporting documentation or a complete response. According to USAID, many certifications are only available in manually searchable files and to date, USAID has identified 27 certifications worth \$1.7 billion.

- **How many total certifications have been made in Afghanistan?**

According to a search of our records, 21 certifications have been made in Afghanistan since 2002. After closer examination we discovered that a number of projects thought to be covered by separate certifications were actually aggregated into two certifications. For this reason, the actual number of certifications is less than what was originally reported to the committee in June.

- **What is the total dollar amount on the projects covered by these certifications?**

The total dollar amount on the projects covered by these certifications is approximately \$1.8 billion.

- **How many of these projects have been found by Inspectors General or other government auditors to have problems related to sustainability?**

We believe that three projects covered by these certifications have been found by Inspectors General or other government auditors to have challenges related to sustainability. The projects and related audits are as follows:

- 1) Construction of Health and Education Facilities (CHEF) – USAID OIG Audit of USAID/Afghanistan’s Construction of Health and Education Facilities Program (audit # 306-11-002-P)

This audit contained one recommendation related to the sustainability of the structures built under the Construction of Health and Education Facilities program, as there were doubts the Government of Afghanistan could afford to maintain them. The recommendation stated “after preparing an analysis of the Government of Afghanistan’s ability to fund maintenance for the structures turned over under the program, [USAID/Afghanistan should] (1) determine the need for a separate operation and maintenance program and (2) revise as appropriate the 611(e) certification previously prepared for the Construction of Health and Education Facilities Program. In order to assist USAID with CHEF audit recommendation 9, the implementing partner, International Organization of Migration, submitted the O&M annual budgets to USAID for all projects on September 8, 2011. Letters from the Mission Director were sent to the Ministries of Education and Public Health requesting that they review the O&M annual budgets and to state if they have funding for the budgets. The Ministries of Public Health and Education have subsequently committed that they do have funding to cover the O&M for these facilities.

- 2) Constructing Faculties of Education – USAID OIG Audit of USAID/Afghanistan’s Higher Education Project (audit # 5-306-09-002-P)

The audit contained two recommendations related to sustainability. Below please find the recommendations and actions taken by USAID/Afghanistan in response.

“We recommend that USAID/Afghanistan intervene with the Ministry of Education and Ministry of Higher Education to reach an agreement on appropriate collaborative

actions to further the higher education project.” In January 2009 a memorandum of understanding (MOU) was signed between the Ministry of Education (MOE), the Ministry of Higher Education (MOHE), the Higher Education Project (HEP), and USAID confirming the adoption of secondary and higher education standards of teacher education. This MOU is crucial for sustainability as it formalizes a shared vision of the teaching profession in Afghanistan and initiates formal cooperation between the MOE and the MOHE. In addition, the mission requested that both ministries assign a deputy minister to attend ongoing meetings with the HEP chief of party and USAID to explore further collaboration. This coordination/collaboration happens through the Human Resources Development Board (HRDB), attended by deputy ministers from both MoE and MoHE along with USAID, the HEP Chief of Party, representative from the Ministry of Labor and Social Affairs, the Ministry of Women’s Affairs and other donors. This meeting is held monthly.

“We recommend that USAID/Afghanistan collaborate with the Academy of Educational Development and applicable Afghanistan universities to develop an exit strategy so that key services of professional development centers will continue after project completion.” The Academy for Educational Development and USAID/Afghanistan had a series of meetings designed to put in place by January 31, 2011, a mechanism for ensuring the sustainability of each of the 16 Professional Development Centers expected to be operational by that date. To this end, a consortium meeting on November 12-13, 2008, brought together the HEP partners to discuss development of a comprehensive sustainability plan. The University of Massachusetts and MoHE are assessing and analyzing the Ministry’s sustainability needs and priorities and the next phase will be to work on a sustainability plan based on these priorities.

- 3) Kabul Power Plant – USAID OIG Audit of USAID/Afghanistan’s Power Sector Activities Under its Afghanistan Infrastructure Rehabilitation Program (audit # 5-306-10-002-P); SIGAR Audit – Contract Delays Led to Cost Overruns for the Kabul Power Plant and Sustainability Remains a Key Challenge

Both audits expressed concerns over the Afghan government’s ability to provide fuel for the plant and effectively operate and maintain it.

