

MEMORANDUM
December 16, 2009

To: Subcommittee on Contracting Oversight Members and Staff
Fr: Subcommittee Majority Staff
Re: Hearing: “Afghanistan Contracts: An Overview”

On Thursday, December 17, 2009, the Subcommittee on Contracting Oversight will hold a hearing entitled, “Afghanistan Contracts: An Overview.” This hearing is the second in a planned series of hearings on actual and potential waste, fraud, and abuse in Afghanistan contracts.

The purpose of the hearing is to examine whether sufficient steps are being taken to ensure adequate management and oversight of Afghanistan reconstruction, development, and troop support contracts, which are expected to increase in number and value in conjunction with the increase in uniformed personnel in Afghanistan that was announced by President Obama on December 1, 2009. The hearing will also review whether the lessons learned from Iraq are being applied in Afghanistan. In addition, the hearing will discuss recent findings from federal auditors and explore potential abuses in the award, management, and oversight of Afghanistan contracts.

In preparation for the hearing, this memorandum examines reconstruction, development, and troop support contracts in Afghanistan. It also provides new information related to Afghanistan contracts, including:

- *Wasteful Spending on Defense Department Contracts Nears \$1 Billion.* According to federal auditors, approximately \$950 million in questioned and unsupported costs has been submitted by Defense Department contractors for work in Afghanistan. This represents 16% of the total contract dollars examined.
- *Afghanistan Contract Spending Exceeds \$23 Billion.* According to the Federal Procurement Data System (FPDS), the United States has spent more than \$23 billion on contracts performed in Afghanistan since 2002.
- *Number of Defense Department Contractors in Afghanistan May Reach 160,000.* There are currently 104,000 Defense Department contractors currently working in Afghanistan. The increase in troops may require an additional 56,000 Defense Department contractors, bringing the total number of Defense contractors in Afghanistan to 160,000.
- *New Concerns about Troop Support Contracts.* The Army continues to rely heavily on LOGCAP III, the monopoly troop support contract held by KBR, to support operations in Iraq, Kuwait, and Afghanistan. In 2010, the Army anticipates spending more than \$657 million under LOGCAP III and approximately \$87 million under LOGCAP IV – despite the fact that the Army intends to complete the transition from LOGCAP III to LOGCAP IV in Afghanistan by June 2010.

I. AFGHANISTAN CONTRACT SPENDING LIKELY TO INCREASE

On December 1, 2009, President Obama ordered an additional 30,000 troops to be deployed to Afghanistan. The first of these forces will be on the ground at the end of December. In addition, an increase of almost 1,000 civilian personnel will accompany the troop increases, and that number could grow by 20 to 30 percent by the end of 2010.¹ According to Karl Eikenberry, the U.S. Ambassador to Afghanistan, those civilians will work to strengthen the Afghan government and “provide basic services as rapidly as possible.”²

The planned surge of military and civilian personnel is expected to be accompanied by a surge in contracts and contractor personnel. Contractors in Afghanistan provide a wide area of services, including dining facilities, logistical support, translation, security, reconstruction and development projects, and contract management. In 2008, the Defense Department, State Department, and the U.S. Agency for International Development (USAID) combined had more than 16,000 active contracts in Afghanistan.³

According to the Federal Procurement Data System (FPDS), the United States has spent more than \$23 billion on contracts performed in Afghanistan since 2002.⁴ In 2008 alone, the Defense Department, State Department, and USAID spent more than \$8.2 billion on contracts in Afghanistan.⁵ The Defense Department alone spent more than \$6.6 billion. The State Department spent \$625 million and USAID more than \$1 billion.⁶

¹ Senate Committee on Foreign Relations, Testimony of Deputy Secretary of State for Management and Resources Jacob Lew, *Hearing on the New Afghanistan Strategy: The View From the Ground* (Dec. 9, 2009).

² Senate Committee on Foreign Relations, Testimony of U.S. Ambassador to Afghanistan Karl Eikenberry, *Hearing on the New Afghanistan Strategy: The View from the Ground* (Dec. 9, 2009).

³ U.S. Government Accountability Office, *Contingency Contracting: DOD, State, and USAID Continue to Face Challenges in Tracking Contractor Personnel and Contracts in Iraq and Afghanistan* (Oct. 2009) (GAO-10-1).

⁴ Online at USAspending.gov (accessed Dec. 15, 2009). This number is likely to be inaccurate due to inconsistencies with reporting of “place of performance” information. However, FPDS remains the best available data set for obtaining information about the value of Afghanistan contracts.

