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EVALUATING DEPARTMENT OF DEFENSE INVESTMENTS: CASE STUDIES IN AFGHANISTAN INITIATIVES AND U.S. WEAPONS SUSTAINMENT

HEARING

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

OF THE

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES

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HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS,
Washington, DC, Friday, April 15, 2016.

The subcommittee met, pursuant to call, at 9:02 a.m., in room 2212, Rayburn House Office Building, Hon. Vicky Hartzler (chairwoman of the subcommittee) presiding.

OPENING STATEMENT OF HON. VICKY HARTZLER, A REPRESENTATIVE FROM MISSOURI, CHAIRWOMAN, SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

Mrs. HARTZLER. Welcome. I am delighted to convene this hearing. Overseeing the investment of taxpayer dollars is extremely important. It is one of the core responsibilities we assume as representatives of the people. I know Ranking Member Speier and others of this committee all find this obligation equally significant.

In the year since September 11, 2001, the Department of Defense has been in a fight against emboldened terrorists. Congress met the increased national security demands by significantly enhancing the Department's base budget and overseas contingency operations fund to address new threats and meet new requirements.

Since 2010, Congress has slashed defense spending by $1.3 trillion, however. And today we are realizing significant negative impacts within the Department of Defense based on those decisions.

Readiness of all of our Armed Forces is at an all-time low. Our Air Force is smaller and older than when it was conceived in 1947. Our Navy has fewer ships to meet an ever-increasing operations tempo. Our ground and amphibious forces of the Army and Marine Corps still have yet to recapitalize and reset from past years of combat operations. And most unfortunate is that our standing among our partners and allies leaves many questioning U.S. commitment and resolve to navigate through the multitude of emerging security challenges we face as a nation and leader of the free world.

China is rising. Russia is resurging, emboldened by a lack of checking its power. Iran is beginning to flourish militarily from the good deal they got from our nuclear negotiations. North Korea consistently acts out from some form of provocation against its neighbors as it tries to achieve nuclear capability, and extremist ideologies are spreading through the Middle East and other parts of the world at alarming rates.

In addition to my service on this committee, I am also privileged to serve on the House Budget Committee and I am the only member of my party to sit on both. Many other members of the Budget Committee and I are concerned about the combination of these emerging threats and the desperately low levels of funding we are devoting to defense against these current and developing national security threats. The picture is clear. These threats cannot go unaddressed and our national defense is in need of more resources to ensure our national security and the common defense is secure.

At the same time, it would be very difficult for anyone in this room to dismiss our country's current $19 trillion in debt, and as representatives of those who are ultimately on the hook for that debt, the taxpayers, we would be neglectful not to investigate and scrutinize how their tax dollars are being spent. We need to be able to look our colleagues and our constituents in the eye to sincerely assure them we are doing everything we can to oversee wise investments.

That brings us to the heart of our hearing today. We are here to examine a number of cases coming from the later stages of operations in Iraq and Afghanistan to investigate how taxpayer dollars were spent and determine what if any changes need to be made going forward to assure the people their tax dollars are being spent responsibly. Nation building is not a core responsibility of the Department of Defense. Yet, as major combat operations of Iraq and Afghanistan began to subside in 2010, the Department shouldered much of the post-hostility responsibility, primarily because it is large enough and has the ability to provide immediate resources and capabilities.

Consequently, the Department of Defense established the Task Force for Business Stability Operations, first in Iraq, and then again in Afghanistan in 2010, with similar and parallel goals to support the transition away from war, what is known as phase 4 and phase 5 efforts. The task force case studies we plan to discuss today include the Afghan compressed natural gas infrastructure project, the Italian cashmere goat import project, and the housing and security accommodations that task force personnel utilize while deployed in Afghanistan.

But not all imprudent spending decisions occur during contingency operations. For example, as the Department of Defense Inspector General previously reported, there have been some problems with the aviation spare parts supply chain of the Defense Logistics Agency. While it is extremely important that we scrutinize the Department's purchases to ensure they are smart and reasonable, it is just as important that we use all means necessary to get our taxpayers' money back or exchange parts from vendors that may have supplied parts that did not meet contractual requirements or technical specifications. In other words, if our airmen receive the wrong or defective parts, we must make it right by the taxpayer.

Again, I reiterate the importance of hearings such as this one. We live in a world of vast and expanding threats that require a robust and full response. If we are going to use hard-earned tax dollars to fulfill our obligation to provide for the common defense, we owe it to those taxpayers to rigorously scrutinize how those dollars are spent and the qualifications of those making spending decisions.

I look forward to exploring and learning more about these certain high-profile case studies which, as Department of Defense investigators have recently reported, may have benefitted from more exacting standards of how those investments were made.

And so before I introduce the witnesses, I turn to the Oversight and Investigation Subcommittee ranking member for any opening remarks she wishes to make.

[The prepared statement of Mrs. Hartzler can be found in the Appendix on page 35.]

STATEMENT OF HON. JACKIE SPEIER, A REPRESENTATIVE FROM CALIFORNIA, RANKING MEMBER, SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

Ms. SPEIER. Thank you, Madam Chair, and I thank our witnesses for being here today. I want to especially thank Mr. Sopko and Ms. Wicecarver for the service that you provide to our country and to the taxpayers of this country.

Today's hearing includes discussing a herd of cashmere goats; yes, goats. DOD [Department of Defense] spent millions of dollars on a project involving shipping male Italian goats to Afghanistan to be mated with female Afghan goats in order to make cashmere. Too bad many of the female goats were already infected with a disease that could have wiped out the entire herd. Too bad that only two of those fancy Italian goats are still usable in the project.

I think we can safely say that manufacturing warm, fluffy sweaters are not the key to economic recovery in Afghanistan; nor, is it in DOD's expertise. But that is not all. DOD also wasted money on an unused coal storage facility, an unsustainable business incubator, and one of the most expensive gas stations in the world.

The Special Inspector General for Afghan[istan] Reconstruction [SIGAR] estimates the gas station alone cost $43 million. Now, we can quibble about how much it really cost, but in the end, it costs over $43 million. And a gas station in Pakistan, similar to the gas station in Afghanistan, cost only $200,000.

Today we are going to discuss two dysfunctional DOD programs that are desperately in need of oversight and budgetary common sense. The first is DOD's ill-conceived and badly executed USAID [U.S. Agency for International Development] knockoff, the Task Force for Business and Stability Operations, TFBSO for short. Starting in Afghanistan in 2010, TFBSO was supposed to catalyze economic development in support of the military. But according to SIGAR, they have received more complaints, more complaints about fraud, waste, and abuse over the last 2 years than any other organization operating in Afghanistan. Even compared with the old boondoggles in Afghanistan, the shortsightedness and sheer absurdity of these projects is mind-boggling.

These projects are tailor-made ammunition for critics of our nation-building misadventure here. We will also discuss poor practices at the Defense Logistics Agency [DLA] which put our service men and women at risk. At the core of this hearing is, what do we have to show for our money? For TFBSO, I can say that the answer to this question is not much.

Here is what we got for the nearly $1 billion, nearly $1 billion spent at TFBSO activities: a defunct cashmere goat farm; private villas for TFBSO staff; and an outrageously expensive gas station. Is that it? We don't know, since the Pentagon apparently no longer possesses the expertise to address the question. Were there any successes or sustainable accomplishments from TFBSO, or should we have just left economic development to USAID and the State Department, instead of using the military as untrained aid workers? As IG [Inspector General] Sopko recently said, tasking DOD to do development is, quote, "like giving the Postal Service the mission to run our drones in Afghanistan." Unquote.

The DODIG's [Department of Defense Inspector General] report is equally damning on DLA Aviation and the problems associated with defective parts. For example, the DODIG found that defective tie-down straps used to attach oxygen hoses to pilots' helmets remained in the inventory even after the Air Force reported that they should be recalled. The flaw was severe. The ties did not hold the oxygen hose to the mask which could have caused the loss of oxygen to aircrew members during flight. The frightening part is, these defective ties may still be in DLA inventory.

This and other poor oversight and procedures are projected to have cost taxpayers $12.3 million in unrecovered funds over just 6 months. Unfortunately, this is old news. Past DODIG and GAO [Government Accountability Office] reports have found that the DLA has regularly overpaid for spare parts and badly manages their bloated inventory.

Today I would like to know what the DOD has learned from the SIGAR and DODIG reports. Has oversight coordination and accountability been improved or will it be improved as a result? Or does the DOD intend to go on wasting taxpayer moneys on Italian goats and defective spare parts?

We have to remember that we have many competing uses for funding, and wasted funds hurt our troops and their readiness. This is the kind of stuff that belongs on Last Week Tonight with John Oliver, not as a subject of a congressional hearing. On behalf of the Department of Defense, I apologize to the American taxpayers for the wasteful spending that has gone on, and with that, I yield back.

[The prepared statement of Ms. Speier can be found in the Appendix on page 37.]

Mrs. HARTZLER. Thank you, Ms. Speier. I am pleased to recognize our witnesses. I want to thank them for making the time to be with us. Today we have Mr. John Sopko, the Special Inspector General for Afghanistan Reconstruction; Ms. Jacqueline Wicecarver, the Acting Deputy Inspector General for Auditing from the Department of Defense; and Mr. Charlie Lilli, the Deputy Director of Aviation and Head of Aviation Contracting Activity from the Defense Logistics Agency. So thank you all for being with us here today.

So we will begin now with your opening statements. Mr. Sopko.

STATEMENT OF HON. JOHN F. SOPKO, SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION

Mr. SOPKO. Thank you very much. Chairwoman Hartzler, Ranking Member Speier, and members of the subcommittee, I am very pleased to be here again to discuss SIGAR's activities in Afghanistan, and particularly, our review of DOD's Task Force for Business Stability Operations, commonly known as TFBSO, and three specific aspects of that operation that the chairwoman asked me to look at or to comment on.

The first one dealt with the construction of a compressed natural gas program in Afghanistan. TFBSO spent approximately $43 million to construct such a gas filling station in Sheberghan, Afghanistan. The project was intended to take advantage of Afghanistan's natural gas reserves and reduce the country's reliance on expensive imported gas. However, SIGAR has been unable to find any evidence that TFBSO considered the myriad of potential obstacles to the success of the project, including the lack of a natural gas transmission and distribution infrastructure, the cost of converting gas-powered cars to run on compressed natural gas, as well as the lack of a market. As a result, the project failed.

The second project you wished us to discuss has to do with TFBSO's spending of $150 million or approximately 20 percent of their overall budget on providing private villas and security for their staff while in Afghanistan. To date, again, SIGAR, as well as the Office of the Secretary of Defense Policy shop, have been unable to find any evidence that TFBSO conducted a cost-benefit analysis of quote-unquote "living on the economy" rather than in U.S. Government facilities in Afghanistan. In fact, in a memo from June 2011, then TFBSO Director Paul Brinkley directed all TFBSO personnel in Afghanistan to move back to U.S. military bases by August of that year. It remains unclear to this day as to why Mr. Brinkley's directive went unimplemented for another 2 years.

The third issue you wished us to address has to deal with goats. And as I think Ranking Member Speier and the Congresswoman has mentioned, you may wonder why I am talking about goats in the Armed Services Committee and not the Agriculture Committee. But TFBSO spent millions of dollars to bolster Afghanistan's cashmere industry. The purpose of the program was to breed lighter-haired Afghan goats which would yield a higher price on the international market. To do so, TFBSO paid to have 9 Italian goats and 10 Tajik goats imported to Afghanistan. Ultimately, this program also failed because it was overly ambitious, poorly staffed, poorly managed by TFBSO, and in essence, what they tried to do in a couple of years would normally have taken decades. It also, as I said, was a failure.

TFBSO in these three instances apparently lacked effective oversight, project development, and execution. In addition, our comprehensive review of TFBSO's operations in Afghanistan have identified three broader challenges. TFBSO did not have a clear strategy. Secondly, it lacked a focused and consistent management and leadership team. And lastly, it did not coordinate its efforts with the other U.S. agencies.

Now, one may ask, why does any of this matter now? TFBSO has closed its doors. The money has been spent. And to be quite honest with you, I doubt if we will recover any of that nearly $1 billion. However, you have to remember there is $12 billion still in the pipeline. This is money that has been authorized and appropriated to be spent in Afghanistan. We have also promised a decade of support at $6- to $8 billion a year in Afghanistan. So despite these commitments, the management available to oversee these massive efforts has decreased. This means that learning from past experiences is more important than ever if we are to protect future taxpayer dollars.

Before the U.S. contemplates similar endeavors, either in Afghanistan or elsewhere, several questions must be answered. And the most fundamental being, should DOD be tasked with economic development operations during future contingency operations? SIGAR will continue to do its part to help answer these questions about the task force as well as other questions about our operations in Afghanistan. And I am happy to answer any questions at your pleasure.

[The prepared statement of Mr. Sopko can be found in the Appendix on page 39.]

Mrs. HARTZLER. Thank you, Mr. Sopko. Ms. Wicecarver.

STATEMENT OF JACQUELINE L. WICECARVER, ACTING DEPUTY INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE

Ms. WICECARVER. Thank you and good morning. Chairwoman Hartzler, Ranking Member Speier, and distinguished members of the subcommittee, thank you for the opportunity to appear before you to discuss our audit of the Defense Logistics Agency Aviation process to obtain restitution for contractors that provided defective spare parts.

We audited DLA's product quality deficiency reporting process. A product quality deficiency report identifies problems in parts design, workmanship, specifications, material, and other nonconforming conditions. Our first two audits focused on the DLA Aviation supply chain. An ongoing audit is on the DLA Land and Maritime supply chain. Today I will discuss the second report on DLA Aviation's processes to obtain restitution from contractors for defective parts. I request the report be submitted for the record.

[The information referred to is retained in the committee files and can be viewed upon request.]

Ms. WICECARVER. Based on the results of our finding for 65 sample items, we projected for 269 stock numbers, contractor supplied defective parts, and DLA did not recover at least $12.3 million in restitution for those defective parts. We found that DLA Aviation missed opportunities to hold poor-performing contractors accountable and for DOD to receive the appropriate restitution. DLA shortcomings in pursuing and obtaining restitution left defective parts unaccounted for in DOD inventory, negatively impacting warfighter, and safety and readiness.

To pursue and obtain appropriate contractor restitution the DLA needs to complete four steps either independently or with assistance from other designated personnel such as users or Defense Contract Management Agency.

Let me go into further detail. DLA did not ensure that contractors responsible for defective parts were contacted and that restitution was pursued. DLA did not adequately search DOD inventory to remove and to identify and remove defective parts. While DLA usually searched its own depots for defective parts, it rarely notified DOD customers to search their inventory for defective parts.