USAID has been working with the Afghan national power utility, DABS, to ensure sustainability of Afghanistan’s power sector. First, we have been providing extensive hands-on training to DABS engineers charged with operating and maintaining this power facility so that they carry out their duties effectively. Second, USAID is working with DABS to strengthen its commercial operation so that it can sustain the operation of the entire power network, including the Tarakhil Power Plant, with reduced support from donors. With USAID assistance, DABS’ revenues have reached \$175 million per year and are increasing – a situation that now permits the Government of Afghanistan to reduce its annual operating subsidy from \$150 million to \$39 million per year.

- **What would be the implications of expanding this certification requirement to encompass all projects? Should funding offered by the Department of Defense be subject to certification requirements?**

Capital projects under the \$1 million threshold tend to be community level activities that are not supported by the central government. There are hundreds of such activities at the community level. Examples of these projects are community wells, solar street lights, micro-hydro facilities, etc. These types of activities tend to be developed in collaboration with the benefitting village, including future maintenance. Some of these small scale infrastructure activities, for example, in the National Solidarity Program (NSP), are NGO activities in which the primary purpose is to encourage community inclusion and good governance as well as develop basic development planning and implementation skills rather than the infrastructure project per se. Therefore, the 611(e) certification process is not appropriate to these kinds of small scale infrastructure projects.

Additionally, applying the 611(e) certification to all capital projects regardless of financial cost would substantially increase the burden on the Mission and most likely reduce the quality of the certification process.

Regarding the second question, we cannot speak for the Department of Defense on this issue.

- 9) **One of the efforts being made on counternarcotics programs is through agricultural programs, and since 2002, USAID has awarded approximately \$1.4 billion for agricultural programs, as a means to encourage farmers not to engage in opium farming.**

- Does USAID have data on the economic impact of these programs?

USAID and its implementers routinely measure the impact of USAID activities. These results can be reported in a variety of formats and are included in the USAID/Office of Agriculture Performance Monitoring Plan. For example, the Alternative Development Program Southwest, which began in 2008, aims to counteract illicit poppy cultivation by providing alternative development programs, improved economic opportunities, and diverse regional economic growth. The program made progress in mitigating illicit poppy cultivation, and according to the Afghanistan Opium Survey, the collective decrease in 2009 poppy production in the relevant provinces was 42,852 hectares, which is a 32% decrease in one year. The decrease is attributable in part to provisions of alternative economic opportunities in targeted districts within each province. The program yielded significant results, bringing more than 73,000 hectares under improved natural resource management. It converted nearly 6,600 hectares of land into high-value crops and trained 47,300 farmers in agricultural productivity methods.

For the Agriculture Vouchers for Increased Production in Agriculture Plus program (AVIPA Plus) over 80,000 farmers received vegetable seed and fertilizer vouchers in 2009-2010 in Kandahar and Helmand, covering 130,000 hectares and one million tons of output. Corresponding crop incomes were \$142 million and 60,000 full time equivalent jobs in production. The Helmand Food Zone (HFZ) program is a comprehensive counter narcotics provincial GIRA program that combines public information, alternative livelihoods programs, eradication, and drug demand reduction in a targeted area. In 2010, USAID's AVIPA program buttressed British PRT efforts of wheat and alfalfa seed distribution with

distribution of high value voucher packages worth over \$32 million in five Helmand Food Zone districts in Central Helmand benefitting approximately 72,000 farmers. The combined efforts of the HFZ and AVIPA have helped reduce opium production in Helmand.

Additionally, through the AVIPA Cash-for-Work program in 2009-2010, 6,000 hectares of fruit tree orchards were pruned and cleaned the first year. Yields increased 50 percent the first year, while the price jumped 35 percent due to the improved quality. The same program planted one million two-year old saplings to rehabilitate the old fruit groves. 16,000 hectares were pruned the second year, and 300,000 saplings were planted. Those saplings will produce fruit in just two years after transplanting, and at maturity will have a gross income of over \$20 million. The cost of this orchard maintenance and rehabilitation program was \$12 million for the two years.