⁵ U.S. Government Accountability Office, *Contingency Contracting: DOD, State, and USAID Continue to Face Challenges in Tracking Contractor Personnel and Contracts in Iraq and Afghanistan* (Oct. 2009) (GAO-10-1). According to FPDS, the total value of all contracts performed in Afghanistan in 2008 is \$7.5 billion. The Subcommittee believes that the additional research and verification performed by GAO has yielded a more accurate result than the “place of performance” information in FPDS.

⁶ *Id.*

The Defense Department is the single largest employer of contractors in Afghanistan. As of September 30, 2009, there were approximately 104,000 Defense Department contractors and approximately 64,000 U.S. military personnel in Afghanistan.⁷ In other words, contractors comprised more than 60% of the Defense Department's workforce in Afghanistan. In December 2008, contractors comprised 69% of the Defense Department's workforce, the highest ratio of contractors to military personnel in US history.⁸

The State Department and USAID also employ numerous contractors in Afghanistan. As of March 31, 2009 (the most recent date for which data is available) there were 3,600 State Department contractors and 14,000 USAID contractors working in Afghanistan.⁹ Due to problems with the completeness and accuracy of contractor personnel data, the total number is likely to be even higher.¹⁰

The number of contractors in Afghanistan has risen to levels that will outnumber U.S. military personnel even after the upcoming military surge is completed. Even if no additional contractors are added to support the 30,000 additional troops ordered by President Obama, contractors will still exceed U.S. military personnel. If the percentage of contractors to U.S. military personnel remains the same going forward, the deployment of 30,000 more troops may require 26,000 to 56,000 more contractors.¹¹

The number of contractors is increasing rapidly. From June 2009 to September 2009, there was a 40% increase in Defense Department contractors in Afghanistan. During the same period, the number of armed private security contractors working for the Defense Department in Afghanistan doubled, increasing from approximately 5,000 to more than 10,000.¹²

To date, the war in Afghanistan has cost nearly \$230 billion. The Administration requested more than \$70 billion for fiscal year 2010, which will bring the total cost of the

⁷ U.S. Defense Department Office of the Deputy Under Secretary of Defense (Logistics & Materiel Readiness, *Contractor Support of U.S. Operations in USCENTCOM AOR, Iraq, and Afghanistan* (Nov. 2009); Congressional Research Service, *Department of Defense Contractors in Iraq and Afghanistan: Background and Analysis* (Dec. 14, 2009).

⁸ Congressional Research Service, *Department of Defense Contractors in Iraq and Afghanistan: Background and Analysis* (Sept. 21, 2009).

⁹ U.S. Government Accountability Office, *Contingency Contracting: DOD, State, and USAID Continue to Face Challenges in Tracking Contractor Personnel and Contracts in Iraq and Afghanistan* (Oct. 2009) (GAO-10-1).

¹⁰ *Id.*

¹¹ Congressional Research Service, *Department of Defense Contractors in Iraq and Afghanistan: Background and Analysis* (Dec. 14, 2009).

¹² U.S. Defense Department Office of the Deputy Under Secretary of Defense (Logistics & Materiel Readiness, *Contractor Support of U.S. Operations in USCENTCOM AOR, Iraq, and Afghanistan* (Nov. 2009).

Afghanistan war to \$300 billion.¹³ The Defense Department alone obligates approximately \$3.6 billion a month in contracts and pay in Afghanistan.¹⁴

II. FAILURE TO APPLY LESSONS LEARNED FROM IRAQ

Billions of dollars was lost through wasteful spending in Iraq. According to federal auditors, much of this waste stemmed from inadequate contract management, including contractors overseeing contractors; poor coordination of interagency efforts; continual personnel turnover; and the challenges of contracting in a war zone. Despite these findings, it appears that many of these lessons learned from Iraq may not be applied to the efforts in Afghanistan.

A. Inadequate Contracting and Program Management Practices

The massive reconstruction and services contracts in Iraq were not accompanied by responsible contract management and oversight. This conclusion has been reached by multiple blue ribbon commissions, federal auditors, Congress, and the Obama Administration.

Inadequate contract management and oversight has also hampered U.S. efforts in Afghanistan. In October 2009, GAO found that federal agencies were unable to manage contracts in Afghanistan effectively.¹⁵ According to GAO:

DOD's, State's, and USAID's ability to effectively manage contractors in Afghanistan has been undermined by several systemic challenges, including a failure to clearly define contract requirements and a lack of acquisition and oversight personnel with experience working in contingency operations. These challenges have contributed to higher costs, schedule delays, and operational impacts.¹⁶

Problems with contract management and oversight may be affecting the larger mission in Afghanistan. According to the Congressional Research Service, "some analysts believe that poor contract management has also played a role in abuses and crimes committed by certain contractors against local nationals, which may have undermined U.S. counterinsurgency efforts in Iraq and Afghanistan."¹⁷

Issues contributing to inadequate contract management in Afghanistan include:

¹³ Congressional Research Service, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11* (Sept. 28, 2009).