DLA did not always return defective parts to responsible contractors to receive replacements or provide instructions to DOD customers or DLA depot holding defective parts, and did not follow up to ensure that the instructions provided were properly implemented.

Finally, DLA did not properly track and maintain oversight of defective parts, return to contractors to ensure that appropriate restitution was received. In most cases the failure to successfully complete any one of these steps prevented or limited DLA's ability to pursue and obtain appropriate restitution for the defective parts.

I would like to share two examples, one which Congresswoman Speier already talked about where the readiness and safety of our warfighters were jeopardized. First, the 412th Maintenance Squadron at Edwards Air Force Base California issued a deficiency report on tie-down straps stating that the straps broke causing loss of oxygen to aircrew member during flight. These tie-down straps valued at $1 per hundred straps were considered critical application items and were used to attach oxygen hoses to pilots' helmets. DLA investigated the deficiency report and determined that the contractor was responsible for the defect. The contractor had delivered 52,314 tie-down straps on the contract. In response, DLA searched its depots and located 16,701 of the defective tie-down straps. The remaining 36,613 of the tie-down straps were unaccounted for in the supply system.

The second example. We reviewed a deficiency report investigation for the C–5 aircraft that had defective copilot control wheels valued at about $36,000 each. The 436 Maintenance Squadron, at Dover Air Force Base in Delaware, initiated this deficiency report and stated that the improperly manufactured parts prevented the control wheel assembly from being properly installed. The deficiency report further stated that continuously changing the component caused a work stoppage, hampering the ability to complete the required maintenance. The deficiency report investigation determined that the contractor had provided 30 defective control wheels. The contractor replaced three control wheels and agreed to replace the other 27 upon receipt. Although DLA instructed its depot to ship the control wheels to contractor, it could not produce any evidence, when asked, that the control wheels were ever shipped or the restitution was received.

For both examples, DLA did not notify other customers who purchased the remaining defective parts and request a search for DOD inventory.

We made five recommendations, in our report to DLA, to address the deficiencies identified during this audit. The director of DLA agreed with the recommendations and stated DLA would complete corrective actions by March 31, 2016. We did not receive formal written response outlining the status of the corrective actions.

However, a DLA official informed us that several actions were either planned or in progress.

This concludes my statement and I would be happy to answer any questions you may have regarding this audit.

[The prepared statement of Ms. Wicecarver can be found in the Appendix on page 93.]

Mrs. HARTZLER. Thank you, Ms. Wicecarver. Mr. Lilli.

STATEMENT OF CHARLIE LILLI, DEPUTY COMMANDER, DLA AVIATION, DEPARTMENT OF DEFENSE

Mr. LILLI. Good morning Chairwoman Hartzler, Ranking Member Speier, distinguished members of the subcommittee. I am Charlie Lilli, the deputy commander of the Defense Logistics Agency Aviation headquartered in Richmond, Virginia.

DLA Aviation is a field activity of the Defense Logistics Agency of the Department of Defense's Combat Logistics Support Agency. DLA's mission is to provide effective and efficient global solutions to warfighters and our other valued customers. We are a global enterprise which manages nearly 5.1 million lines through 9 supply chains which provide virtually every consumable item to our military forces required, including food, fuel, medical supplies, uniform items, and weapon systems repair parts.

DLA Aviation is the lead for more than 1,340 aviation platforms and systems and acts as the U.S. military's integrated material manager for more than 1.2 million national stock numbered items. Last year we delivered repair parts valued at roughly $4.2 billion, procuring those items from more than 4,500 unique suppliers. On average, we receive about 2,400 deficiency reports annually. And of those, about 20 percent or 480 reports represent defective material. We take very seriously our responsibilities to identify and prevent defective parts from entering into the supply chain and to ensure we are good stewards of the taxpayer dollars.

We appreciate this opportunity to discuss the findings of the February 23, 2016, DODIG report and inform you of the actions we have taken and will take to improve our processes to obtain restitution from contractors that provide deficient spare parts. We recognize the issues identified in the report and concur with the recommendations. We agree that the oversight and management control of this program needs to be strengthened and have taken aggressive action.

Our first priority was to ensure that defective parts are removed from the supply chain to mitigate any impact on our warfighters and readiness safety. To that end, we immediately reviewed the entire population of product deficiency reports received at DLA Aviation over the last 24 months and have taken the necessary action to segregate and freeze the defective stock until proper disposition can be determined.

In addition we alerted the customers about the potential for defective parts and provided them with disposition instruction. As a result of the findings documented in the draft report published in October, we updated our desktop guides based on best practices across DLA enterprise. These guides provide step-by-step procedures to ensure that material is dispositioned as required. We conducted training with all personnel involved in the proper processing of deficiency reports and the new procedure is implemented in the updated guides. We developed a plan to pursue restitution of any material or funds the government is entitled to and will execute that plan over the next 6 months.

Finally, we are establishing both first-line and senior level oversight procedures, corporate metrics, and a surveillance program to enable us to more effectively manage this program in the future. As an enterprise, the Director of Logistics Operations initiated a review of all DLA supply chain deficiency reports discovered since January of 2014 to validate the removal of deficient items from inventories.

In addition, DLA has established an enterprise-wide supplier restitution working group consisting of cross-functional team members who will thoroughly evaluate the requirements for enhanced oversight of the PQDR [product quality deficiency reporting] process, examining from a process and systems perspective what changes would be required to improve visibility and facilitate the resolution of these cases.

Madam Chairwoman, distinguished committee members, we have gained a valuable insight from the DODIG and we appreciate any feedback that improves our support to our warfighter and strengthens our management controls. As a retired Navy flight officer, as the father of two daughters, both naval officers, one currently deployed in the Middle East, and the father-in-law of a Marine Corps V–22 pilot also deployed to the Middle East, I assure you that no one takes this issue more seriously than I do.

Thank you for the opportunity to testify today, and I welcome your questions.

[The prepared statement of Mr. Lilli can be found in the Appendix on page 102.]

Mrs. HARTZLER. Thank you to all of the witnesses for your testimony. This is very, very important to not only our national security, but certainly to the lives of our service members.

I want to start with Ms. Wicecarver and Mr. Lilli because we are talking about two separate instances of potential waste or inefficiencies in the Department of Defense that we want to look at so that we can address and get better. One was from the past, as Mr. Sopko indicated. The program dealing with Afghanistan reconstruction has ended but we have a lot of lessons learned there so we want to talk about that for the future.

But I want to start with you because this something that is currently going on right now as we have pilots in the air and we have planes flying, we want to make sure that the parts that are in those planes are up to the specifications they need to be and no warfighter is in danger.

So Ms. Wicecarver, it is apparent the defective parts DLA received from its vendors made it into the service's supply chain. Did your team find any instances in which any of the defective parts were installed in any end items as replacement parts for repair or return to service?

Ms. WICECARVER. Madam Chairwoman, we did not find as a result of this, but we do know they are in the supply chain because they left 36,000-plus straps in the supply chain and we know that they are there. We don't though if they have been on a flight—put in, customers were not notified, but I believe that they are in the supply chain and should be pulled.

Mrs. HARTZLER. Yeah. So Mr. Lilli, what are you doing to try to find these 36,000 parts that are potentially still out there in pilots' helmets.

Mr. LILLI. The way that we go about identifying and finding parts that are in the customer's inventory is to provide what we call a supply alert. Each service has a screening activity which is then responsible for working with their individual service customers to alert them to the deficiencies of the—potential deficiencies of the parts and then work to have them notified and then coordinate the return of those materials to our defense depots.

So as a result of the audit, when we were alerted to this incident, we went back and ensured that that notification was sent and we sent an additional notification to once again reinforce the fact that we had this potential. It will be dependent now though and we will continue to work with the services to try and identify parts that are in the inventory and pull them back.

In addition to all of this, in 2008, this particular—they call it a tie strap, but it is a zip tie, a small about 2-inch piece of plastic zip tie that you put on to hold that hose to the helmet. So those zip ties were identified with several other sizes of zip tie in 2008 as a potential problem. And in 2008 the inventory that is in DLA warehouses was the frozen and has been frozen since that time. And in 2008 those particular zip ties were included in a larger suspension where our customers were notified.

So back in 2008—and those by the way, those particular products have remained in litigation since 2008. That litigation was finally cleared in 2014. The result of that litigation was that the customer representative that faced the Department of Defense for that company was disbarred. He is no longer available or allowed to do business with us. And we fined that company and we received $400,000 back for the deficient material.

Mrs. HARTZLER. Well, that is good. Now, didn't you just complete your audit fairly recently, Ms. Wicecarver?

Ms. WICECARVER. Yes, ma'am, in February 2015—I am sorry, 2016.

Mrs. HARTZLER. Okay. So we have in April of 2016. You just released this in February. So I understand, Mr. Lilli, you have only had a couple of months to start making corrective actions. And we appreciate your, you know, commitment to doing that and the steps you have already taken.

What procedures will you follow to track this 36,000 ties that are out there that are defective? So you have sent the alert. How will you know whether they have turned them back in, they have recovered them, is there a checklist, or how will you have assurance that this has been taken care of?

Mr. LILLI. As a result of the audit, we have taken several steps to improve and strengthen our processes. One of the steps we have established is the creation of a position we call the product deficiency report coordinator. We have now assigned one person, an individual who is going to be responsible for monitoring PQDRs, from the day that they are established in the system until the day that the materials actually is returned back to the system as repaired or refunded to us.

And so this person will be responsible in this particular case for now picking up that tracking to ensure that number one, any material that is identified in the inventory system is returned to us, and that we then send it—well, in this case, because of the low dollar value and the inability of a manufacturer to repair the ties, they will be destroyed and we will get a refund for those.

Mrs. HARTZLER. Now, I understand you have only had 2 months to get started on this.

Mr. LILLI. Uh-huh.

Mrs. HARTZLER. But how much of the $12.3 billion—million dollars.

Mr. LILLI. Million.

Mrs. HARTZLER. Okay, $12.3 million estimated worth of restitution that is recoverable from defective parts, how much of that do you anticipate that we will be able to get and how will we know as Members of Congress how much of that has been recovered?

Mr. LILLI. We are conducting the comprehensive review of all of the PQDRs that we have in file. Currently, we have gotten through half of them, of their 1,077 total over that time period. We have gotten through half of them and have determined that for those PQDRs, we have recovered $3.5 million as a part of our normal process. So those are things that have been recovered before the audit.

That is not to say that there is a lot of material out there. We completely agree on that. Where our process broke down was after the alert, we didn't have a good mechanism to track as has been pointed out in the hearing, the follow-on return to the supply system and then back to the vendor.

So we have 500 now PQDRs that we are working as a result of our comprehensive review. We have a line-by-line, step-by-step procedure to go and take for each one of those 500 we have inventory in the system. What it will require for us is to discuss with the suppliers that provided them a restitution plan, whether that be, that we will ship those 500 items back to the supplier for repair and then return to us, whether they will pay us to fix them internally in our organic depots, or whether they will just provide us credit back. We intend to complete that process of those 500 PQDRs by August of this summer.

Mrs. HARTZLER. Okay, very good. And I know I have other questions for all of you, Mr. Sopko, but I am going to let my colleagues ask their questions and move on. And then we will come back to another round.

Ms. Speier, ranking member.

Ms. SPEIER. Thank you, Madam Chair. Deputy Inspector General Wicecarver, this is not the first report that has been done on DLA to suggest that they are not doing their job is it?

Ms. WICECARVER. No, ma'am, we have issued several reports.

Ms. SPEIER. How many?

Ms. WICECARVER. We have 16 reports that we issued over a number of years on the parts and inventory area.

Ms. SPEIER. And in your estimation has DLA been responsive to these reports?

Ms. WICECARVER. They have tried in the most part, yes.

Ms. SPEIER. In your review this time, you looked at just a few parts. Wasn't it just about 65 parts that you arbitrarily picked out of the 5 million?

Ms. WICECARVER. We actually did a statistical sampling and came up with 65. That is so that we could get our arms around, if you will, what we are going to audit. We try to do them in a timely manner and so we do statistical sampling so we can project across the whole of the parts.

Ms. SPEIER. So 5 million lines of parts, you took 65. And of those 65, you were able to determine that at least one in particular was so defective that it could put at risk those pilots flying planes because this part had been determined to be defective when, these straps?

Ms. WICECARVER. I don't recall. I would have to take that for the record exactly when the Edwards Air Force Base maintenance group found it. I would have to take that back.

[The information referred to can be found in the Appendix on page 131.]

Ms. SPEIER. Was it, I mean, a year ago, do you think, 3 years ago?

Mr. LILLI. In 2012.

Ms. WICECARVER. In 2012, Mr. Charlie says, so——

Ms. SPEIER. Okay. So 2012 we were made aware that this is a defective part; that it could place our pilots at risk. And by happenstance, Deputy Inspector General Wicecarver does the statistical sample which includes these straps, finds out it is still in the supply chain. That, to me, is frightening. How long have you been in your post, Mr. Lilli?

Mr. LILLI. Three years.

Ms. SPEIER. Three years.

Mr. LILLI. Yes, ma'am.

Ms. SPEIR. So certainly, it was already deemed defective when you came into your post. Correct?

Mr. LILLI. Correct.

Ms. SPEIER. And nothing had happened relative to this item until the inspector general did a report and now you are taking steps. Do we need a report from the inspector general to get the Department of Defense DLA to take defective parts out of the supply chain?

Mr. LILLI. No, ma'am. We have procedures in place.

Ms. SPEIR. Well, why didn't these get removed?

Mr. LILLI. As I stated, we—in 2008, all of these parts were frozen in inventory.

Ms. SPEIR. What does frozen mean?

Mr. LILLI. It means that we code them. It is a code in our distribution system computers that prevents any issuing of that material so if a customer requisitions it, it is from DLA stock. It is not allowed to be issued. It prevents it. There is no way it could happen.

So what I mentioned earlier was that in 2008, this part along with several other parts manufactured by that same company, was frozen in stock. There were 16,000 of those straps issued before the first quality deficiency report was received. Those were in the customer inventory. We alerted in 2008 all supply customers of the fact that these straps and other sizes, in addition, were potential defective parts. And at that time that material was screened and the materials should have been returned back.

If a sailor, or a soldier, or an airman had some stock in their bin and missed the lot screening, that is possible. Maybe that material stayed in the supply system. But once again, as a result of the audit, we reissued those notifications to ensure that, and asked our service partners to go and search their inventory to ensure that nothing—this material would be removed, if possible.