The Incentives Driving Economic Alternatives for the North, East and West program (IDEA-NEW) has reduced transportation costs of agricultural products by 20 to 30 percent, and increased crop yields by 25 to 30 percent. Additionally, 169,899 farming families have directly benefitted from infrastructure projects including roads, market centers, and irrigation rehabilitation which help increase agriculture production, improve linkage between farmers and local markets, and ultimately improve agriculture income.

- Has USAID conducted an analysis of the extent that these programs are sustainable?

Yes, USAID has conducted an analysis of the sustainability of its current agriculture programs, including those working in alternative development. The analysis indicates that some programs, such as IDEA-NEW are rated highly in terms of sustainability, as well as their importance to transition as the U.S. reduces its presence in Afghanistan. Farmers in some circumstances now have the skills in production, marketing, and sales to continue to grow without further USAID assistance. A program such as AVIPA Plus and a follow-on program are also viewed as critical to the transition; however, as they also have important stability considerations, they are viewed as somewhat less sustainable. Interventions focused on stability, along with alternative development are, by their nature, focused to a higher degree on shorter term objectives, rather than longer term sustainable development goals.

- What efforts have been made to involve Afghans in counternarcotics programs? Will the Afghan government be able to take these programs over from contractors?

On alternative development programs that USAID implements (law enforcement is not part of USAID's portfolio), significant interaction and cooperation is evident with the Afghan government. USAID is working to build capacity from the ministries on down to district governors, for example, for the critical distribution of farm inputs for licit crops as alternatives in poppy growing regions of the country. This includes the Ministry of Agriculture, Irrigation, and Livestock (MAIL), the Ministry of Rural Rehabilitation and Development, the Helmand and Arghandab Valley Authority, and numerous provincial and district authorities. This critical capacity building is evident in, for example, the AVIPA Plus program in southern Afghanistan, as explained in the AVIPA Quarterly Report for January – March 2011:

“In Helmand and Kandahar provinces, AVIPA Plus works in partnership with the Directorate of Agriculture, Irrigation and Livestock (DAIL) and with the district government at every phase of program implementation, from prioritizing agricultural development needs to approving project design and registering beneficiaries. Opportunities to participate in AVIPA Plus activities are presented to the community through district governors and, to the extent the positions are staffed, DAIL extension agents. As an illustration, AVIPA Plus in Helmand works closely with DAIL to direct project planning in line with provincial government strategy. A preliminary strategic plan was developed jointly between AVIPA Plus and the Helmand DAIL. In accordance with MAIL’s Gender Mainstreaming Strategy, AVIPA Plus also worked closely with the Ministry of Women’s Affairs (MOWA) to create projects geared toward building greater capacity among Helmand women. The AVIPA Plus/NSDP Coordination Center at the MAIL ministry building in Kabul serves as the headquarters of the MAIL Seed Distribution Coordination Committee responsible for implementing the NSDP in which AVIPA plays a support role. The Ministry works with the Afghanistan National Seed Organization (ANSOR) to determine certified seed quantities and negotiate prices for seed and thus strengthen Afghan private seed enterprises. District selection takes place in coordination with DAILs. MAIL representatives are also responsible for the selection of farmer beneficiaries.”

In all efforts, USAID is working with GIRoA, particularly MAIL and the private sector to take an increasing role in facilitating inputs, providing extension services and furthering market development in support of rural agriculture, which is the cornerstone of alternative development efforts. In combination with other agency support to the Ministry of Counternarcotics to support government-led eradication, GIRoA is increasingly taking responsibility for its counternarcotic efforts.

- Can you speak to specific milestones that have been reached as a result of counternarcotics contracting in Afghanistan?