¹⁴ *Id.*

¹⁵ U.S. Government Accountability Office, *Afghanistan: Key Issues for Congressional Oversight* (April 2009) (GAO-09-473SP).

¹⁶ *Id.*

¹⁷ Congressional Research Service, *Department of Defense Contractors in Iraq and Afghanistan: Background and Analysis* (Sept. 21, 2009).

Insufficient Contract Personnel: The increase in Afghanistan contracts has not seen a corresponding increase in contract management and oversight. In May 2009, DCMA Director Charlie Williams told the Commission on Wartime Contracting that as many as 362 positions for Contracting Officer's Representatives (CORs) in Afghanistan were currently vacant.¹⁸ In December 2009, Defense Secretary Robert Gates acknowledged that the Department "do[es] not have as many contract monitors in Afghanistan as we want."¹⁹ And while contract spending has increased dramatically in recent years, the hiring budget at the Defense Contract Auditing Agency, the agency responsible for auditing Defense Department contracts, has remained relatively stagnant.²⁰

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.²¹ 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."²² According to one USAID official, the agency is "sending too much money, too fast with too few people looking over how it is spent."²³ As a result, the agency does not "know ... where the money is going."²⁴

Contractors Overseeing Contractors: The Bush Administration relied heavily on private contractors to oversee other contractors on reconstruction contracts in Iraq. When the Special Inspector General for Iraq Reconstruction, Stuart Bowen, examined this practice in 2006, he found that it resulted in inefficient management and oversight. Mr. Bowen concluded that "the large-scale reconstruction and stability operations in Iraq could not be solved by contracting out these duties."²⁵

¹⁸ Commission on Wartime Contracting, Testimony of DCMA Director Charlie Williams, *Hearing on LOGCAP: Support-Contracting Challenges in Iraq and Afghanistan* (May 4, 2009).

¹⁹ Senate Committee on Armed Services, *Hearing on Afghanistan* (Dec. 2, 2009).

²⁰ Defense Contract Audit Agency, Briefing for Subcommittee Staff (Dec. 9, 2009).

²¹ U.S. Agency for International Development Office of the Inspector General, *Special Report: Pakistan and Afghanistan* (Oct. 2009).

²² House Committee on Oversight and Government Reform Subcommittee on Government Management, Organization, and Procurement, Testimony of Michael Walsh, *Hearing on United States Agency for International Development (USAID): Management Challenges and Strategic Objectives* (April 28, 2009).

²³ USAID: *Understaffed and Overwhelmed in Afghanistan*, Global Policy (Dec. 11, 2009).

²⁴ *Id.*

²⁵ Special Inspector General for Iraq Reconstruction, *Iraq Reconstruction: Lessons Learned in Human Capital Management* (Jan. 2006). See also Committee on Government Reform, Special Investigations Division, U.S. House of Representatives, *Contractors Overseeing*

In Afghanistan, USAID is relying on contractors to provide oversight of its large reconstruction and development projects. According to information provided to the Subcommittee, International Relief and Development (IRD) was awarded a five-year contract in 2006 to oversee the \$1.4 billion infrastructure contract awarded to a joint venture of the Louis Berger Group and Black and Veatch Special Projects. USAID has also awarded a contract Checci and Company to provide support for contracts in Afghanistan.²⁶

Transparency: In response to a number of problems relating to oversight and accountability of contractors in Afghanistan, Congress mandated that the Defense Department, USAID, and the State Department create a database containing information relating to contracts and contractor personnel in contingency operations.

This database, known as Synchronized Predeployment and Operational Tracker (SPOT) system is still not fully operational. Some personnel are not being entered into the system as required, and SPOT lacks the capability to track all required data elements, including the value of the contract, whether it was competed, descriptions of the services performed, and the number of personnel killed and wounded. In addition, USAID has not yet imposed a requirement for its contractors in Afghanistan to enter personnel data into the SPOT system at all.²⁷

At present, the information contained in SPOT does not represent an accurate picture of contractor personnel in Afghanistan. The Subcommittee obtained current SPOT data showing that there are currently 1,123 State Department contractors and no USAID contractors working in Afghanistan. In October 2009, after conducting an extensive review of agency-reported data, GAO reported that there were 3,600 State Department contractors and 14,000 USAID contractors working in Afghanistan.²⁸

B. Poor Coordination of Interagency Efforts

In Iraq, federal agencies' failure to coordinate their reconstruction and development projects often led to duplication and conflict. By 2003, when the reconstruction program began, at least 62 offices and agencies had become involved in managing projects funded by the Iraq Relief and Reconstruction Fund (IRRF).²⁹ Interagency project management and information

Contractors: Conflicts of Interest Undermine Accountability in Iraq (May 18, 2004) (online at <http://oversight.house.gov/documents/20040623123249-86281.pdf>).