Ms. SPEIER. Mr. Lilli, I don't have a lot of confidence in DLA's response, generally. I think the fact that the inspector general has done all of these reports and there are still problems, should make us all pause. As it relates to the $12.3 million that is due the taxpayers in restitution for these faulty parts, I would like for you to report back to this committee on a regular basis until we know confidently that restitution has been sought and received for all of these defective parts.

Inspector General Sopko, you said in previous congressional testimony that data was missing from the hard drive provided by DOD and forensic accountants were reviewing to determine if the data had been manipulated. Has that review been concluded?

Mr. SOPKO. Yes, it has. And although we can't tell if it was manipulated, we think we don't have all of the data. And it could just be that the records are so poor at TFBSO that they just don't have the data.

Ms. SPEIER. When the TFBSO program wasn't doing well for a number of years, and yet, it was on autopilot, it seems to me based on your report, from your perspective, how do we prevent the wasteful spending of almost a $1 billion on a program like TFBSO, when, you know, a quarter of the way through, half of the way through, it is clear that it is not working?

Mr. SOPKO. You know, that is a very good question, and I don't have a great answer for it. Reports were filed with Congress. I am not certain that those reports were accurate and were truthful and really reflected what was going on. And I am certain, having worked in Congress myself as a staffer, you are inundated with reports. I don't even know if anybody even noted those reports.

I think a critical problem you had with TFBSO was it was a new mission for the Department of Defense and nobody planned for having extra oversight over that new mission. And it was almost like a perfect storm. That program reported to the Secretary of Defense's office.

Now, the Secretary of Defense has many things on his plate, but operating a $1 billion program is usually not something he is going to focus or she is going to focus on. Later they moved it down to the Deputy Secretary of Defense for reporting. Again, he doesn't really run day-to-day operations. So it was reporting to the wrong spot in DOD. Lastly, they moved it down to report to the policy shop, the Under Secretary of Defense for Policy. Again, maybe very good in policy, but normally the policy shop does not oversee day-to-day operations of an agency. And I think that was one of the critical problems.

And nobody really read the reports and the warning signs. I know somebody—I mean I know the House Armed Services Committee raised some concerns about this program early on, and then some of the legislation raised those concerns. But apparently, it fell through the cracks.

Ms. SPEIER. Well, we somehow sometimes think that we are doing our job when we put report language in, and then they don't report to us, and nothing transpires.

This gas station that cost $43 million, the one in Pakistan cost between $200,000 and $300,000, we then actually equipped some Afghan vehicles so that they could take CNG [compressed natural gas]. Is that correct?

Mr. SOPKO. That is correct, ma'am.

Ms. SPEIER. But what a harebrained idea when to retrofit these vehicles is equivalent to the salary for an Afghani for a year.

Mr. SOPKO. That is correct, ma'am. And again, it goes back to common sense.

Ms. SPEIER. Which this program didn't have.

Mr. SOPKO. Do a cost-benefit analysis. I am sorry, but do a cost-benefit analysis. And it doesn't seem like anyone did a real cost-benefit analysis on this program. You would have seen there were inherent problems. Everyone had written, you have to have an infrastructure in place. There is no infrastructure in Afghanistan. You have to have a market. There is no market. And that is just repetition we have seen through almost all of the TFBSO programs.

Ms. SPEIER. My last question. In your comments you said this is one of the worst programs that you have investigated in Afghanistan. I believe you said, the most waste, the most fraud, when were you first made aware of it?

Mr. SOPKO. I think I started to hear complaints almost when I started the job 4 years ago, but it was a relatively small program in comparison. Remember, we have spent $113 billion here. So we had put it on our audit schedule a couple of years ago and we came out with our first audit, I believe, on the mineral section and we did two audits on that. So it has been in our view for at least 2 or 3 years.

Ms. SPEIER. Again, thank you both, Inspector General Sopko and Deputy Inspector General Wicecarver, for your great service. I yield back.

Mrs. HARTZLER. Thank you. Mr. Scott.

Mr. SCOTT. Thank you, Madam Chair. Mr. Lilli, thank you for straightening out what I was discussing with Mr. Conaway over here, and that at a penny apiece, it sure sounded like a zip tie to me, something that most of us probably have. You could walk down to Walmart or a CVS, or pretty much certainly any hardware store would have them.

So $523.14 worth of zip ties, by my calculation, 52,314 at a penny apiece. I am sorry that you are getting browbeaten over a zip tie or 52,000 of them, to be honest with you. I just wonder how much money—this has gone on over these zip ties since 2008. Is that right?

Mr. LILLI. Correct, sir.

Mr. SCOTT. We have five Members of Congress, staff, we have three of you here and we are talking about zip ties. I mean, if I put one on something and it breaks, I would simply put two of them on the next time if it wouldn't hold. I mean, the people that I know that work in the Air Force, that are pilots, that get our men and women and aviators ready to roll, they are smart enough to know if one zip tie won't work, maybe you use two. Maybe you use a different size one. How much money—is it possible to calculate how much money the government has spent, the taxpayers have spent over $523 worth of zip ties in trying to find them?

Mr. LILLI. Oh, I can't answer that. We could probably come up with an estimate. It is a lot of money.

Mr. SCOTT. Would you agree with me that you could buy a zip tie at any hardware store out there?

Mr. LILLI. Well, sir, you can get those zip ties at any hardware store, but because of the regulations in our FAR [Federal Acquisition Regulation] and the processes we have to do to ensure that we buy them from qualified sources, we probably wouldn't go to Lowe's. We would have to follow the FAR. But you are right. It is the same type of zip tie that is out there.

Mr. SCOTT. And I just wonder, you know, how much—as a private business owner, I would never spend $10,000, or $100,000 or however much money has been spent from 2008 to 2014 over $523 worth of zip ties. I am somewhat taken back that we are even discussing zip ties here.

Anyway, Mr. Sopko, the full financial audit for TFBSO activities has it begun, and if so, when can we expect that audit to be complete? And is it going to go so far that it is going to identify parts that are a penny apiece and maybe how much money was spent trying to find zip ties?

Mr. SOPKO. Well, I don't think we are going to be looking at zip ties. The full financial audit is——

Mr. SCOTT. Would you agree, obviously, someone has spent an awful lot of money, more money has been spent searching for the zip ties than the zip ties cost.

Mr. SOPKO. It appears that way, sir. Remember, I am not doing the zip tie investigation.

Mr. SCOTT. I am glad to know that.

Mr. SOPKO. On TFBSO, we were asked by Senator Ayotte on the Senate side to conduct a financial audit as well as a program audit. The program audit, I believe, we are putting that together and if it hasn't started it is about ready to start.

And then we are going to just, you know, a program audit is a little different than a financial audit. The financial audit, I don't believe we have started that yet. We have also been joined or asked by Senator Grassley to conduct both of those. So there is a lot of interest on the other side.

Mr. SCOTT. Well, I look forward to seeing that and I will yield the remainder of my time. I am under a minute.

Mrs. HARTZLER. Thank you, gentlemen. Now we go to Ms. Graham.

Ms. GRAHAM. Thank you, Madam Chairwoman. Thank you all very much for being here today. My question is in the category of lessons learned.

Inspector General Sopko, you mentioned in your written testimony that a major source of TFBSO's issues in Afghanistan, is that it didn't implement any changes based on the experience in Iraq.

Mr. SOPKO. That is correct.

Ms. GRAHAM. Is there now a formal system for capturing lessons learned and what are your recommendations for ensuring that they are incorporated into future protocol?

Mr. SOPKO. Some agencies of the government have a formal structure to capture lessons learned. The Department of Defense is probably the best one for doing that, and the various agencies of the Department of Defense, so the Air Force, the Army, the Marines, will be doing their lessons learned and hopefully those will be applied.

The biggest problem we see, Congresswoman, is that there is no whole-of-government approach to lessons learned. If one thing we learned in Afghanistan and Iraq, it is not only that DOD is going to be there, State Department is going to be there, AID is going to be there, and our allies. And no one is doing that.

And actually, we are doing that at the recommendation of General Allen. I remember him coming over and saying, laying that out to me. He says, DOD will do a pretty good job, but the next time we do this, when you are going to a provincial reconstruction team, there will be spots for AID and State and all of the other government entities, but nobody has that jurisdiction. We are stovepiped. DOD will do their lessons learned, but nobody is doing the whole of government. So we are actually embarking upon that at the suggestion of General Allen and other people. And we are hoping to do that.

The other thing I would seriously consider is neither State or AID have the system of doing lessons learned in their budget as well as the staffing to do it like DOD does. And that is going to be an inherent problem.

Ms. GRAHAM. I would agree with you. In every facet of life, you need to learn from the past and do better in the future. Well, thank you, I guess.

Mr. Lilli, I would ask the same question of you. It is not your fault, by the way. I understand the inspector general. Is there a formal process by which DLA has incorporated lessons learned into its processes and procedures?

Mr. LILLI. As a result of our audit, we learned a lot, and so we have five recommendations that we have been—that we are implementing. As I mentioned earlier, in DLA Aviation, we have taken and reviewed all the PQDRs to make sure that we recover all the money, and we will report back as we were asked. We have also frozen and made sure that that stock is frozen and so it can't be issued, and alerted our customers. But we have also established some new procedures as a result of that.

So what we will be doing is creating a position called a PQDR coordinator in our supply center that will then track from the beginning to the end every time we receive one to ensure that we, number one, alert our customers as fast as possible, but then ensure that material is received and sent back to the suppliers for restitution.

We have also established some first-line supervisor and senior leader oversight to include checklists that will have to be signed as we go to ensure that that process is done correctly. In addition to that, we have some corporate metrics now that we track the opening and closure of each one, the total number, and the total age of those PQDRs. That report is provided by the coordinator to myself and the commanding general once a week. So we will be tracking that to ensure that never happens again.

On a broader scale, those lessons that we have learned as a result of this audit and this review have been provided to the DLA headquarters. And as I have mentioned earlier in testimony, the DLA director has established a working group to take a look at the entire process across DLA. And through that working group, we will take the lessons we learned and incorporate them into the overall review and then come up with a revision of the process that will hopefully be better, and will allow us to have tighter control, and to execute our responsibilities for stewardship in a better manner.

Ms. GRAHAM. Thank you for that.

I hope, Mr. Inspector General, that we can learn from these lessons, and we need to be working together so we don't repeat the mistakes of the past. I don't know where to start with putting that in place, but seems to me that when we are working—as the United States of America is working overseas in various countries, all aspects of our country need to be working together to make sure we are doing it efficiently and effectively. So I am out of time, but if you want to respond.

Mr. SOPKO. I agree wholeheartedly with you, and hopefully our Lessons Learned Program will help in that process. But remember, there is a difference between lessons observed and lessons learned. There are lot of reports on the shelves, but very few people sometimes read them, and they are not put into doctrine and put into the training. And before somebody goes back out to Afghanistan, whether he is a Foreign Service officer, an AID officer, or a captain in the Marines, he should be given a document which tells him what have we learned from Afghanistan before, what have we learned from Iraq, what have we learned from other experiences. And that is what people keep coming back to me.

I mean, we do these audits. We do these reports, and I have been approached by many people in the administration and on the Hill saying, so what does it mean, and how do we do it? And I understand that frustration, and that is why we have this Lessons Learned Program we have put together, brought in some very bright people, and trying to get buy-in from the various agencies. That is what General Allen encouraged us to do, and so we are following on his guidance. Hopefully it will help.

Ms. GRAHAM. Great. I remain ever hopeful. I appreciate it. Thank you. I yield back what time I do not have anymore.

Mrs. HARTZLER. The lady's time is expired. And that is one of the reasons we are having the hearing as well today, Mr. Sopko, is so that we can flush out the concerns that we have had and learn as we go forward.

Now Mr. Conaway from Texas.

Mr. CONAWAY. Well, thank you. Just to make sure, I am a CPA [certified public accountant] and my license is still current, so I am one election from being back in public practice. I spent a lot of years auditing.

Mr. Sopko, when you come to a circumstance like this filling station, gas station, it just absolutely makes no sense in hindsight. Did you have access to the documents that were prepared and put in place and the decisionmaking processes that were there to come to these conclusions? I mean, when you have a circumstance that makes no sense, we typically don't have all the facts available to figure out how the decision makers who, unless you want to project malfeasance on them, were working to try to do the right thing. And did you look at how they got there, what their rationale was for it?

Mr. SOPKO. To be honest with you, Congressman, we did not have full access to the records.

Mr. CONAWAY. Okay. So the billion dollars spent, all of it was wasted? Is that your conclusion?

Mr. SOPKO. No, not all of it.

Mr. CONAWAY. So 50 percent?

Mr. SOPKO. I mean, you know, we did build a gas station.

Mr. CONAWAY. Well, that is a waste.

Mr. SOPKO. Yeah.

Mr. CONAWAY. That is a waste.

Mr. SOPKO. But it was built, and there are——

Mr. CONAWAY. Okay. How well is it functioning today?

Mr. SOPKO. Well, the—oh, I am sorry.

Mr. CONAWAY. I am just trying to figure out there was 100 percent error. Great. Got that.

Mr. SOPKO. Yeah.

Mr. CONAWAY. But were there—did you find any successes whatsoever in the deal?

Mr. SOPKO. We found a few successes.

Mr. CONAWAY. Okay.

Mr. SOPKO. But the problem is, you know, we measure inputs, outputs, and outcomes. The output was you got a gas station. The output was you actually got 400 taxi drivers, I believe about 400, got their cars converted at——

Mr. CONAWAY. Okay.

Mr. SOPKO [continuing]. U.S. taxpayer expense. They are very happy.

Mr. CONAWAY. I am not trying to defend this deal.

Mr. SOPKO. Yeah.

Mr. CONAWAY. I am just trying to make that sure we understand the circumstance.

Ms. Wicecarver, total dollars spent over your audit, not you personally, but your auditing, how much money spent by DLA over those 16 audits that you made reference to, total dollars spent? Trillions?

Ms. WICECARVER. Not a trillion, no, sir. We had about $300,000.

Mr. CONAWAY. Just for example, my—dust off old audit stats stuff. You do a statistical sample in order to project the error rate across the bigger piece.

Ms. WICECARVER. Yes, sir.

Mr. CONAWAY. So you found the error with the zip ties. Your overall conclusions on your statistical sample, what was the error rate throughout the entire universe of what you were auditing?

Ms. WICECARVER. 90 to 95 percent, sir.

Mr. CONAWAY. So 95 percent of what DLA spent, they spent wrong?

Ms. WICECARVER. Of the sample that we collected.