USAID’s alternative livelihood’s programs have achieved or contributed to a number of milestones. Specific milestones reached include:

Poppy cultivation has decreased from a peak of 193,000 hectares (ha) area under production in 2007 to present levels of 131,000 ha in 2011. This is in part attributed to the availability of alternative livelihoods activities, the governor’s support in Helmand province, and USG interventions supporting security as evidenced by some of the activities below. While we are disappointed to learn of the 7 percent increase in poppy cultivation in Afghanistan in 2011, we attribute this in part to the highest opium prices since 2004. This news should not overshadow all the positive counternarcotics gains made since poppy cultivation peaked in 2007.

Table 1: Poppy cultivation (ha)

Cultivation (HA)						
2005	2006	2007	2008	2009	2010	2011
104,000	165,000	193,000	157,000	123,000	123,000	131,000

Since 2009, USAID agriculture projects have resulted in the cultivation of more than 190,000 hectares with licit (alternative) crops. Since March 2009, the Incentives Driving Economic Alternatives-North East West program (IDEA-NEW) has trained over 366,989 farmers and 1,235 government staff on agriculture productivity. Additionally, more than 4 million livestock benefitted from improved technology management, 174,380 farmers are now using improved agriculture inputs, more than 11,000 hectares of agriculture land came under improved irrigation, and more than 27,000 farmers are planting high value crops.

The Commercial Horticulture Agricultural Marketing Program (CHAMP) has facilitated the export of fresh pomegranates to Canada and will be targeting additional international markets for export of fresh fruit, thus providing alternative high value livelihoods and mitigating poppy production.

The AVIPA Plus program is focused on stabilizing Helmand and Kandahar provinces and has employed more than 169,000 laborers since 2009 and injected more than \$40 million in wages into the local economy, equivalent to the creation of 33,356 full time jobs.

The Alternative Development Program Southwest Region (completed) brought more than 73,000 hectares under improved natural resource management. It converted nearly 6,600 hectares of land into high-value crops and trained 47,300 farmers in agricultural productivity methods.

- Is this situation better in Afghanistan than it was two years ago? Five years ago?

Yes, alternative development programs in the past five years have contributed to reductions in poppy cultivation, and the increase of economic activity, and employment. For example, stabilization activities, especially in the past two years, have made it possible for more normal life to return to the Marja district in Helmand province, once a center of Taliban activity. We have learned from our extensive engagement in Helmand that sustainable changes to the poppy economy can be achieved with coordinated and parallel improvements in security, governance and rural development

The Ministry of Counternarcotics and the international community are working to target the Afghan drug trade through increased public awareness, eradication, interdiction, demand reduction, and rule of law, as well as by advocating for stronger regional cooperation and further developing Afghan CN capacity. Sustainable counternarcotics gains in Afghanistan are dependent on a holistic approach, long term commitment and increased regional cooperation.

- Has there been interagency coordination between the Defense Department and USAID regarding the Defense Department's interdiction programs and USAID's agricultural programs?

USAID does not directly coordinate with interdiction efforts, as our programs are focused on alternative livelihood development.

10) In a report recently released by the Senate Foreign Relations Committee, a former USAID Kabul Mission Director is quoted as saying:

“Because of the ill planned downsizing of USAID’s technical staff over the past years the difficulty in finding senior technical Foreign Service officers to serve in Afghanistan, the management of the Kabul Bank Deloitte contract was relegated to a junior officer. While he worked the best of his ability this important project demanded strong technical oversight and similar programs of this level of strategic importance will demand senior management expertise and a different system with USAID to ensure the availability of senior technical staff.”

USAID had a \$92 million contract with Deloitte for technical assistance, but this assistance failed. The USAID IG found that Deloitte knew or should have known about the problems at the Bank and that it failed to alert USAID.