²⁶ E-Mail from USAID Bureau for Legislative and Public Affairs Staff to Subcommittee Staff (Dec. 14, 2009).

²⁷ U.S. Government Accountability Office, *Contingency Contracting: DOD, State, and USAID Continue to Face Challenges in Tracking Contractor Personnel and Contracts in Iraq and Afghanistan* (Oct. 2009) (GAO-10-1).

²⁸ *Id.*

²⁹ Stuart W. Bowen, Jr., *Hard Lessons: The Iraq Reconstruction Experience* (2009).

systems did not exist, and coordination of the activities of the hundreds of firms and sub-contractors at thousands of sites across Iraq was virtually impossible.³⁰

Coordination is also a problem in Afghanistan. In 2009, GAO reported that “most” U.S. efforts in Afghanistan need “improved planning, including the development of coordinated interagency plans.”³¹

No single individual or office currently has responsibility for coordinating development and reconstruction projects in Afghanistan. The SPOT database, a database intended to coordinate contracts and contractor personnel for all federal agencies in Iraq, was not implemented until July 2008 and, due to inadequate data, remains largely unused.³²

C. Continual Personnel Turnover

The frequent turnover of personnel in Iraq led to significant gaps in contract management and oversight. According to Special Inspector General Bowen, the frequent changes in personnel increased the risk that contractors would not meet the contract requirements.³³ The turnover also created opportunities for unscrupulous contractors to take advantage of the lack of oversight.³⁴ GAO has reported that frequent staff turnovers also led to cost increases and schedule delays on reconstruction contracts in Iraq.³⁵

Personnel turnover has been a challenge in Afghanistan as well. USAID, which generally requires its employees to serve tours of duty lasting between three to five years, has limited personnel to one-year tours in Afghanistan. The State Department’s foreign service officers are also limited to one-year tours. The Air Force, which supplies team leaders for Provincial Reconstruction Teams, rotates individuals every six months.³⁶

D. Security Challenges

³⁰ *Id.*

³¹ U.S. Government Accountability Office, *Afghanistan and Pakistan: Oversight of U.S. Interagency Efforts* (Sept. 9, 2009) (GAO-09-1015T).

³² U.S. Government Accountability Office, *Contingency Contracting: Further Improvements Needed in Agency Tracking of Contractor Personnel and Contracts in Iraq and Afghanistan* (Nov. 2, 2009) (GAO-10-187).

³³ Stuart W. Bowen, Jr., *Hard Lessons: The Iraq Reconstruction Experience* (2009).

³⁴ *Id.*

³⁵ U.S. Government Accountability Office, *Rebuilding Iraq: U.S. Water and Sanitation Efforts Need Improved Measures for Assessing Impact and Sustained Resources for Maintaining Facilities* (Sept. 2005) (GAO-05-872).

³⁶ U.S. Agency for International Development, Briefing for Subcommittee on Contracting Oversight Staff (Dec. 8, 2009).

According to federal auditors, the lack of security was an important factor in the widespread problems with Iraq reconstruction. In 2007, GAO concluded that the deteriorating security situation in Iraq had “imped[ed] the management and execution of reconstruction efforts.”³⁷ According to Special Inspector General Stuart Bowen, the challenges of building in a war zone, including the need to safeguard reconstruction personnel, equipment and work sites against insurgent attacks, was a significant factor in cost overruns on Iraq reconstruction contracts.³⁸

The lack of security has also hampered reconstruction efforts in Afghanistan. The USAID Inspector General has reported that security has been a “primary concern” and has “hindered program implementation” in Afghanistan.³⁹ In 2009, GAO reported that security concerns delayed work on the Kajaki Dam power plant, a major component of the Afghan power supply, for almost 2 years between 2006 and 2008.⁴⁰ According to GAO, the security situation also drove “significant delays and higher costs” on contracts for road reconstruction in Afghanistan.⁴¹

III. WASTE, FRAUD, ABUSE, AND MISMANAGEMENT MAR AFGHANISTAN RECONSTRUCTION AND DEVELOPMENT

Since the beginning of the war in Afghanistan, the U.S. government has awarded contracts worth more than \$23 billion for reconstruction and development in Afghanistan, primarily through the USAID. According to the USAID Inspector General, contract oversight and management has been a concern in 67% of the audits conducted to date.⁴² Federal auditors have also found ongoing problems with the management and oversight of large-scale reconstruction contracts funded through the Commander’s Emergency Response Program (CERP).