Mr. CONAWAY. So did you expand your sample?

Ms. WICECARVER. No, sir.

Mr. CONAWAY. Why not?

Ms. WICECARVER. Because we had enough, we thought——

Mr. CONAWAY. So 90—make sure I get the record straight here. They spent half a billion dollars?

Ms. WICECARVER. Not on these parts, sir.

Mr. CONAWAY. No, no, no. Why would you do a statistical sample if you are not trying to extrapolate that over the bigger—you are not going to look at all 5 million parts? Is that what you said? How many parts were in your universe, ma'am?

Ms. WICECARVER. 269.

Mr. CONAWAY. And you audited 65 of it?

Ms. WICECARVER. Yes, sir.

Mr. CONAWAY. Okay. And of that, you are saying that of those 269 parts that you audited, 95 percent of the money spent was spent incorrectly?

Ms. WICECARVER. We weren't talking about the dollars spent. We looked at actually the product deficiency reports that we were reporting and how it all equals dollars and cents. I understand that. But I would have to get back to the record specifically what it is we are talking about. We just projected because——

Mr. CONAWAY. So of the 269 parts, your conclusion would be that 95 percent of those parts were deficient?

Ms. WICECARVER. No, sir. We had a 95 percent confidence rate on our sampling, is what I am saying.

Mr. CONAWAY. No, ma'am. That is not what you said. My question was, what was the overall projected error rate within the overall universe, and you said it was 95 percent. I understand the 95 percent confidence, that your 65 percent is representative of the whole. What I am asking, of the 65 percent that was wrong, that you found wrong, how much of that do you say is in the full universe of 269 parts? Of the 65 that you audited, how many of those had problems?

Ms. WICECARVER. I am sorry. How many of those had?

Mr. CONAWAY. Had audit deficiencies that rose to this conclusion that the zip ties were out of whack?

Ms. WICECARVER. Well, we had many examples in our report and in our audit.

Mr. CONAWAY. I don't——

Ms. WICECARVER. I will have to take it for the record. I guess I don't understand all of that one.

[The information referred to can be found in the Appendix on page 131.]

Mr. CONAWAY. Are you an auditor yourself?

Ms. WICECARVER. Yes, I am.

Mr. CONAWAY. Okay. Why would you use a statistical sample of the universe? What is the purpose of statistically sampling rather than looking at the whole universe?

Ms. WICECARVER. Timeliness of the report so we can get the evidence out to the agency.

Mr. CONAWAY. Isn't it to look at a small sample, if you don't have any errors in that small sample, you are 95 percent confident that the rest of the universe is okay? Isn't that a better explanation of why you statistically sample something? And you statistically sampled 65, you picked 65 on a statistically sound basis so that you can say, all right, we are going to look at these 65 so we don't have to look at all 269. We looked at the 65, and the error rates or whatever you want to call them, in this 65 leads us to believe that the universe of 269 is either good or bad.

So what I am trying to figure out is you found the error with this one part, however insignificant it might be, but because it was statistically picked, it has a greater significance to the overall conclusions. Because if you can't get the little things right, you are not going to get the big things right. So you looked at the 65. You got at least one, zip ties, that you had a problem with. What else did you find among the 65 that you then projected to the greater inventory?

Ms. WICECARVER. As I said, we found many of the 69 that had problems.

Mr. CONAWAY. Okay. I don't have a clue—I don't have a clue of what the word "many" means. I am asking you, of the 65, we have got a discrete universe of items you looked at. For the record, would you please get back to us with a better explanation on what the value of the statistical sample was? Because if you are not going to use it from a statistical sampling basis, why would you pick the top 10 most expensive parts and look at those as opposed to picking zip ties? You only picked zip ties because you are trying to get a—all right.

[The information referred to can be found in the Appendix on page 131.]

Mr. CONAWAY. On the failure of the zip ties—and I know I am past my time. Mr. Lilli, did the zip ties fail when it was snugged up against the—when did it fail, and what did that failure result in? Because when we use the words "warfighters are put at risk," those are pretty inflammatory words. Those are words we ought to pay attention to.

Help us put in context. There is an air hose coming off the helmet going to somewhere in the cockpit. You snug it up with a zip tie. What was the point of failure, that first snip—somewhere in the life of the zip tie being on there?

Mr. LILLI. No, sir. Actually, the failure was discovered as they were putting the zip ties on the hose itself. So in the routine maintenance—I read the PQDR that was submitted, and in the routine maintenance of replacing the——

Mr. CONAWAY. All right. So the point of failure is known before the helmet goes on the pilot's head——

Mr. LILLI. Yes.

Mr. CONAWAY [continuing]. And before he takes off the ground?

Mr. LILLI. In the case of this particular PQDR, exactly right.

Mr. CONAWAY. Okay. Well, if we can't use—from a statistically valid standpoint, Ms. Wicecarver, if you can't project that audit of that zip tie to a greater use than what appears to be the case, then I would have to agree with my colleague that we may have missed the boat. I would rather you look at the top 10 most expensive parts of your 269, rather than—and I yield back. I am sorry. I am a little frustrated. I yield back.

Mrs. HARTZLER. The gentleman's time has expired.

Ms. McSally.

Ms. MCSALLY. Thank you, Madam Chairwoman. And let me just follow up on the previous line of discussion. I was in the military for 26 years, and I often would call them lessons identified, not lessons learned. And when you say the military is the best at it, we have some significant shortcomings.

You know, we are good at having conferences and maybe writing things down, but because of some of the things that were identified even in here because of high turnover and, you know, motivated people trying to bring their own bright ideas in the new assignment in, we are reinventing the wheel all the time in the military. When I read the testimony, when we look into the details of these failures, it is just infuriating to me, honestly.

My last assignment was at U.S. Africa Command. We were intended to try and have a whole-of-government combatant command. We had members of USAID and Office of Foreign Disaster Assistance with us on the staff. We would often see how we in the military, we want to just, you know, go in there and just fix everything, whether it is a disaster, even though we have no idea what we are doing. Our job is to fight and win America's wars, to kill people and break things, and somehow we find ourselves in these situations where we are doing things totally outside of our core competencies for a variety of different reasons. And it is infuriating to see that, after all we have learned over these years, we are still doing stupid things like this.

And the waste of taxpayers' money at a time when our military right now, our readiness, our force structure, our personnel, it is infuriating to see that this much money was wasted in the Department of Defense for bright ideas that are just absolutely failed. So what I don't even understand, because I think about my time in Africa Command, it isn't about lessons learned. It is about we are stovepiped on the front end. We don't have the same chain of command. We don't have the same funding lines. And so we can have a little love fest as we are coordinating things, but in reality, we don't report to—you know, we don't have the same title and lines of funding. And so I don't even get like what the authorities were that allowed them to do this.

Can you just explain to me how the Pentagon thought this was a good idea and under what authorities they had to do this, as opposed to letting the lead Federal agencies and those that are experts in these areas taking the lead?

Mr. SOPKO. Congresswoman, I experience and feel your anger in the absurdity of some of these things.

Ms. MCSALLY. Yeah.

Mr. SOPKO. If it wasn't the fact that we lost nearly 2,300 lives in Afghanistan, most of what we have found could probably appear on Comedy Central. I mean, I cannot believe some of the things I have uncovered, and I am outraged too.

Ms. MCSALLY. Yeah.

Mr. SOPKO. And I worked on the Hill for 15 years for Sam Nunn, and I thought I saw some really boneheaded moves. But this——

Ms. MCSALLY. This is the ultimate bonehead.

Mr. SOPKO. This is the ultimate.

Ms. MCSALLY. Yeah.

Mr. SOPKO. I wish I could answer your question on the authority because the authority is kind of mixed on the TFBSO. It started in Iraq as really not to do contracting, just to sort of fix things with the industry. Then it sort of morphed into actually a contracting role. And initially, the Secretary of Defense's general counsel's office raised concerns that this whole thing was illegal.

Ms. MCSALLY. What is the funding stream? Is this OCO money?

Mr. SOPKO. I believe it was OCO money.

Ms. MCSALLY. How are we using OCO money to build villas and gas stations? This is——

Mr. SOPKO. We are trying to find it. We still haven't found, there is a memo issued by the Office of the Secretary of Defense—and this is why I am so frustrated and your colleague has hit the frustration point. This program didn't disappear in 1944. This isn't like something that Harry Truman ran. This program went out of existence less than a year ago, and I could not find a soul in the Department of Defense who could explain any of these questions.

I call this a rare case of amnesia in the Department of Defense. I had to fight to get those records which Congresswoman Speier has asked me about. The amount of records I got for TFBSO, fewer than one of my staff has on her cell phone, the gigabytes.

Ms. MCSALLY. Right.

Mr. SOPKO. So this is the most bizarre investigation I have done, and I have gotten so much pushback——

Ms. MCSALLY. Yeah.

Mr. SOPKO [continuing]. From the Defense Department on this $1 billion program.

Now, we have looked at some of the major parts of it, but I follow the lead of your colleague. You know, there is many more billions of dollars that have been wasted and at stake. So we did not want to focus on TFBSO. I did not want to turn this SIGAR into the TFBSO inspector general. There is many more problems out there. But every time we open a rock or uncover a rock, something crawls out which just sort of you can't understand. This is a mystery to me how this program got into action and why it survived.

Ms. MCSALLY. So if there were no authorities for spending this money, what accountability is happening? I mean, if somebody is illegally spending taxpayers' money, where is the accountability on that?

Mr. SOPKO. Well, it was added to, if I am not mistaken, to the Authorization Act. So it was authorized at one time. Initially, it came from OCO, and I think it was—and I don't want to misspeak. I would have to ask my colleagues.

Fiscal year 2011 I am told it was authorized in the NDAA [National Defense Authorization Act], prior to that. And it is interesting is that in fiscal year 2011, that is when the head of the organization basically says we ought to shut the thing down, it can't operate, and that was ignored.

Ms. MCSALLY. Right. And then they are spending more. I know I am out of time. But how do we make sure here, and we can follow up for the record, that something like this never happens again, never, ever, ever happens again? Everybody needs to stay in their lanes. Fight and win America's wars, military. USAID does development and economic stuff. We have got to make sure this never happens again. So we would love to follow up on that. And I am out of time.

[The information referred to can be found in the Appendix on page 131.]

Mr. SOPKO. We will try.

Ms. MCSALLY. Thank you, Madam Chair.

Mrs. HARTZLER. Thank you. I want to talk about that a little bit, authority. There was a Brian McKeon, the Principal Deputy Under Secretary of Defense for Policy, who was invited to attend today, and due to a family prearranged activity, he wasn't able to be here. I believe he appeared before the Senate Armed Services Committee, but he did submit his testimony, which I have read.

[The testimony from Mr. McKeon can be found in the Appendix on page 111.]

And in there it talks about how in fiscal year 2014, Congress made an amendment to a law, you know, authorizing for this program to continue. So I think Congress has a role in this as well. So we, you know, need to, certainly as Members of Congress, in the future have a very important role in deciding whether we do something like this again or how we apply these lessons learned. But that is one reason we are having this hearing today, to go back and say, hey, you know, did it work? Is it wise, and should we ever do that again?

I did want to also ask you, Mr. Sopko, about the amount of money spent. Because in Mr. McKeon's testimony that I have read here, he says that there was $800 million that were obligated, $600 million that were disbursed. So I would assume the Department of Defense would say that they spent around $600 million on this rather than the $1 billion that is being thrown around today in this hearing. So which is it? How much would you say is more accurate for how much was spent on the program?

Mr. SOPKO. It is not a billion. I know that.

Mrs. HARTZLER. $800 million was obligated, but only $600- was— I say only. That is still a lot of money.

Mr. SOPKO. Our review was, as you said, $822 million was authorized, and $759 million was obligated.

Mrs. HARTZLER. How much was disbursed of that, actually spent?

Mr. SOPKO. We are actually doing the audit. We don't have that number.

Mrs. HARTZLER. Okay. So that is just something for us to be aware of. But that is still a tremendous amount of money.

Secondly, we haven't talked about the villas, and I wanted to ask you about that. Your testimony states that the TFBSO spent $150 million to reside and operate out of the villas. And you have brought a picture of those here for us today. Did the TFBSO use funding to build the villas, or did another government agency do the construction?

Mr. SOPKO. No. The villas were not built by us. These are all rentals. We rented the villas from Afghans.

Mrs. HARTZLER. Okay. What time period does the $150 million cost cover?

Mr. SOPKO. Well, for almost as long as they were there. As soon as they came over from Iraq, they pursued using, living on the economy like that, and until—although Director Brinkley said to bring them back in August of 2011, they continued in the villas till, I believe, the end of the program, which would have been the end of 2014, if I am not mistaken.

Mrs. HARTZLER. It seems like I read, perhaps in Mr. McKeon's testimony, was it 3 years?

Mr. SOPKO. That would be about right.

Mrs. HARTZLER. About right. So $50 million a year, and that included the security as well as you talk about a lot of the amenities that were in there, which is a 27-inch flat screen TV, a queen-size bed, menus for the catering of two entrees every night, options, and options on site. So, you know, certainly not what I would think our soldiers would be eating and how they would be living over there, and I know it is not quite the same.

How do you account for Paul Brinkley, the first director, saying that the task force should move back into our military facilities and not continue living in the rentals, and yet that was ignored?

Mr. SOPKO. We are trying to get to the bottom of that. We don't have an answer. We have his memorandum, which he says because of security reasons and also because of management problems, he wants to bring everybody back, and he orders them, I think by August of 2011, everyone will move back onto military bases. But we have no further information as to why that was ignored, and that is again a problem we have with TFBSO. The records are so abysmal. It is hard to figure out what they did and why they did it.

Mrs. HARTZLER. Okay. Regarding the natural gas facility, the gas station, you just said a minute ago you have to have a market, and there is no market. And I think those are very wise words, is before you do any of these projects, there needs to be a marketing analysis done, and it wasn't done. And you look at the list of the projects that were done there. And the average businessman or woman here in Missouri—well, here in the United States or from my State, Missouri, would just probably say, no, this isn't wise that we invest here; we move forward.

I wanted to mention, since Mr. McKeon isn't here, in his testimony he does say on page 11, to be sure the average Afghan does not own a vehicle. So I think the Department of Defense also is, you know, bringing up that point.

Now, he does say in there, though, that you had a question to the Department of Defense about whether the station was still operating. And he says: My staff contacted the operator of the CNG station by email on November 15th of last year. The operator indicated that the station was working normally, that 230 cars had been converted, and that every day approximately 160 cars obtained fuel from the station.

Do you think that is accurate? It is still open; it is operating; there are some cars that the taxpayer here in America paid for that are using it?