- **What actions has USAID taken to prevent a situation like this from occurring again?**

Combating corruption in Afghanistan has been and is a priority for the U.S. Government. We will work with the Afghan Government to continue to root out corruption at all levels. In the immediate aftermath of the Kabul Bank crisis, USAID requested this IG review of USAID and Deloitte’s efforts. It is important that the review found no indications of fraud, waste or abuse by USAID or Deloitte. We do not believe that Deloitte or USAID could have stopped the massive fraud that occurred at Kabul Bank. Deloitte, with USAID funds, supported the Afghan Central Bank – not Kabul Bank – by providing trainers and experts to build the capacity of their Bank Supervision Unit. Oversight of the Afghan financial sector is conducted by Afghan authorities and actual bank supervision is a sovereign function of the Afghan Government. However, to ensure that our technical assistance is as effective as possible in light of changed and difficult conditions, USAID terminated this part of the Deloitte contract in Afghanistan. The rest of the Economic Growth and Governance Initiative (EGGI) contract, representing 90% of the program, is still underway with the agreement and continuing collaboration on implementation with the Afghan government. USAID is reviewing its guidance to our implementing partners on the reporting of material information that extends beyond USG assistance but could harm our foreign policy interests. In 2011, USAID/Afghanistan’s Office of Economic Growth has added four staff members with substantial experience managing and implementing financial sector development programs.

- **What reconstruction efforts are now at risk because of the problems with Kabul Bank?**

Reconstruction efforts led by the Afghan Government, mainly through the multi-donor ARTF, were at potential risk during most of Calendar Year (CY) 2011. This was due to the protracted negotiations between the Afghan government and the IMF on a new program for Afghanistan reflecting the difficulties the Afghan government experienced in addressing the complex problems engendered by the collapse of Kabul Bank. Many donors, including USAID, withheld disbursements from the Afghan Reconstruction Trust Fund pending the agreement with the IMF. With the signature of a new program in November 2011, however the Afghan government satisfied important IMF conditions related to Kabul Bank and USAID along with other donors have begun to release holds on funding distributions. USAID had no programs, nor funds, with Kabul Bank and so other USAID assistance

programs were not and are not affected by the continuing work-out of the Kabul bank crisis. USAID had no programs, nor funds, with Kabul Bank and so USAID assistance programs are not affected beyond the ARTF contribution.

11) In meetings before the hearing, USAID staff told the Subcommittee staff that you are beginning to gather more information on subcontractor costs by utilizing more cost-type contracts in Afghanistan. However, the Louis Berger Group informed the staff that they do not provide detailed information on their subcontractor costs under their cost-type contracts.

- **How do you explain the increased use of this contract type when the contractors do not provide you the detailed information you are seeking under these types of contracts?**

Cost-reimbursement contracts (cost-type contracts, as you refer to them) do not grant a prime contractor leave from reporting out on subcontractor information, including costs. In fact, under Federal Acquisition Regulations (FAR) part 15.4-03-1, a prime must report out on subcontractor's costs. Under fixed-price contracts, the FAR actually does not require the provision of cost data detail.

The relevant USAID contracting officer has the authority to view subcontractor costs as needed to determine that they are fair and reasonable under this award type. As well, COTRs will have access to vouchers as they are submitted for prime/sub work under the contract.

- **Can you explain why you cannot get subcontractor cost information via fixed-price contracts instead of cost-type contracts?**

Consistent with Federal Acquisition Regulations (FAR) part 16, fixed-price contracts are not more advantageous than "cost type" contracts when: 1) the risk is high, 2) when uncertainties exist; 3) when there are highly complex requirements; 4) when competition is present; and 5) when the USG seeks access to analyze costs—whether at the prime or subcontract level. If the USG determines meaningful price competition exists for a fixed-price contract, the lowest price that is technically most acceptable may win. The Government never sees the underlying cost information and there is no requirement that winning or losing vendors must maintain such data. In fact, the FAR (FAR 15.401 and 15.404) prohibits requiring cost or pricing data. While there are certainly data points that a CO can request under a fixed-price award to determine fairness or reasonableness of a price, these data points do not provide any sufficient capability to analyze the costs. When the USG signs a fixed-price contract with an entity, we expect the job to be done for the price that we pay. We expect that the market regulates the general price, but there is no recourse on profit or fee that may be made during the life of the award.

12) USAID uses large IDIQ contracts where you select from a limited pool of offerors to perform various tasks.