A. Contracts for Power Generation

In August 2006, USAID awarded a five-year, \$1.4 billion contract to a joint venture of the Louis Berger Group and Black and Veatch Special Projects to restore and develop Afghanistan’s infrastructure. The Afghanistan Infrastructure and Rehabilitation Program (AIRP)

³⁷ U.S. Government Accountability Office, *Rebuilding Iraq: Reconstruction Progress Hindered by Contracting, Security, and Capacity Challenges* (Feb. 15, 2007) (GAO-07-426T).

³⁸ Stuart W. Bowen, Jr., *Hard Lessons: The Iraq Reconstruction Experience* (2009).

³⁹ U.S. Agency for International Development Office of the Inspector General, *Special Report: Pakistan and Afghanistan* (Oct. 2009).

⁴⁰ U.S. Government Accountability Office, *Afghanistan: Key Issues for Congressional Oversight* (April 2009) (GAO-09-473SP).

⁴¹ *Id.*

⁴² U.S. Agency for International Development Office of the Inspector General, *Special Report: Pakistan and Afghanistan* (Oct. 2009).

contract included work in four sectors: energy and natural resources, transportation, public buildings, and urban development/water sanitation.⁴³

In 2007, USAID awarded two task orders under the AIRP to increase power generation in Afghanistan. The projects were expected deliver of 140 megawatts of additional electrical power to the areas in Kabul and two southern agricultural provinces – Helmand and Kandahar. The combined ceiling price for these two task orders was \$305.5 million.⁴⁴

In November 2009, the USAID IG concluded that the contractor had failed to meet the contract’s requirements. Due to problems with obtaining land title, an ambiguous statement of work, subcontractor performance problems, and deteriorating security conditions, the two projects together produced only 12 megawatts of power, less than 10% of the anticipated 140 megawatts. In addition, no power had actually been delivered to the Afghan people. The USAID IG also found that the Afghan government may not be able to operate the Kabul power plant because it cannot afford to pay for diesel fuel.⁴⁵

The USAID IG also found that the projects would result in \$39 million in cost overruns and additional costs of at least \$1 million per month to maintain and provide security for the incomplete facilities. In addition, the USAID IG concluded that the contractor overbilled the U.S. government by \$2.1 million.⁴⁶

B. Contracts for Road Reconstruction

Between 2002 and 2007, the USAID and the Defense Department spent approximately \$1.7 billion for road reconstruction in Afghanistan.⁴⁷ According to federal auditors, these contracts have suffered from schedule delays, cost increases, and a lack of interagency coordination.

In September 2002, USAID awarded a three-year, \$155 million contract to the Louis Berger Group to improve Afghanistan’s infrastructure, with a primary focus on roads. The value of this contract was later increased to \$730 million, and its date of completion was extended to July 31, 2007.⁴⁸ USAID also has task orders for road reconstruction under the \$1.4 billion AIRP

⁴³ FedBizOpps.Gov, *Award Notice: RFP 306-06-005 APSO Afghanistan Infrastructure and Rehabilitation Program* (posted August 25, 2006).

⁴⁴ U.S. Agency for International Development Office of the Inspector General, *Audit of USAID/Afghanistan’s Power Sector Activities Under Its Afghanistan Infrastructure Rehabilitation Program* (Nov. 10, 2009) (Audit Report No. 5-306-10-002-P).

⁴⁵ *Id.*

⁴⁶ *Id.*

⁴⁷ U.S. Government Accountability Office, *Afghanistan Reconstruction: Progress Made in Constructing Roads, but Assessments for Determining Impact and a Sustainable Maintenance Program Are Needed* (July 2008) (GAO-06-689).