Mr. SOPKO. It would make sense that they would use it. I mean, we gave them a free conversion kit. We converted their car for free. And using the compressed natural gas is cheaper than using gasoline in Afghanistan. The question is, is it sustainable? I mean, those are happy taxi drivers, just like there are happy goats in Afghanistan. But is any of this sustainable?

The purpose of this program wasn't to make a bunch of taxi drivers in Sheberghan rich at U.S. taxpayers' expense. You have got to go back to the documents, and we do have some of the documents as to what the purpose was, and they didn't attain it.

So I go back to it. The input, we know how much was spent. The output was they did do a gas station, they did convert cars. But the outcome was to create a market all over northern Afghanistan, and that never occurred, and the reason is because no one ever looked. There was no infrastructure.

Mrs. HARTZLER. Okay. So I just wanted to clarify because earlier in this hearing you said the project failed, in your opening comments. But yet you would not say—I mean, it is operating. So you are just using that terminology just based on——

Mr. SOPKO. What it was supposed to accomplish, you know.

Mrs. HARTZLER. Okay. That is all. For the record, we should, you know, due diligence, clarify it.

And I wanted to get into the testimony of the Department of Defense that was submitted regarding the cost because I know you and the Department of Defense have been disagreeing on that. The number, $43 million cost of the compressed natural gas station, you know, has been used. So did the gas station itself cost $43 million alone, or was that the cost of the entire compressed natural gas station infrastructure project that also included refurbishing the existing pipeline, purchasing new pipeline for installation, for funding?

I will say that in Mr. McKeon's testimony here that he submitted, he says the cost for the entire project was $5.1 million, and that is for actually the infrastructure. And then he alleges that you extrapolated the consulting costs over the entire country and projected all those overhead, the $30 million overhead costs for that, on to you. And I may be, you know, not adequately summarizing what he is saying there. But I would like for you to kind of share what your thoughts were on how you arrived at the $43 million cost. Is that really accurate? And how do you disagree or not with what the Department of Defense alleges it only cost?

Mr. SOPKO. Well, I haven't seen Mr. McKeon's testimony, but I remember testifying with him before. The approximately $43 million number is not SIGAR's number. We did not compile that. We found that in the records we uncovered, and it was records prepared by a contractor for TFBSO. We spoke to the contractor. He prepared an economic impact assessment for TFBSO, was paid $2 million by TFBSO to do it.

In his report when we interviewed him, he is the one who gave us the number. He broke the number down by direct costs, indirect costs, subject matter, expert costs, overhead costs. Those were his numbers that he got from TFBSO. So first of all, those are the Department of Defense's numbers, not ours. Secondly, when we interviewed him, he said and gave us records about a back and forth between his office and TFBSO over the preparing of the economic impact assessment.

Many times that assessment was reviewed and approved by TFBSO way before we came in to do the audit. As a matter of fact, the director of TFBSO approved those numbers. The director actually changed other numbers related to the gas price, but never changed that $43 million number. This is the best number we have. We acknowledge that the records kept by TFBSO are abysmal. We actually interviewed a comptroller employee who Mr. McKeon sent over to try to review the records. And he said he thought the number was wrong, but he couldn't come up with a better number either because the records are in such poor shape.

So we are stuck with this number, but ultimately the taxpayer paid, U.S. taxpayer paid $43 million. Whether it included that gas station, whether the overhead numbers are correct or not, it is the best number we can come up with. If we can find a better number, we will report it.

Ms. HARTZLER. Right.

Mr. SOPKO. But so far, no one has given us a better number.

Mrs. HARTZLER. Okay. Thank you for that explanation.

Ranking Member Speier.

Ms. SPEIER. Thank you, Madam Chairman. I am not interested in quibbling over whether it was $10 million or $43 million, when we know in Pakistan they built it for $200- or $300,000. The real question is, does TFBSO belong in the Department of Defense? Should the Department of Defense be engaged in doing economic development? And I think the examples that Mr. Sopko has provided us make it clear that we should not be in this business within DOD. It is not part of their expertise.

Now, I do want to point out, I think that Brian McKeon tries his darnedest to try and defend the program, but in the end he does say, and I will quote, "I am skeptical that the Department of Defense is the natural home for this mission of promoting economic development." So regardless of why he goes about trying to defend it, he comes to the conclusion that we shouldn't be doing that.

And Mr. Sopko as our Inspector General on Afghanistan Reconstruction has done an extraordinary job, I think, over these number of years pointing out where we fail. And to everyone's point that has been made here, just pointing out is not good enough. We have got to clean it up. And my concern is that we see a problem, we have enough evidence, and we don't shut it down. It continues to operate on auto pilot.

Now, to Mr. Scott's comments and also to others, I think in fairness to Ms. Wicecarver, it wasn't just the zip ties that they looked at. And in her report she talks about the defective copilot control wheels for the C–5 aircraft valued at $35,000 each. The investigation determined that all 30 parts provided on the contract were defective and that the contractor was at fault. DLA Aviation searched the DLA distribution depot inventory in March 2014 and identified that 23 of the remaining defective control wheels were being stored at the DLA distribution depot in Warner Robins, Georgia. DLA instructs the DLA distribution depot to ship the parts back to the contractor. However, DLA Aviation officials did not respond to our inquiries about the 23 control wheels, and DLA transaction data showed that the defective control wheels were never shipped from the DLA distribution depot in Warner Robins.

According to DLA Aviation, could not produce any evidence that it received restitution for 23 of the 27 defective parts valued at $825,000. In addition, DLA Aviation did not notify the other customers who purchased the remaining 4 of the 27 defective control wheels. So it wasn't just zip ties. We were looking at more expensive equipment. And there is a problem with defective parts not being returned to the contractor and that restitution is not recovered.

Now, Ms. Wicecarver, this is just one area within DLA. Isn't it true that you are now working in another area as well, and could you tell us about that?

Ms. WICECARVER. Yes, ma'am. We have some ongoing audits on price reasonableness. We have some on inventory. Both those areas we have worked in the past, and we are working in the future on.

Ms. SPEIER. Isn't there one you are doing about marine parts that is underway?

Ms. WICECARVER. We are looking at the land and maritime area in DLA, the same type audit, if you will, just on a different area, land and marine maritime.

Ms. SPEIER. Besides zip ties and these wheels, are there other examples of parts that were in the chain, the supply chain, that restitution was not sought and that were continuing to reside within the supply chain?

Ms. WICECARVER. Yes, ma'am. We had about six other examples in the report, switch and bracket parts, and the other one was—there are several of them. We have pictures, and that is in the full report that I put for the record.

Ms. SPEIER. I yield back.

Mrs. HARTZLER. Thank you.

Mr. Scott.

Mr. SCOTT. Thank you, Madam Chair.

Sir, you testified on the zip tie issue that they were identified prior to being put in flight, so no crews ever lost oxygen or anything along those lines from those zip ties?

Mr. LILLI. That is correct, sir.

Mr. SCOTT. The report that I have before me reads: causing loss of oxygen to air crew members during flight. It doesn't say could have potentially. It says: causing loss of oxygen to air crew members during flight.

I ran up to my office. This is a zip tie. This is what we are talking about. It is a single-use item. When you do any type of work on the helmet, you would cut the old zip tie off, I would assume, and replace it with a new one. And if the new one didn't hold, you would grab another one from the bin and put another one on it. Is that pretty much the way?

Mr. LILLI. Yes, sir, that is the way.

Mr. SCOTT. And I think the problem is, when you—one is I think your people should be commended for identifying the problem prior to putting it in flight. So thank you for that. And I know you have got a lot of family in the military, and if I am not mistaken, spent some time yourself there, and I am glad to have you in the position you are in.

I will tell you, the idea that this is—that 36,000 of these are specialized aviation parts is ridiculous. And I hope you don't spend any time or waste any time looking for them. I hope you just get rid of them if they don't work, and you can go buy some more somewhere. You have got to have the flexibility in anything that you do to discard things that are just not worth more than a penny. It doesn't make sense to spend dollars tracking them down. No private business would do that.

The other thing I will tell you is I will get the facts on the C–5 wheel. I know those people well. Robins Air Force Base is in my district. And those are very skilled people that work at that facility, and I have no doubt that if a part needed a minor modification, that they have not only the tools, but they have the talent to make a minor modification to anything that may have come in. And I will seek that out and find that myself.

But I would like to know this, ma'am, when you—the zip ties, you identified that as 36,000 potential problems. Are the 36,000 zip ties identified as 36,000 individual potential problems?

Ms. WICECARVER. No, sir. What I said was they were left in the inventory.

Mr. SCOTT. Well, I will yield the remainder of my time. But I think that disposable parts, disposable parts that are worth a penny apiece shouldn't be part of—what did you say?

Ms. SPEIER. I said they should be able to buy them at Lowe's too.

Mr. SCOTT. I prefer Home Depot, Home Depot being a Georgia company. But I agree with you. I mean, the reason it costs so much to do anything for the government is because we micromanage every aspect of what the people at the DLA do. With that, I yield the remainder of my time.

Mrs. HARTZLER. Thank you, gentleman. I think we have had a very, very good productive discussion today where our job is oversight and investigate how the taxpayer dollars are used. And we want to, while we are advocating for more money to our national defense because we see all the threats in the world, and we see the needs, and we see the cuts that have occurred and our readiness in jeopardy and modernization not where it needs to be, at the same time we need to make sure every dollar that is spent and authorized from this committee to the Department of Defense is spent wisely. And we need to make sure that our men and women in uniform are safe.

And so I appreciate your work, Mr. Sopko. I appreciate, you know, the lessons learned that we are learning. And I agree with my colleagues as well as the gentleman, Mr. McKeon, from the Department of Defense. And I was going to bring up that same quote in my closing statement here, that we need to question whether the Department of Defense should do this again, should take on this mission, because there clearly was perhaps some mistakes made over there and some money that was spent that could have been spent more wisely. And so thank you for your work there.

And thank you as well, Ms. Wicecarver and Mr. Lilli, for what you do. We want to make sure that parts—I am familiar with farm equipment business, and there is parts and service, and it is important when there is a defective part, if it is something that—I appreciate my colleagues' comments about zip ties. I think there is a lot of wisdom in that too. We ought to have common sense mixed in here. But if there are major parts that could endanger our warfighters, we need to make sure that they are not only returned, make sure they are not put back on to the airplanes or whatever the equipment is, but also that restitution is made. If there is a warranty, we need to turn it in. Get that money back for the taxpayer. Or if it is a defective part that is of major consequence where we could have it replaced, it needs to be followed through.

So thank you, Mr. Lilli, for the efforts you are going to make. And I look forward to the reports that Ms. Speier requested and I agree with to keep us apprised of how this is going. So thank you all very much for participating. This hearing is adjourned.

[Whereupon, at 10:35 a.m., the subcommittee was adjourned.]

A P P E N D I X

April 15, 2016

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

April 15, 2016

Opening Remarks of Chairwoman Vicky Hartzler
Subcommittee on Oversight & Investigation Hearing
"Evaluating DOD Investments: Case Studies in Afghanistan Initiatives and U.S. Weapons Sustainment"
April 15, 2016

Welcome. I am delighted to convene this hearing.

Overseeing the investment of taxpayer dollars is extremely important. It is one of the core responsibilities we assume as representatives of the people. I know Ranking Member Speier, and others of this committee, all find this obligation equally significant.

But before I continue, I would also like to note that the gentleman from North Carolina, Mr. Jones, is attending the hearing with us today. Therefore, I ask **unanimous consent** that Mr. Jones and any other committee members not assigned to this subcommittee be permitted to participate in this hearing with the understanding that all subcommittee members will be recognized for questions prior to those not sitting on the subcommittee. **Without objection, so ordered.**

In the years since September 11, 2001, the Department of Defense has been in the fight against emboldened terrorists. Congress met the increased national security demands by significantly enhancing the Department's base budget and the Overseas Contingency Operations fund to address new threats and meet new requirements.

Since 2010 Congress has slashed defense spending by $1.3 trillion, and today we are realizing significant negative impacts within the Department of Defense based on those decisions. Readiness of all our armed forces is at an all-time low, our Air Force is smaller and older than when it was conceived in 1947, our Navy has fewer ships to meet an ever-increasing operations tempo, our ground and amphibious forces of the Army and Marine Corps still have yet to recapitalize and reset from past years of combat operations, and most unfortunate is that our standing among our partners and allies leaves many questioning U.S. commitment and resolve to navigate through the multitude of emergent security challenges we face as a nation and leader of the free world.

China is rising, Russia is resurgent and emboldened by our lack of checking its power, Iran is beginning to flourish militarily from the "good deal" they got from our nuclear negotiations, North Korea consistently acts out with some form of provocation against its neighbors as it tries to achieve nuclear capability, and extremist ideologies are spreading through the Middle East and other parts of the world at alarming rates.

In addition to my service on this committee, I am also privileged to serve on the House Budget Committee, and I am the only member of my party to sit on both. Many other members of the Budget Committee and I are concerned about the combination of these emerging threats and the desperately low levels of funding we are devoting to defense against these current and developing national security threats. The picture is clear: these threats cannot go unaddressed, and our national defense is in need of more resources to ensure our national security and the common defense is secure.

At the same time, it would be very difficult for anyone in this room to dismiss our country's current $19 trillion in debt, and as representatives of those who are ultimately on the hook for that debt, the taxpayers, we would be neglectful ***not*** to investigate and scrutinize how their tax dollars are being spent. We need to be able to look our colleagues and our constituents in the eye to sincerely assure them we are doing everything we can to oversee wise investments.

That brings us to the heart of our hearing. We are here today to examine a number of cases coming from the later stages of operations in Iraq and Afghanistan to investigate how taxpayer dollars were spent and determine what, if any, changes need to be made going forward to assure the people their tax dollars are being spent responsibly.

"Nation building" is not a core responsibility of the Department of defense, yet as major combat operations of Iraq and Afghanistan began to subside in 2010, the Department shouldered much of the post-hostility responsibility—primarily because it is large enough and has the ability to provide immediate resources and capabilities. Consequently, the Department of Defense established the Task Force for Business Stability Operations first in Iraq, and then again in Afghanistan in 2010, with similar and parallel goals to support the transition away from war: what is known as "phase 4 and phase 5 efforts."

The Task Force case studies we plan to discuss today include: the Afghan Compressed Natural Gas infrastructure project; the Italian cashmere goat import project; and the housing and security accommodations that Task Force personnel utilized while deployed in Afghanistan.