- **Does the use of IDIQ contract lead to an increased use of subcontractors since you have large contractors who cannot perform all the contract's requirements themselves?**

An Indefinite Quantity Contract (IQC) often is issued after a full and open competition process. After review of the offerors, USAID will select the top proposals as winners of the IQC, who are then eligible to compete and be selected for future task orders that come under the primary IQC award. Ideally, the IQC winners contain the skills, services, and expertise USAID will need for future work. In many cases, they will work and partner with other organizations/firms, including small businesses and/or local organizations to achieve the desired results under a specific task order. To some degree, USAID encourages this as a way to help grow local economy and/or build capacity of the private sector or NGO community in a given country/region.

USAID is committed to reducing reliance on IQCs although we do still view these instruments as a tool to meet development needs in the right circumstances. In that regard USAID has drafted new guidance for the use of IQCs that more clearly specifies the circumstances that are appropriate for the use of an IQC. In addition, since 2010, USAID instituted the Board for Acquisition and Assistance Reform (BAAR) which holds the mandate to review any large IQC-like instruments in non-Critical Priority Countries at the time of program design and before a solicitation is released. The BAAR has reviewed 32 of the Agency's largest planned awards with a total estimated funding level of \$26.3 billion. These 32 planned awards were split into 42 separate awards. Given that some of the IQCs had multiple prime awards, it was also possible to introduce 42 small business reserves. For 10 of the IQC awards, thresholds were established that require all task orders below the threshold to be awarded to a small business prime that demonstrates the capability to implement the action.

- Is this why Louis Berger received the contract for the Gardez-Khost highway? Off of an existing IDIQ?

After a full-and-open competition for the Afghanistan Infrastructure Rehabilitation Program (AIRP), the Louis Berger Group and Black & Veatch Joint Venture won the IQC to support repair and expansion of essential power, transport, buildings, and water infrastructure. This IQC was issued to directly support the economic and social development stabilization of Afghanistan. Under this IQC, The Louis Berger Group did take on the task order work for the Gardez-Khost road.

13) I understand there has been some engagement between the Afghan government and USAID about developing a set of standardized definitions for construction projects.

- Please provide any information you have regarding the status of these conversations.

These discussions between GIRoA and donors on standardizations of definitions for construction projects took place in 2003 and 2004 and resulted in the Afghanistan Roads Master plan, published in April 2006. USAID has adhered to these standards since.



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

THE UNDER SECRETARY OF DEFENSE
3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

JUN 21 2011

The Honorable Carl Levin
Chairman
Committee on Armed Services
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

Pursuant to section 9013 of the Department of Defense and Full-Year Continuing Appropriations Act, 2011 (P.L. 112-10), enclosed is the report containing the quarterly projection of contractors through FY 2012 for Iraq, Afghanistan, and the other areas in the U.S. Central Command Area of Responsibility (AOR).

The report provides information on the current Department of Defense contractor population in the U.S. Central Command AOR as well as a projection of this population through FY 2012. The rationale and assumptions used in developing the projection are also enclosed.

A similar letter has been sent to the other congressional defense committees.

Sincerely,

Frank Kendall
Acting

Enclosure:
As stated

cc:
The Honorable John McCain
Ranking Member



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

THE UNDER SECRETARY OF DEFENSE
3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

JUN 21 2011

The Honorable Howard P. "Buck" McKeon
Chairman
Committee on Armed Services
U.S. House of Representatives
Washington, DC 20510

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Sincerely,

Frank Kendall
Acting

Enclosure:
As stated

cc:
The Honorable Adam Smith
Ranking Member

June 2011

**Quarterly Projection of Contractors through Fiscal
Year 2012 for Iraq, Afghanistan and the other areas
in the United States Central Commands Area of
Responsibility**

**As required by Section 9013, Public Law 112-10, Department of
Defense and Full Year Continuing Appropriations Act, 2011**

**Preparation of this report/study cost the Department of Defense
a total of approximately \$3,884 for the 2011 Fiscal Year.
Generated on 2011 May 23 10:23 RefID: 2-11D380A**

Congressional Report Requirement

The following report is submitted in response to section 9013 of the Department of Defense and Full Year Continuing Appropriations Act, 2011 (Public Law 112-10), which requires that the Secretary submit a quarterly projection of contractors through FY 2012 for Iraq, Afghanistan, and the other areas in the U.S. Central Command (USCENTCOM) Area of Responsibility (AOR).