⁴⁸ U.S. Agency for International Development Office of the Inspector General, *Audit of USAID/Afghanistan’s Reconstruction of the Kandahar-Heart Highway Under the Rehabilitation*

contract.⁴⁹ In addition, USAID awarded a grant to the United Nations Office for Project Services (UNOPS) for road reconstruction in 2004.⁵⁰ The Defense Department has awarded contracts for road reconstruction both to the U.S. Army Corps of Engineers and to local contractors using CERP funds.⁵¹

In 2008, GAO found that poor planning, deteriorating security, and the lack of adequate management and oversight have contributed to schedule delays and cost increases for road reconstruction.⁵² For example, a plan to complete a regional highway network to connect several of Afghanistan's major cities and their neighboring counties was to be completed by the end of 2008. As of February 2008, only about 60 percent of these roads had been completed, and the project is not expected to be complete until late 2009.⁵³

In addition, although the Defense Department committed to use CERP to fund 1,600 kilometers of roads, the progress of the projects cannot be tracked due to inadequate data reporting. According to GAO, the Defense Department failed to comply with its own guidance requiring the Department to report information relating to the roads projects to USAID. GAO reported that the Defense Department cannot even identify the location of some CERP-funded roads.⁵⁴

C. The Sustainable Agriculture Contract

In November 2006, USAID awarded a four-year, \$102 million contract to Chemonics International, Inc., to implement the Accelerating Sustainable Agriculture Program, a program to improve agricultural production and efficiency in rural Afghanistan. Although the contractor has reported progress, the USAID Inspector General found that the contractor could not adequately

of Economic Facilities and Services (REFS) Program (May 18, 2006) (Audit Report No. 5-306-06-005-P).

⁴⁹ U.S. Agency for International Development Office of the Inspector General, *Audit of USAID/Afghanistan's Power Sector Activities Under Its Afghanistan Infrastructure Rehabilitation Program* (Nov. 10, 2009) (Audit Report No. 5-306-10-002-P); U.S. Government Accountability Office, *Afghanistan Reconstruction: Progress Made in Constructing Roads, but Assessments for Determining Impact and a Sustainable Maintenance Program Are Needed* (July 2008) (GAO-08-689).

⁵⁰ U.S. Government Accountability Office, *Afghanistan Reconstruction: Progress Made in Constructing Roads, but Assessments for Determining Impact and a Sustainable Maintenance Program Are Needed* (July 2008) (GAO-08-689).

⁵¹ *Id.*

⁵² *Id.*

⁵³ *Id.*

⁵⁴ U.S. Government Accountability Office, *Afghanistan Reconstruction: Progress Made in Constructing Roads, but Assessments for Determining Impact and a Sustainable Maintenance Program Are Needed* (July 2008) (GAO-08-689).

support its reports and that the contractor had failed to comply with some contract requirements.⁵⁵

According to the USAID Inspector General, Chemonics “had inadequate support” for its report that 1,719 individuals had received agricultural training, and “no support” that its activities had created an economic value of more than \$59 million. The Inspector General also reported that a \$40 million initiative to cultivate land for a commercial farm was behind schedule.⁵⁶

The Inspector General also found that five buildings constructed for the Ministry of Agriculture Irrigation and Livestock had serious construction defects, including improperly installed floor and wall tiles, the wrong fuses in the electrical system, and settlement cracks. According to the Inspector General, the construction problems resulted from the contractor’s failure to have a qualified engineer review the initial design plans and the lack of “sufficient on-site engineering support and oversight.”⁵⁷

D. The Capacity Development Contract

In February 2007, USAID awarded a 5-year, \$218.6 million contract to BearingPoint to strengthen the capacity of the Afghan public, private, and educational sectors.⁵⁸ In September 2008, the USAID Inspector General reported that there was “a lack of evidence” to show that the program would achieve the intended results.

According to the Inspector General, the program lacked detailed work plans and a results monitoring plan. As a result, USAID and the contractor both “spent an inordinate amount of time attempting to define the program’s activities and priorities.” The Inspector General found that, during the 14 months that the contractor and USAID were defining the contract, the contractor engaged in activities which “did not always appear to contribute directly” to the success of the program. For example, the Inspector General reported that, after the U.S. Embassy directed USAID to pay salaries for 460 individuals in Afghanistan’s Ministry of Education for 2 years, USAID directed BearingPoint to pay the salaries under the contract.⁵⁹

Although the Inspector General reported that the contractor had had some successes, including providing technical support to the Afghanistan Ministry of Finance, these were “not

⁵⁵ U.S. Agency for International Development Office of the Inspector General, *Audit of USAID/Afghanistan’s Accelerating Sustainable Agriculture Program* (Aug. 8, 2008) (Audit Report No. 5-306-08-009-P).

⁵⁶ *Id.*

⁵⁷ *Id.*

⁵⁸ U.S. Agency for International Development Office of the Inspector General, *Audit of USAID/Afghanistan’s Capacity Development Program* (Sept. 30, 2008) (Audit Report No. 5-306-08-012-P).