But not all imprudent spending decisions occur during contingency operations. For example, as the Department of Defense Inspector General previously reported, there have been some problems with the aviation spare parts supply chain of the Defense Logistics Agency.

While it is extremely important that we scrutinize the Department's purchases to ensure they are smart and reasonable; it is just as important that we use all means necessary to get our taxpayers' money back or exchange parts from vendors that may have supplied parts that did not meet contractual requirements or technical specifications. In other words, if our Airmen receive the wrong or defective parts, we must make it right by the taxpayer.

Again, I reiterate the importance of hearings such as this one. We live in a world of vast and expanding threats that require a robust and full response. If we are going to use hard earned tax dollars to fulfill our obligation to provide for the common defense, we owe it to those taxpayers to rigorously scrutinize how those dollars are spent and the qualifications of those making spending decisions.

I look forward to exploring and learning more about these certain high-profile case studies, which, as Department of Defense investigators have recently reported, may have benefited from more exacting standards for how those investments were made.

And before I introduce the witnesses, I turn to the Oversight and Investigations Subcommittee Ranking Member for any opening remarks she wishes to make.

Statement for Ranking Member Speier
Evaluating DOD Investments: Case Studies in Afghanistan Initiatives and U.S. Weapons Sustainment
April 15, 2016

Thank you to the witnesses for testifying today.

Today's hearing includes discussing a herd of cashmere goats. Yes, goats. DOD spent millions of dollars on a project involving shipping male Italian goats to Afghanistan to be mated with female Afghan goats in order to make cashmere. Too bad many of the female goats were already infected with a disease that could have wiped out the whole herd. Too bad that only two of those fancy Italian goats are still usable for the project. I think we can safely say that warm fluffy sweaters are not the key to victory in Afghanistan.

But that's not all. DOD also wasted money on an unused cold storage facility, an unsustainable business incubator, and one of the most expensive gas stations in the world. The Special Inspector General for Afghanistan Reconstruction (SIGAR) estimates that gas station alone cost $43 million.

Today, we are going to discuss two dysfunctional DOD programs that are desperately in need of oversight and budgetary common sense. The first is DOD's second-rate USAID knockoff, the Task Force for Business and Stability Operations (TFBSO.) Starting in Afghanistan in 2010, TFBSO was supposed to catalyze economic development in support of the military. But according to SIGAR, they have received more complaints about fraud, waste, and abuse over the last two years than any other organization operating in Afghanistan. Even compared with the other boondoggles in Afghanistan, the short-sightedness and sheer absurdity of these projects is breathtaking. These projects are tailor made ammunition for critics of our nation building adventure there.

We will also discuss poor practices at the Defense Logistics Agency, which put our servicemen and women at risk.

At the core of this hearing is: what do we have to show for our money?

For TFBSO, I can say that the answer to this question is: not much. Here's what we got for the nearly $1 billion spent on TFBSO activities: a Cashmere goat farm, private villas for TFBSO staff and an outrageously expensive gas station. Is that it? We don't know since the Pentagon apparently no longer possesses the expertise to address that question.

Were there any success or sustainable accomplishments from TFBSO, or should we have just left economic development to USAID and State Department instead of using the military as aid workers? As Mr. Sopko recently said, tasking DOD to do development is "like giving the Postal Service the mission to run our drones in Afghanistan."

The DOD IG's report is equally damning on DLA Aviation and the problems associated with defective parts. For example, the DOD IG found that defective tie down straps used to attach oxygen hoses to pilot's helmets remained in the inventory even after the Air Force reported that they were deficient. The flaw was severe – the ties did not hold the oxygen hose to the mask, which could have caused the loss of oxygen to aircrew members during flight. These defective ties may still be in DLA's inventory.

This and other poor oversight and procedures are projected to have cost taxpayers $12.3 million in unrecovered funds over just six months. Unfortunately this is old news: past DOD IG and GAO reports have found that the DLA has regularly overpaid for spare parts and badly manages their bloated inventory.

Today, I'd like to know what the DOD has learned from the SIGAR and DOD IG reports. Has oversight, coordination, and accountability been improved—or will it be improved—as a result? Or does the DOD intend to go on wasting taxpayer money on Italian goats and defective spare parts?

We have to remember that we have many competing uses for funding, and wasted funds hurt our troops and their readiness. It's time for this nonsense to stop.

Special Inspector General for Afghanistan Reconstruction

SIGAR

Testimony

Before the Committee on Armed Services
Subcommittee on Oversight and Investigations

U.S. House of Representatives

DOD Task Force for Business and Stability Operations in Afghanistan: Review of Selected Expenditures Highlights Serious Management and Oversight Problems

Statement of John F. Sopko,

Special Inspector General
for Afghanistan Reconstruction

April 15, 2016

Chairwoman Hartzler, Ranking Member Speier, and Members of the Subcommittee,

I am pleased to be here today to discuss SIGAR's work examining the Department of Defense's Task Force for Business and Stability Operations (TFBSO or Task Force) in Afghanistan. The nearly $800 million Task Force was DOD's principal vehicle for stimulating private sector growth and investment in Afghanistan's war-torn economy.[1]

Over the past two years, SIGAR has received more complaints of waste, fraud, and abuse relating to TFBSO activities than for any other organization operating in Afghanistan. Since SIGAR began investigating TFBSO activities, we have conducted more than 50 interviews with former TFBSO officials and contractors, and several dozen more with other U.S. and Afghan government officials with knowledge of TFBSO activities. In addition, SIGAR obtained documents and records related to TFBSO activities from DOD and the Task Force before it ceased operations, as well as from contractors, in part through subpoenas.

As a result of this work, SIGAR has issued several reports and initiated a number of active criminal investigations.[2] Appendix I contains detailed descriptions and associated outcomes of TFBSO projects examined by SIGAR, and Appendix II contains a complete list of TFBSO activities and associated outcomes.

TFBSO's goals were to "reduce violence, enhance stability, and support economic normalcy" in Afghanistan.[3] TFBSO was intended to contribute to U.S. government objectives in Afghanistan by bolstering a very weak Afghan economy. The Task Force produced some modest achievements, primarily related to its work in the extractives industries, about which SIGAR recently reported.[4]

Unfortunately, SIGAR's cumulative work to date has shown that TFBSO's nearly $800 million investment in Afghanistan has generally not delivered on its stated goals. The compressed natural gas (CNG) filling station and a cashmere goats project are glaring examples of

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[1] Our reviews to date have shown that TFBSO was authorized $822 million and reportedly obligated $759 million. SIGAR has not yet performed a comprehensive financial audit of TFBSO or its activities, but is completing financial audits of TFBSO contracts.

[2] See *Afghanistan's Oil, Gas, and Minerals Industries: $488 Million in U.S. Efforts Show Limited Progress Overall, and Challenges Prevent Further Investment and Growth*, SIGAR 16-11-AR, January 2016; *DOD's Compressed Natural Gas Filling Station in Afghanistan: An Ill-Conceived $43 Million Project*, SIGAR-16-2-SP, October 22, 2015; *Afghanistan's Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, $488 Million in Funding is at Risk*, SIGAR 15-55-AR, April 24, 2015; *Alert Letter, TFBSO Pipeline Project*, SIGAR 15-15-AL, December 11, 2014; and, *Gereshk Cold and Dry Storage Facility: Quality of Construction Appears To Be Good, but the Facility Has Not Been Used to Date*, SIGAR 14-82-IP, July 16, 2014.

[3] *Ike Skelton National Defense Authorization Act for Fiscal Year 2011,* Pub. L. No. 111-383, §1535(a)(1), 124 Stat.4426, January 7, 2011. In addition to TFBSO efforts, the Commander's Emergency Response Program, Afghanistan Infrastructure Fund programs, and the Afghan First policy included efforts to stimulate economic activity and fight unemployment.

[4] SIGAR, *Afghanistan's Oil, Gas, and Minerals Industries: $488 Million in U.S. Efforts Show Limited Progress Overall, and Challenges Prevent Further Investment and Growth*, SIGAR 16-11-AR, January 2016.

TFBSO activities SIGAR has examined that were ill-conceived, poorly planned, or left unfinished. Further, it appears that TFBSO's activities in Afghanistan were stymied by several avoidable problems and repeated mistakes from its Iraq experience that hindered Task Force operations and outcomes.

My testimony today will broadly discuss TFBSO's challenges with project development, execution, and oversight, and, at the request of the Chairwoman, will focus on three TFBSO expenditures that illustrate these challenges: (1) nearly $150 million for private housing and private security guards for TFBSO personnel in Afghanistan; (2) $43 million for a CNG filling station; and (3) $6 million on a project to bolster Afghanistan's cashmere industry.

Background: Started in Iraq Then Migrated to Afghanistan

TFBSO was originally created in 2006 by the Deputy Secretary of Defense to help revive the post-invasion economy of Iraq. The Task Force reported to the Office of the Secretary of Defense. At its inception, TFBSO was not envisioned to execute projects and programs, but rather to advise DOD entities on ways to improve contracting processes and procedures. The memorandum establishing the Task Force stated,

> "The Task Force will not be responsible for contracting, but will advise existing DoD contracting offices on improved contracting processes and associated systems solutions consistent with applicable statutory and regulatory requirements as a means to create economic opportunity."[5]

Over time, TFBSO evolved to take a larger role in identifying economic development needs in Iraq and directly executed programs and projects in response to those needs. In 2009, the Secretary of Defense formalized a new TFBSO mission and called on the Task Force to leverage economic development in Iraq as a strategic and operational tool.[6] Later in 2009, TFBSO was redirected to Afghanistan, and it began operations there in early 2010.[7]

In Afghanistan, TFBSO documents state that it administered initiatives to assist the Commander of U.S. Forces–Afghanistan and the U.S. Ambassador to Afghanistan in support of U.S. security interests by pursuing three broad objectives: (1) restoring productive capacity in the Afghan economy wherever possible, across all industrial sectors; (2) stimulating economic growth; and (3) serving as a catalyst for private investment in

[5] Memorandum from Deputy Secretary of Defense Gordon England to the Secretaries of the Military Departments, et al., June 22, 2006.

[6] Memorandum from Secretary of Defense Robert Gates to the Secretaries of the Military Departments, et al., March 11, 2009.

[7] See, Robert M. Gates, Secretary of Defense, *Continuation of Task Force for Business and Stability Operations*, March 25, 2010; GAO, *DOD Task Force for Business and Stability Operations: Actions Needed to Establish Project Management Guidelines and Enhance Information Sharing*, GAO-11-715, July 29, 2011.

Afghanistan by linking the international business community with Afghan business leaders and government officials.

As of September 30, 2015, more than $822.85 million had been appropriated for TFBSO since fiscal year 2009 for operations in Afghanistan. Of this amount, $758.79 million was obligated and $638.54 million disbursed.[8] TFBSO ended its programs in Afghanistan on December 31, 2014, and ceased all operations on March 31, 2015.

TFBSO Activities in Afghanistan Stymied by a Lack of Strategy, Leadership, and Coordination

Based on our work to date examining TFBSO's activities in Afghanistan, SIGAR has identified several factors that appear to have stymied Task Force outcomes. Several of the issues with project development and execution, stemming from reviews of TFBSO successes and failures in Iraq, were reported to DOD and TFBSO in the very early stages of its operations in Afghanistan.[9] Addressing its failures in Iraq should have served as the starting point for any similar DOD efforts in Afghanistan. If TFBSO had acted on those observations as it shifted its activities to Afghanistan, the Task Force might have avoided making many of the same mistakes it made in Iraq.

However, TFBSO failed to implement changes based on observations from Iraq into its operations in Afghanistan. We have identified three key issues that marred the TFBSO experience in Afghanistan: (1) the absence of a clear strategy; (2) a lack of focused and consistent management and leadership; and (3) a failure to coordinate efforts with other U.S. government agencies.

Lack of a Strategy

In Afghanistan, TFBSO and its counterparts (including the State Department and U.S. Agency for International Development) failed to develop a common strategy for considering and implementing projects and programs in critical sectors of the economy. For example, SIGAR found that there was no overarching, government-wide strategy for the development of Afghanistan's extractive industries—even though developing this sector constituted 36

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[8] For its operations in Iraq, the Task Force received $175 million in appropriations, of which $86 million was obligated and $65 million disbursed (see Special Inspector General for Iraq Reconstruction, *Learning from Iraq*, March 2013, p. 56).

[9] See, Center for Strategic and International Studies, *Final Report on Lessons Learned Department of Defense Task Force for Business and Stability Operations*, June 2010; GAO, *DOD Task Force for Business and Stability Operations: Actions Needed to Establish Project Management Guidelines and Enhance Information Sharing*, GAO-11-715, July 29, 2011; and, RAND National Defense Research Institute, *From Insurgency to Stability Volume I: Key Capabilities and Practices*, 2011.

percent of TFBSO's total contract obligations and had been identified as vital to Afghanistan's long-term economic development and viability.[10]

A senior official from the U.S. Embassy in Kabul told SIGAR that the U.S. government's approach to Afghanistan's extractive industries is articulated in U.S. development strategies, such as the *Afghanistan and Pakistan Regional Stabilization Strategy* and the *U.S. Civil-Military Strategic Framework for Afghanistan*.[11] However, while these two documents discuss the U.S. government's broader development goals for Afghanistan's extractive industries, they do not describe how the U.S. government will work to achieve these goals and the State Department (State) has not otherwise developed a unified strategy specific to Afghanistan's extractive industries. In the absence of a government-wide strategy to guide project development, TFBSO and the U.S. Agency for International Development (USAID) pursued differing approaches and implemented sometimes competing projects and programs aimed at the development of Afghanistan's extractive industries. This lack of a clear strategy also led to problems with project planning and approval.

Planning Hindered by Uncertainty

TFBSO's operations and initiatives in Afghanistan were poorly planned and hindered by perpetual uncertainty. SIGAR's April 2015 audit of Afghanistan's extractive industries found that the organization's long-term planning efforts were thwarted because the Task Force received annual (one-year) authorizations and appropriations and the Task Force did not know how long it would be operating in Afghanistan.[12] For example, according to Paul Brinkley, the Task Force's director when it began operations in Afghanistan, TFBSO initially operated in the country under an 18-month plan approved by the Secretary of Defense. Mr. Brinkley stated that during that initial period, TFBSO attempted to conduct quick, targeted projects that could have an immediate impact on Afghanistan's economy while also laying the groundwork for additional development and demonstrating how further progress could be achieved.

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[10] The World Bank has stated that the development of Afghanistan's natural resources could underpin future economic growth in the face of declining external aid (see, World Bank, *Afghanistan Economic Update*, April 2015, p. 22). Similarly, President Ghani listed mining as one of the country's most important economic assets in his recent interview with SIGAR (see, SIGAR, *Quarterly Report to Congress*, October 30, 2015).