Requirement:

- (a) Not more than 85 percent of the funds provided in this title for Operation and Maintenance may be available for obligation or expenditure until the date on which the Secretary of Defense submits the report under subsection (b).
- (b) Not later than 120 days after the date of the enactment of this Act, the Secretary of Defense shall submit to the congressional defense committees a report on contractor employees in the United States Central Command, including -
 - (1) the number of employees of a contractor awarded a contract by the Department of Defense (including subcontractor employees) who are employed at the time of the report in the area of operations of the United States Central Command, including a list of the number of such employees in each of Iraq, Afghanistan, and all other areas of operations of the United States Central Command; and
 - (2) for each fiscal year quarter beginning on the date of the report and ending on September 30, 2012 -
 - (A) the number of such employees planned by the Secretary to be employed during each such period in each of Iraq, Afghanistan, and all other areas of operations of the United States Central Command; and
 - (B) an explanation of how the number of such employees listed under subparagraph (A) relates to the planned number of military personnel in such locations.

Introduction

Background

As the 2010 Quadrennial Defense Review (QDR) acknowledged, contractors are part of the total force, providing an adaptable mix of unique skill sets, local knowledge, and flexibility that a strictly military force cannot cultivate or resource for all scenarios. Contractors provide a broad range of supplies, services, and critical logistics support in many capability areas, while reducing military footprint and increasing the availability and readiness of resources.

Within the USCENTCOM AOR, contractor support to Operation IRAQI FREEDOM (OIF)/Operation NEW DAWN (OND) and Operation ENDURING FREEDOM (OEF) has proven to be essential. In particular, the use of local national contractors is a key element in the commander's counter-insurgency strategy.

Since 2007, USCENTCOM has provided a quarterly census of contractors supporting the Department of Defense (DoD) in AOR. USCENTCOM continually monitors and assesses the current use and future requirements for contracted support to meet dynamic operational needs.

Methodology

The projection of contractors through FY 2012 outlined in this report is based on contractor support for the current contingencies, OND and OEF, as well as the present operational environment in the other areas within the USCENTCOM AOR. The projection includes an operational assessment of anticipated future requirements for ongoing operations. The projection additionally considers contractor support to posture capabilities in the AOR for potential future contingencies. The USCENTCOM AOR is a volatile region requiring vigilance and preparation to ensure sufficient response when required. Therefore, it is important to note that such projections are conditions based.

The methodology used in this projection includes trend analysis of historical contractor census data in Iraq, Afghanistan, and all other areas in the AOR, coupled with an estimate of contractor support required for future operations. These projections consider anticipated changes

in the operational environments throughout the AOR, such as the Responsible Drawdown of Forces (RDoF) and transition of mission and authority to the Department of State (DoS) in Iraq.

DoD Contractor Personnel in the USCENTCOM AOR

Contractor Data

Table 1 provides the current contractor footprint and the projection through the 4th Quarter of FY 2012. It includes the number of employees of a contractor awarded a contract by the DoD (including subcontractor employees) who are currently employed in the USCENTCOM AOR as well as the number of DoD contractors planned by the Secretary of Defense to be employed through the end of FY 2012. The figures represent projections at the end of each respective quarter. Figure 1 provides a graphic representation of that data.

**Table 1
DoD Contractor Footprint Projection for the USCENTCOM AOR**

	Current	3Q FY 2011	4Q FY 2011	1Q FY 2012	2Q FY 2012	3Q FY 2012	4Q FY 2012
Iraq	64,253	58,310	43,200	22,000*	19,750*	18,500*	17,000*
Afghanistan	90,339	90,800	89,300	90,600	89,800	88,600	91,400
Other	19,052	23,800	28,200	34,800	33,800	34,200	31,600
Total AOR	173,644	172,910	160,700	147,400	143,350	141,300	140,000

* These numbers include DoD assistance to DoS under the Economy Act in support of the enduring diplomatic and security assistance mission. Approximately 4,000 of the total will be directly supporting DOD mission areas and funded accordingly; the remaining contractor personnel are provided to support the Chief of Mission, Iraq, on a reimbursable basis.