⁵⁹ *Id.*

sufficient to demonstrate whether the overall program was on track” to achieve the goals of the contract.⁶⁰

E. The Commander’s Emergency Response Program

CERP was created to provide military commanders with funds to spend on urgent humanitarian and reconstruction needs. Since 2004, Congress has provided \$1.6 billion for CERP in Afghanistan.⁶¹

Although CERP was designed to fund small-scale projects, CERP funds are also now being used to fund large-scale projects costing \$500,000 or more. According to the Special Inspector General for Afghanistan Reconstruction, these large-scale projects make up 78% of all dollars distributed through CERP.⁶²

Federal auditors have found ongoing problems with the management and oversight of CERP projects and CERP-funded contracts.⁶³ In 2009, the Special Inspector General for Afghanistan Reconstruction found that the Defense Department “lacks sufficient oversight mechanisms” for managing the CERP projects and found that CERP managers could not determine whether projects had been completed.⁶⁴ GAO has also raised concerns about CERP, reporting that the program faces “significant challenges” as a result of “an insufficient number of trained personnel.”⁶⁵

IV. NEW FINDINGS ABOUT THE LOGCAP CONTRACT FOR TROOP SUPPORT

In 2006, the Army announced its intention to award a new set of contracts for the Logistics Civil Augmentation Program contract (LOGCAP), the fourth of its kind. The previous LOGCAP contracts were awarded to KBR, then a subsidiary of Halliburton, in 1992, Dyncorp in 1997, and KBR in 2001. Under LOGCAP III, KBR was the sole provider of meals, laundry, housing and other support services to the troops in Iraq and around the world.

⁶⁰ *Id.*

⁶¹ Special Inspector General for Afghanistan Reconstruction, *Increased Visibility, Monitoring, and Planning Needed for Commander’s Emergency Response Program in Afghanistan* (Sept. 9, 2009) (Audit 09-5).

⁶² *Id.*

⁶³ Contracts awarded using CERP funds are not subject to the Federal Acquisition Regulation.

⁶⁴ Special Inspector General for Afghanistan Reconstruction, *Increased Visibility, Monitoring, and Planning Needed for Commander’s Emergency Response Program in Afghanistan* (Sept. 9, 2009) (Audit 09-5).

⁶⁵ U.S. Government Accountability Office, *Military Operations: Actions Needed to Improve Oversight and Interagency Coordination for the Commander’s Emergency Response Program in Afghanistan* (May 2009) (GAO-09-615).

LOGCAP III was valued at \$34.4 billion as of November 2009.⁶⁶ It has been the subject of numerous audits, reviews, and congressional investigations. On May 1, 2009, and again on November 6, 2009, this Subcommittee wrote to Secretary Gates inquiring about two years of questioned costs, lack of sufficient oversight, and lack competition among multiple contractors for KBRs monopoly LOGCAP contract.⁶⁷

In June 2007, the Army awarded the LOGCAP IV execution contracts. Instead of a single contractor receiving all work as KBR did in LOGCAP III, three contractors competed to perform task orders. LOGCAP IV was ultimately awarded to KBR, Fluor, and Dyncorp.⁶⁸ Major General Jerome Johnson, Commanding General of the Army Sustainment Command, has told Congress that LOGCAP IV will eliminate many of the structural problems associated with LOGCAP III.⁶⁹

The Army continues to rely heavily on LOGCAP III, the monopoly troop support contract held by KBR, to support operations in Iraq, Kuwait, and Afghanistan. To date, less than \$810 million has been funded under LOGCAP IV, compared with more than \$34.4 billion for LOGCAP III. In 2010, the Army anticipates spending more than \$657 million under LOGCAP III and approximately \$87 million under LOGCAP IV – despite the fact that the Army intends to complete the transition from LOGCAP III to LOGCAP IV in Afghanistan by June 2010.⁷⁰

The Army has awarded two task orders under LOGCAP IV to provide logistical support in Afghanistan. Fluor was awarded the task order to provide services in the northern and eastern regions of the country; Dyncorp was awarded the task order to provide services in the southern and western regions of the country.⁷¹ According to the Army, the award of these two contracts

⁶⁶ Army Sustainment Command, *LOGCAP Financial Management Update* (Nov. 13, 2009).

⁶⁷ Letter from Chairman Claire McCaskill to Defense Secretary Robert Gates (May 1, 2009); Letter from Chairman Claire McCaskill to Defense Secretary Robert Gates (November 6, 2009).

⁶⁸ Two unsuccessful offerors subsequently challenged the award, and in October 2007, GAO sustained their protests. See U.S. Government Accountability Office, *Matter of Contingency Management Group, LLC; IAP Worldwide Services, Inc.* (Oct. 5, 2007). In April 2008, the Army announced that the contracts had again been awarded to KBR, Fluor, and Dyncorp. Serco, Inc. received the separate planning and support contract.