[11] The *U.S. Civil-Military Strategic Framework* was originally issued in October 2012 and focused on ensuring that civilian and military efforts were fully integrated and complimentary. The updated version, issued in August 2013, includes the addition of a stand-alone section on transition, greater emphasis on preserving gains, and further clarity on the Transformation Decade (see, *U.S. Civil-Military Strategic Framework for Afghanistan*, August 2013). State's *Afghanistan and Pakistan Regional Stabilization Strategy* includes broad development objectives applicable to the extractive industries but not concrete strategies for achieving them (see, State, *Afghanistan and Pakistan Regional Stabilization Strategy*, February 2010).

[12] SIGAR, *Afghanistan's Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, $488 Million in Funding is at Risk*, SIGAR 15-55-AR, April 24, 2015.

SIGAR found that TFBSO did not develop multi-year plans or strategies for its programs to develop Afghanistan's extractive industries, nor did it establish written guidance documenting project selection criteria, requirements for metrics and project documentation, or project monitoring and evaluation processes.[13]

TFBSO Project Approval Process Lacked In-Depth Analysis

TFBSO's project approval process also suffered from serious deficiencies. SIGAR's April 2015, audit of TFBSO's support to Afghanistan's extractive industries found that TFBSO lacked a systematic way—such as a requirement to conduct in-depth cost benefit analyses prior to project approval—to evaluate program ideas.[14]

Other SIGAR products have made similar findings. For example, neither SIGAR nor DOD were able to find any evidence that TFBSO conducted any cost-benefit analysis prior to its decision to rent private housing and hire private security guards for TFBSO personnel in Afghanistan, rather than live in established U.S. government facilities. Similarly, neither SIGAR nor DOD were able to find evidence that TFBSO considered the many potential obstacles to the CNG filling station project's success before initiating that project. Likewise, SIGAR's preliminary review of TFBSO's cashmere goat project has identified inadequate planning and a lack of understanding of Afghanistan's cashmere industry.

SIGAR's findings related to TFBSO's flawed project approval process echoed a 2011 U.S. Government Accountability Office (GAO) report that identified the lack of documentation for program planning and oversight as internal control weaknesses.[15] In that report, GAO recommended that the Secretary of Defense direct TFBSO to develop written guidance that documented its management processes and practices, including elements such as criteria for project selection, requirements for establishing metrics and project documentation, and project monitoring and evaluation processes. DOD partially concurred with GAO's recommendation and stated that TFBSO would review its program management practices and consider how to implement the recommendation to the extent practicable. Although an October 2013 assessment by the Boston Consulting Group (BCG) noted improvements in TFBSO's strategic-level analysis, project evaluation, and planning activities, a separate BCG

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[13] This was not the first time that TFBSO's project planning had been criticized, as GAO previously identified the lack of documentation of program planning and oversight guidance as weaknesses of TFBSO (see SIGAR, *Afghanistan's Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, $488 Million in Funding is at Risk*, SIGAR 15-55-AR, April 24, 2015, and GAO, *DOD Task Force for Business and Stability Operations: Actions Needed to Establish Project Management Guidelines and Enhance Information Sharing*, GAO-11-715, July 29, 2011).

[14] SIGAR, *Afghanistan's Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, $488 Million in Funding is at Risk*, SIGAR 15-55-AR, April 24, 2015.

[15] GAO, *DOD Task Force for Business and Stability Operations: Actions Needed to Establish Project Management Guidelines and Enhance Information Sharing*, GAO-11-715, July 29, 2011.

study released in the same month concluded that TFBSO's temporary mandate and the limited historical record of its activities continued to limit its effectiveness.[16]

Lack of Focused and Consistent Management and Leadership

SIGAR's April 2015 report examining TFBSO investments in Afghanistan's extractives industries found that senior TFBSO officials claimed that the uncertainty around TFBSO's annual budget and high turnover among its leadership led to frequent shifts in TFBSO's organizational direction. For example, TFBSO senior officials stated that while the organization's overall goals for developing Afghanistan's extractive industries did not change, the various TFBSO directors' "rearticulations" of the roadmap for achieving these goals resulted in little documentation because of the fluid nature of the plans.[17]

One such example of these "rearticulations" of the TFBSO roadmap came after the Afghan government used the TFBSO-developed tenders and initial exploratory data to award a hydrocarbons exploration and production sharing contract for three oil blocks in the Amu Darya Basin to a Chinese company, CNPC. Following that award, Paul Brinkley (TFBSO's first director) told us that he issued a directive stating that TFBSO would not conduct seismic testing for oil and gas deposits in Northern Afghanistan because the successful bidder should pay for the exploration.[18] Nevertheless, following Mr. Brinkley's departure, the Task Force spent more than $35 million conducting seismic testing in Northern Afghanistan. When we asked Dr. Joseph Catalino (TFBSO's last director) why the prohibition on seismic testing was overturned, he responded that he was unaware of any directive prohibiting the use of TFBSO funds for seismic testing.[19]

During TFBSO's five years in Afghanistan, it had five different directors—three of whom served in an acting capacity while DOD searched for a more permanent replacement—and experienced persistent fluctuations within other senior positions. For example, a year after the start of TFBSO operations in Afghanistan, much of the Task Force's senior staff resigned, including founding director Paul Brinkley. According to Mr. Brinkley, 9 of his 11 most senior leaders resigned within 60 days following the passage of the National Defense Authorization Act for fiscal year 2011, which effectively shut down operations in Iraq and required the Task Force to prepare to transition its activities to USAID.[20]

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[16] See Boston Consulting Group, *TFBSO Operations Playbook*, October 2013, and *TFBSO Summary Report: Private Sector Operations as Stability and Security Tool*, October 2013.

[17] SIGAR, *Afghanistan's Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, $488 Million in Funding is at Risk,* SIGAR Audit 15-55-AR, April 24, 2015, p.10.

[18] Paul Brinkley, interview by SIGAR, December 17, 2015.

[19] Dr. Joseph Catalino, interview by SIGAR, January 6, 2016.

[20] Paul Brinkley, interview by SIGAR, December 17, 2015. According to RAND's 2016 report and a SIGAR interview with Paul Brinkley in December 2015, the provisions of the fiscal year 2011 National Defense

Mr. Brinkley also told SIGAR that without experienced, senior level people making decisions, young and inexperienced managers made decisions that put lives in danger.[21] On June 3, 2011, Mr. Brinkley sent a memorandum to the Secretary of Defense stating that TFBSO had insufficient managerial capacity to support its operations beyond the end of that month, and Mr. Brinkley called for a reduction in Task Force activities.[22] Mr. Brinkley's June 3, 2011, memorandum stated,

> "The lack of sufficient managerial leadership has caused a continual realignment of program responsibilities and priorities in an effort to maintain program momentum. Even with this ongoing realignment, there is insufficient managerial leadership to support current operations beyond June 30, 2011, especially given further anticipated departure of personnel later this summer."[23]

Despite this warning, TFBSO continued operations and spending peaked in fiscal year 2012.[24]

Equally troubling was a candid assessment sent to TFBSO leadership by a senior TFBSO official in July 2014, regarding overall contract management within the Task Force. That assessment stated,

> "Although CORs went through the required training to assume COR duties, this training was not in depth or comprehensive. Most CORs had little to no experience overseeing contracts of any size. The TFBSO contracting team provided the minimal oversight required but this oversight did not include additional training and only required inspections on an infrequent basis. Because COR is an additional duty, not a primary duty, COR workload was overseen by individuals who may or may not have had any contracting experience. As a result, COR performance was inconsistent across the Task Force. Not all CORs kept adequate records or managed purchase invoices well. There was no standard for record keeping or file management. When a COR departed records would be lost unless he or she passed the records on to their replacement. Determining the history of contracts was very difficult. Most former

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Authorization Act came after a spring 2010 decision by DOD's Office of General Counsel that stated that the TFBSO mission violated DOD's legal authorities because it was a foreign assistance mission, rather than a military mission.

21 Paul Brinkley, interview by SIGAR, December 17, 2015.

22 Paul A. Brinkley, Deputy Under Secretary of Defense and Director, *"Proposed Succession Plan,"* *TFBSO Memorandum to Secretary of Defense, Robert M. Gates, U.S. Department of Defense,* June 3, 2011.

23 Id.

24 Ultimately, on December 16, 2014, President Obama signed the Consolidated and Further Continuing Appropriations Act, 2015, which cut off TFBSO funding; the Task Force shut down a few months later.

CORs who were no longer with the Task Force, no longer had any of the records from their time as a COR."[25]

This lack of prudent program management and consistent strategic direction had direct, negative implications for TFBSO efforts to achieve its overarching goals, and those issues were identified even as TFBSO transitioned from Iraq to Afghanistan. As the Center for Strategic and International Studies (CSIS) warned in 2010,

"There has been no coordinated way to integrate the private sector (whether U.S. or foreign) into economic operations in conflict zones. Both the government of Iraq and the Task Force have sought to attract foreign direct investment since 2006. As with the other policy issues, CSIS was unable to find this issue being addressed in an organized manner within the U.S. government."[26]

Additionally, in 2011, GAO found that there was no written guidance for TFBSO personnel managing Task Force projects in Afghanistan.[27] Specifically, GAO found that while senior leadership provided broad goals, an operating philosophy, and management practices, there were no established project selection criteria, requirements to establish project metrics, monitoring and evaluation processes, or requirements for the type of project information to be collected and documented.[28]

To date, our work has shown that TFBSO does not appear to have applied these lessons from its Iraq experience or from its early experiences in Afghanistan. This lack of strategic direction and inconsistent management resulted in a scattershot approach to economic development, in which the Task Force invested in everything from importing rare blond Italian goats to bolster the cashmere industry in Herat, to landmine removal, to biofuel research, to funding large-scale projects to support the development of extractives industries (see appendix II for a list of all TFBSO programs and their status). This inconsistent, unfocused approach has done little to spur economic growth in Afghanistan.[29]

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[25] Michael J. Philbin, *After Action Review Discussion Points*, July 08, 2014.

[26] Center for Strategic and International Studies, *Final Report on Lessons Learned Department of Defense Task Force for Business and Stability Operations*, June 2010, p.3.

[27] GAO, *DOD Task Force for Business and Stability Operations: Actions Needed to Establish Project Management Guidelines and Enhance Information Sharing*, GAO-11-715, July 29, 2011, p.9.

[28] Although an October 2013 assessment by Boston Consulting Group noted improvements in TFBSO's strategic-level analysis, project evaluation, and planning activities, a separate Boston Consulting Group study released the same month concluded that TFBSO's temporary mandate and the limited historical record of its activities continued to be limitations to its effectiveness. (See Boston Consulting Group, *TFBSO Operations Playbook, October 2013* and *TFBSO Summary Report: Private Sector Operations as Stability and Security Tool*, October 2013.)

[29] As envisioned by the economic impact assessment, TFBSO programs would have resulted in an additional $1.28 billion growth in GDP in 2015. No such growth has occurred; in fact, the International Monetary Fund estimated a decline in Afghanistan's GDP from approximately $20.4 billion in 2014 to $19.7 billion in 2015

Lack of Coordination

Strategic and project-based coordination between government departments and agencies, as well as with host government structures, other donors, and the local populace, is critical to executing a whole-of-government approach and achieving U.S. government objectives in Afghanistan. As we previously reported, TFBSO and its counterparts in Afghanistan, including State and USAID, failed to coordinate their activities in several critical sectors, such as extractives.[30]

Failures in coordination were identified as an issue in Iraq, as well, and those same challenges might have been mitigated in Afghanistan had DOD and TFBSO leadership learned from its Iraq experience. For example, in 2011, RAND noted that many TFBSO projects in Iraq "were designed and implemented without U.S. civilian agency input or coordination."[31] Similarly, the Special Inspector General for Iraq Reconstruction found that, "Defense's Task Force for Business and Stability Operations was not sufficiently coordinated with local, provincial, or regional initiatives" and "it failed to integrate its ambitious initiatives into the ongoing work [of other organizations]."[32] Former TFBSO director Brinkley told us that TFBSO and State had a contentious relationship in Iraq and there was a perception that the Task Force had been non-collaborative.[33]

A statement from the 2010 CSIS lessons learned report on the TFBSO experience in Iraq warned, "Successful economic operations will need better communication and coordination within the U.S. government and across the multilateral and NGO communities."[34] Unfortunately, former TFBSO director James Bullion told SIGAR that, from the beginning of operations in Afghanistan, the Task Force did not establish effective relationships with either USAID or State.[35]

In Afghanistan, this lack of coordination manifested itself in hundreds of millions of dollars' worth of unfinished projects that failed to deliver intended outcomes. In April 2015, we found that nearly all of TFBSO's large extractive projects remained incomplete when TFBSO concluded activities in Afghanistan and not one TFBSO initiative in the extractives sector

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and 2016. See, Vestige Consulting, LLC and Acertas, LLC, 2014, p.15, and IMF, *World Economic Outlook Database*, October 2015.

30 *Afghanistan's Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, $488 Million in Funding is at Risk*, SIGAR Audit 15-55-AR, April 24, 2015.

31 RAND National Defense Research Institute, *From Insurgency to Stability Volume I: Key Capabilities and Practices*, 2011, p. 46.

32 Special Inspector General for Iraq Reconstruction, *Learning from Iraq*, March 2013, p.27.

33 Paul Brinkley, interview by SIGAR, December 17, 2015.

34 Center for Strategic and International Studies, *Final Report on Lessons Learned Department of Defense Task Force for Business and Stability Operations*, June 2010, p.4.