DoD Contractor Footprint Projection for USCENTCOM AOR

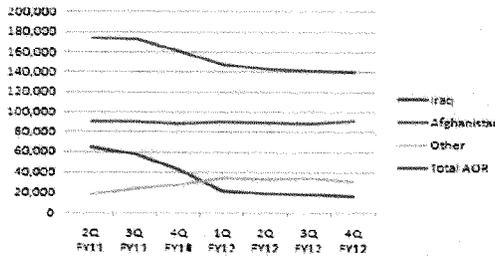


Figure 1

Rationale and Assumptions

Below is a synopsis of the major operational considerations and factors for USCENTCOM's contractor projection assessment.

a. Total AOR. As of second quarter FY 2011, the contractor footprint in the USCENTCOM AOR was approximately 173,000. USCENTCOM anticipates the overall contractor numbers in the AOR to drop to approximately 147,000 by the end of the 1st Quarter of FY 2012 as a result of the RDoF and transition of authority in Iraq. USCENTCOM anticipates the contractor footprint to be approximately 140,000 by the end of FY 2012.

b. Iraq

(1) Contractor reductions will decrease in earnest beginning the 4th Quarter of FY 2011 in concert with the RDoF decreases.

(2) In accordance with the President's directive and the assumption that no new Security Agreement will be executed in Iraq, the RDoF and transition of authority from the DoD to the DoS will be complete by the end of calendar year (CY) 2011, leaving only the Office of Security Cooperation under the auspices of the Chief Of Mission.

(3) Based on the DoD approved request for support from the DoS, a significant number of contractors will remain in Iraq post CY 2012. The scope of DoD contractor support beyond CY 2012 largely focuses on base life support services from the Logistics Civil Augmentation Program (LOGCAP), maintenance support for military equipment to support the DoS, and sustainment support from the Defense Logistics Agency.

c. Afghanistan

(1) The current contractor to military personnel ratio is approximately 0.85 to 1. USCENTCOM expects this ratio and the military footprint to remain fairly constant through FY 2012.

(2) U.S. Army Corps of Engineers projects could contribute to a fluctuation in contractors of 10,000 to 15,000. However, the DoD anticipates these fluctuations to be offset by other contracting efficiencies. Therefore, USCENTCOM expects the overall contractor footprint in Afghanistan to remain roughly 90,000 through FY 2012.

d. Other. USCENTCOM estimates the contractor footprint in the remainder of the AOR to be 30,000 to 35,000 throughout FY 2012. Fluctuations in this number will be driven by several factors.

(1) As the RDoF progresses, USCENTCOM will re-mission some forces to Kuwait for continued vigilance and to facilitate the transition of authority to Iraq. With a temporary increase in forces in Kuwait, a commensurate number of contractors will increase accordingly.

(2) USCENTCOM continues to shape the AOR which necessitates responsive, scalable contractual support. Shaping actions include enhancing economic activities in the Central Asian States to facilitate viability of a Northern Distribution Network in support of OEF, and re-posturing within the AOR to ensure sufficient response for potential future contingencies.

Conclusion

Contracted support for operations in the USCENTCOM AOR has proven to be a critical enabler to current operations and contractor personnel are recognized as part of the total force. USCENTCOM considers how contracted support can best enable mission success, specifically: the depth and breadth of capabilities required; where such capabilities should be employed; and how to optimize local economic impacts from DoD contracts to enhance counterinsurgency strategies and local national employment. USCENTCOM carefully plans and manages contracted support to optimize its use in this dynamic environment.

The DoD expects that future operations of significant scope will also require the integration of substantial contractor support. OIF/OND and OEF have provided many lessons learned with respect to contractor support and will serve as a basis for planning for future operations.

Department of Defense and Full-Year Continuing Appropriations Act, 2011

SEC. 9013.

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