⁶⁹ Senate Armed Services Committee, Hearings on *Department of Defense's Management of Costs Under the Logistics Civil Augmentation Program (LOGCAP) Contract in Iraq*, 110th Cong. (April 19, 2007).

⁷⁰ Army Sustainment Command, *LOGCAP Financial Management Update* (Feb. 13, 2009); Army Sustainment Command, Briefing for Subcommittee Staff (Dec. 8, 2009).

⁷¹ Defense Contract Audit Agency, Briefing for Subcommittee Staff (Dec. 9, 2009). KBR performs transition work in Afghanistan under LOGCAP III, and will continue to do so until it is phased out in approximately 6-8 months. Army Sustainment Command, Briefing for Subcommittee Staff (Dec. 8, 2009).

does not prevent the government from obtaining the benefits of competition because if one contractor's performance is poor there is another contractor already in place to assume performance of the other contract.⁷²

The Subcommittee has learned of concerns relating to the performance of both Fluor and Dyncorp under LOGCAP IV. In November 2009, Agility, one of Dyncorp's partners, was suspended indefinitely from receiving federal contracts after the company was indicted on six counts involving violations of the False Claims Act for knowingly overcharging the United States for goods and services.⁷³ Though the company is barred from receiving contracts in the future, the company will continue to receive taxpayer dollars under its current LOGCAP IV subcontract.

The Subcommittee has also learned that DCAA recently suspended \$14.3 million in costs billed by Fluor under LOGCAP IV. According to DCAA, the contractor needs to provide further clarification about its price competition and the potentially disproportionate share of corporate office expenses allocated to government contracts.⁷⁴

V. NEW FINDINGS ABOUT WASTEFUL CONTRACT SPENDING IN AFGHANISTAN

In a briefing to Subcommittee staff on December 9, 2009, the Defense Contract Audit Agency reported that it has identified a total of more than \$950 million in questioned and unsupported costs submitted by Defense Department contractors for work in Afghanistan.

DCAA defines "questioned" costs as costs that should be excluded because they are unreasonable and "unsupported" costs as those for which contractors have failed to provide sufficient documentation. Of the \$950 million, DCAA identified approximately \$533 million as questioned costs and approximately \$417 million as unsupported costs.

To date, DCAA auditors have examined \$5.9 billion in contracts for Afghanistan troop support and other services, including linguists and translators. The \$950 million represents 16% of the total contract dollars examined by DCAA.

The \$950 million is likely to underestimate the total amount of wasteful or undocumented spending in Afghanistan. Although the DCAA auditors have reviewed \$5.9 billion in Afghanistan spending, this does not include all of the dollars spent under contracts in Afghanistan, including more than \$2.1 billion spent under USAID reconstruction and development contracts.⁷⁵

⁷² Army Sustainment Command, Briefing for Subcommittee Staff (Dec. 8, 2009).

⁷³ United States Department of Justice, press release: U.S. Joins False Claims Act Lawsuit Against Kuwait-Based Companies That Supplied Food to U.S. Troops in Middle East (November 16, 2009).

⁷⁴ Defense Contract Audit Agency, Briefing for Subcommittee Staff (Dec. 9, 2009).

⁷⁵ Online at USAspending.gov (accessed Dec. 15, 2009). This number is likely to underestimate the total number due to inconsistencies with reporting of "place of performance"

The DCAA auditors also informed the Subcommittee that the Defense Department has rejected the majority of their recommendations to disallow questioned costs. Of the \$533 million in questioned costs, the Defense Department and contractors have reached a resolution on only \$223 million. Of this \$223 million, Defense Department officials have agreed with DCAA recommendations to withhold \$78.8 million. This represents only 35% of the costs questioned in audits of Afghanistan contracts.

VI. WITNESSES

The following witnesses will testify:

William H. Campbell III

Director of Operations
Office of the Under Secretary of Defense (Comptroller)
U.S. Department of Defense

Edward M. Harrington

Deputy Assistant Secretary of the Army (Procurement)
Department of the Army
U.S. Department of Defense

Charles North

Senior Deputy Director
Afghanistan-Pakistan Task Force
U.S. Agency for International Development

Daniel Feldman

Deputy Special Representative for Afghanistan and Pakistan
U.S. Department of State

Jeffrey Parsons

Executive Director
Army Contracting Command
Department of the Army
U.S. Department of Defense

information. However, FPDS remains the best available data set for obtaining information about the value of Afghanistan contracts.