35 James Bullion, interview by SIGAR, January 23, 2015.

was transferred to State or USAID.[36] For example, none of the mineral or cement tenders supported by the Task Force resulted in a signed contract and two hydrocarbon tenders were incomplete.[37]

When SIGAR asked USAID and State officials why their agencies would not continue any TFBSO initiatives, they stated that it was because their leaderships were not interested. In fact, USAID and State considered some TFBSO initiatives, such as the Sheberghan-Mazar pipeline, to be liabilities due to safety concerns, lack of sustainability, and other problems.[38]

TFBSO's last director, Dr. Joseph Catalino, confirmed this, telling SIGAR that during planning meetings with USAID and State in the summer of 2013, it became clear that neither State nor USAID had any interest in continuing TFBSO programs. Dr. Catalino also told SIGAR that the word "transition" was overused when referring to the conclusion of TFBSO and its programs. [39] According to Dr. Catalino, the word "transition" was only used because it was specifically referenced in the National Defense Authorization Act for fiscal year 2011 and that the Task Force was really working to close out the projects by shutting them down or transitioning them to private sector interests or the Afghan government.[40]

Equally troubling is the apparent lack of coordination between the Task Force and the military commanders it was intended to support. CSIS reported in June 2010 that in Iraq, TFBSO "added value and met its charter by supporting theater commanders' goals for reconstruction and economic development."[41] However, RAND found that in Afghanistan, TFBSO was a tool that should have benefited the military effort, but that "it 'stayed out on an island' rather than becoming a team player."[42]

Three TFBSO Activities Highlight TFBSO Challenges

As requested by the Subcommittee, what follows is a discussion of three TFBSO activities that highlight TFBSO's challenges with project development, execution, and oversight, and TFBSO management issues: (1) nearly $150 million for private housing and private security

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[36] SIGAR, *Afghanistan's Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, $488 Million in Funding is at Risk*, SIGAR Audit 15-55-AR, April 24, 2015.

[37] Ibid, p.14.

[38] SIGAR, *Alert Letter, TFBSO Pipeline Project*, SIGAR 15-15-AL, December 11, 2014.

[39] Dr. Joseph Catalino, interview by SIGAR, January 6, 2016.

[40] Ibid.

[41] Center for Strategic and International Studies, *Final Report on Lessons Learned Department of Defense Task Force for Business and Stability Operations*, June 2010, p. 4.

[42] RAND National Defense Research Institute, *Task Force for Business and Stability Operations – Lessons from Afghanistan*, RAND Corp. Prepared for the Office of the Secretary of Defense 2016, p.50.

guards for TFBSO personnel in Afghanistan; (2) $43 million for a CNG filling station; and (3) $6 million on a project to bolster Afghanistan's cashmere industry.

TFBSO Spent Nearly $150 Million to Live Apart from Established U.S. Government Facilities in Afghanistan

On November 25, 2015, SIGAR sent a letter to the Secretary of Defense requesting information concerning TFBSO's decision to spend nearly $150 million, nearly 20 percent of its budget, to rent private housing and hire private security guards for its U.S. government employees in Afghanistan.[43]

SIGAR's preliminary review indicated that TFBSO leadership rented specially furnished, privately owned "villas" and hired contractors to provide 24-hour building security, food services, and bodyguards for TFBSO staff and visitors traveling in country.[44] The contractors also lived in the TFBSO-rented facilities, arranged transportation, and provided security details when TFBSO personnel traveled outside their compounds.[45]

TFBSO contracts describe in detail the services provided by TFBSO's contractors.[46] These services include:

- TFBSO paid over $57 million from 2010 to 2014 to Triple Canopy for armed support. Services provided by Triple Canopy included "combat life saver qualified personnel for all security movements," and "20 security teams to support operations in all areas of Afghanistan and secure movement of Task Force staff, senior businessmen, and guests . . . ."[47] The statement of work also required the Contractor to provide life support services for "TFBSO personnel and/or VIP/Industry professionals who are guests of TFBSO."[48]

- Defense Group Incorporated (DGI) received $51 million from TFBSO between 2009 and 2011 for extensive security and other services. For example, DGI provided

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[43] SIGAR, *TFBSO Security Inquiry Letter*, SIGAR 16-05-SP, November 25, 2015.

[44] The term "villas" was used by TFBSO employees and in TFBSO contracting documents to refer to the residences that TFBSO rented in Afghanistan and, therefore, is the term used here.

[45] TFBSO's main compound was in Kabul, but TFBSO also rented smaller villas in Herat, Mazar-i-Sharif, and, for a short period, Jalalabad. Former TFBSO officials told SIGAR that the $150 million TFBSO spent on its accommodations in Afghanistan supported "only a handful" and "no more than 5 to 10" TFBSO staff the majority of the time.

[46] SIGAR has not evaluated the quality of the services provided by these contractors and is not aware of any complaints that the contracts were not performed as required.

[47] DOD, Statement of Work, contract number GS-07F-5499R, awarded to Triple Canopy, p. 7.

[48] DOD, "Turnkey Housing Facility for Task Force for Business and Stability Operations (TFBSO) Afghanistan," contract number D12PS00025, awarded to Triple Canopy/Edinburgh International, Dec. 23, 2011, p. 2 (verified by the Dept. of the Interior, Acquisition Services Directorate, Sep. 16, 2015).

"secured [accommodations] 24 hours a day, 7 days a week by armed guards and [a] CCTV monitoring system which can view the entire perimeter and surrounding area."[49] The security provided at this facility included "cameras monitored on a 24 hour basis from a central operations room" and required DGI to have "a security reaction team that [can] respond in less than five minutes to an emergency or potential threat of incursion of the perimeter by unauthorized personnel."[50]

- TFBSO paid the Muscogee Nation Business Enterprise (MNBE) over $40 million from 2009 to 2014 to provide "transportation and personal protection from terrorist or criminal attack to [TFBSO] personnel visiting/traveling to and from project worksites."[51] MNBE also monitored the entrance to all TFBSO accommodations to ensure the safety and security of TFBSO personnel and guests.
- TFBSO "made arrangements" with its "neighbors to share information about activity in the area and to provide immediate support if problems occurred."[52] This arrangement was supplemented by a security contractor who gathered and processed "all requisite intelligence/threat information to safeguard TFBSO personnel and guests."[53]

In addition to security services, these private contractors provided support services at TFBSO facilities. For example, Triple Canopy provided TFBSO personnel with queen size beds in certain rooms, a flat screen TV in each room that was 27 inches or larger, a DVD player in each room, a mini refrigerator in each room, and an "investor villa" that had "upgraded furniture" and "western-style hotel accommodations."[54] In terms of food, Triple Canopy was required to provide service that was "at least 3 stars," with each meal containing at least two entrée choices and three side order choices, as well as three course meals for "Special Events."[55]

Similarly, over this period, MNBE provided,

> "TFBSO Government staff, Contractor staff and guests with full life support services while in country, to include but not be limited to, secure accommodations (outfitted

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[49] DOD, Performance Work Statement, contract number FA7014-09-F-A148, awarded to DGI, September. 14, 2009, p. 20.

[50] Ibid.

[51] DOD, Statement of Work Task Force for Business and Stability Operations (TFBSO) Afghanistan, Life Support in Herat, contract number HQ0034-13-C-0101, awarded to MNBE, Aug. 1, 2013, p. 8.

[52] Brinkley, *War Front to Store Front*, p. 270.

[53] DOD, Statement of Work, contract number GS-07F-5499R, p. 8.

[54] DOD, Statement of Work, contract number D12PS00025, supra, p. 2.

[55] Ibid, p. 7.

> at a 3-star equivalent level or better), secure low profile transportation . . . VOIP [Voice Over Internet Protocol] communications capabilities, on-site laundry service, on-site food & meal service (with light snacks and water/tea/coffee/sodas available 24 hrs.), business office space to include all equipment necessary to conduct business operations (computers, printers, phones, scanners, desks and chairs), housekeeping, maintenance, grounds and cultural advisors and translators."[56]

TFBSO did not Complete a Cost-Benefit Analysis

SIGAR has been unable to find any evidence that TFBSO or anyone else at DOD conducted a cost-benefit analysis of TFBSO staff living in privately owned villas in Afghanistan, rather than at U.S. government facilities. In response to SIGAR's inquiry letter, the Principal Deputy Under Secretary of Defense for Policy stated that DOD couldn't either: "we are unable to find a document that specifically analyzed the costs and benefits of using private accommodations compared to using U.S. government facilities and military support."[57]

If TFBSO employees had instead lived at DOD facilities in Afghanistan, where housing, security, and food service are routinely provided at little or no extra charge to DOD organizations, it appears the taxpayers would have saved tens of millions of dollars.[58]

The initial rationale supporting the decision not to house TFBSO personnel on U.S. military bases appears to have been made by Mr. Paul A. Brinkley, Deputy Under Secretary of Defense and TFBSO's first director. Mr. Brinkley has explained that:

> "Our goal was to get businesses running and to encourage private investors and corporations from outside of Afghanistan to engage in the country either as trading partners or as investors. Wherever possible, we avoided depending on the military. We were part of their mission . . . but we avoided living on military bases whenever possible. The goal was to show private companies that they could set up operations in Afghanistan themselves without needing military support."[59]

Outside consultants, in a presentation prepared at the request of TFBSO, hailed the "freedom of movement" enjoyed by TFBSO. For example, BCG noted that TFBSO was "not

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[56] Adam K. Marshall, Barrow & Grimm, P.C., attorneys at law for MNBE, response to SIGAR questions, June 16, 2015.

[57] Brian P. McKeon, Principal Deputy Under Secretary of Defense for Policy, *Letter to The Honorable John F. Sopko*, February 5, 2016.

[58] Similarly, if TFBSO employees had lived at the U.S. Embassy, TFBSO would have been charged only a pro rata share of housing, security, food service, and other administrative costs under the State Department's International Cooperative Administrative Support Services (ICASS) system. While it is not possible to determine precisely what this might have cost, in FY 2014, TFBSO's last full year of operation, the average ICASS cost per person at the U.S. Embassy was approximately $181,000. Therefore, SIGAR estimates that for FY 2014 a TFBSO staff of 10 would have paid approximately $1.8 million to live at the Embassy.

[59] Paul A. Brinkley, *War Front to Store Front: Americans Rebuilding Trust and Hope in Nations Under Fire* (New York, NY: Turner Publishing Company/Wiley General Trade, 2014), p. 272.

constrained by chief-of-mission requirements", had "no excessive red tape internally in securing travel arrangements", and that personal security details were "critical for mobility in hostile and uncertain environments."[60] In another presentation, BCG explained that TFBSO's "freedom of movement" meant that TFBSO personnel "can meet with local [private sector] leaders, officials, and investors in the field, not on base" and that this "enables execution of innovative and high-potential-impact projects requiring in-the-field oversight and management."[61]

However, other than those (and similar) broad assertions pertaining to the need for, and effect of, TFBSO's freedom of movement, SIGAR has not yet seen evidence that the decision to live outside of established U.S. government facilities actually resulted in any direct investment or enhanced project execution or oversight capability. In fact, DOD's February 5, 2016, response to SIGAR stated that the Department had only been able to identify documentation for one TFBSO-sponsored investor trip,[62] had no list "cataloguing potential private investors", and "the task force did not maintain a list of Afghan investors who decided to invest in Afghanistan as a result of TFBSO's work."[63]

In addition to a lack of evidence showing any investments or enhanced project execution resulting from the TFBSO decision to live apart from established U.S. installations, a report on TFBSO prepared by the RAND Corporation noted that TFBSO's "freedom of movement created significant friction with the Chief of Mission and other partner U.S. civilian development organizations. Overall, there was a general feeling that coordination with other similar organizations was not well managed by the Task Force and that this freedom of movement likely exacerbated the friction."[64]

TFBSO Director's Order to Move Out of the Villas Was Apparently Ignored

Despite Deputy Under Secretary of Defense and TFBSO Director Paul Brinkley's initial enthusiasm for living in private villas protected by private security guards, by June 2011 he had evidently decided that this arrangement was no longer necessary. In a memorandum to TFBSO senior leadership dated June 30, 2011, his last day at DOD, Mr. Brinkley directed all TFBSO personnel in Afghanistan to move back to U.S. military bases by August 1, 2011.

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[60] Boston Consulting Group, *TFBSO Operations Playbook*, Oct. 2013, p. 33.

[61] Boston Consulting Group, *TFBSO Summary Report – Private Sector Operations as Stability and Security Tool*, Oct. 2013, p. 16.

[62] The one documented trip was coordinated by McKinsey & Company and occurred from June 22-24, 2013. That trip reportedly included representatives from global investment trading firms, banks, construction, infrastructure, and energy and mining companies.

[63] Brian P. McKeon, Principal Deputy Under Secretary of Defense for Policy, *Letter to The Honorable John F. Sopko*, February 5, 2016.

[64] S. R. Zimmerman, D. Egel, and I. Blum, *Task Force for Business and Stability Operations – Lessons from Afghanistan*, RAND Corp. Prepared for the Office of the Secretary of Defense, 2016, p. 99.

Mr. Brinkley's memorandum notes the deteriorating security situation and the recent departure of TFBSO senior managers, explains why he believed the move was necessary, and indicates that his view was shared by other DOD senior leaders:

> ". . . we must take responsible action in response to these significant developments to ensure the safety and security of our personnel while balancing the need for freedom of movement to carry out the mission. Towards this end, I, in consultation with the Under Secretary of Defense for Policy, Michele A. Flournoy, and BG H.R. McMaster, CDR, CJIATF-Shafafiyat, ISAF, have determined that all forward-deployed and transient personnel will be living on forward operating bases (FOBs), effective 1 August."[65]

Our preliminary review of TFBSO records shows that in June 2011, TFBSO had begun taking steps to implement Mr. Brinkley's decision by de-scoping life support contracts and moving TFBSO personnel.[66]

Ultimately, despite Mr. Brinkley's memorandum, and the purported approval of Under Secretary Fluornoy and Brigadier General McMaster to carry it out, TFBSO staff continued living in the villas. It remains unclear, to both the Principal Deputy Under Secretary of Defense for Policy and SIGAR, why Mr. Brinkley's directive was apparently either countermanded or ignored, and TFBSO continued spending tens of millions of dollars to live in private villas.[67] Our review of TFBSO documents shows that between September and November 2011, just 3-5 months after Mr. Brinkley issued his directive, other senior officials in DOD and the military command recommended and approved approximately $33.2 million to sustain the TFBSO villas and provide security for TFBSO personnel housed there.

As stated in DOD's February 5, 2016, letter, the merits of TFBSO's approach to housing its employees should be examined, and we strongly encourage DOD to do so prior to engaging in any similar economic development activities in the future. In addition, as part of our ongoing performance audit of TFBSO activities, SIGAR intends to interview current and former government officials and seek additional documentation related to the decision to house TFBSO personnel apart from established U.S. government facilities.

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[65] Paul A Brinkley, Deputy Under Secretary of Defense and Director of TFBSO, Memorandum for: Senior Leadership, *Guidance on Life Support and Movement in Afghanistan*, June 30, 2011.

[66] TFBSO, *Life Support Overview*, June 2011.

[67] Mr. Brinkley told SIGAR in an interview on December 17, 2015, that he left the Task Force on June 30, 2011, the same day that he issued the memorandum instructing TFBSO personnel to return to bases controlled by the International Security Assistance Force. See also, Brian P. McKeon, Principal Deputy Under Secretary of Defense for Policy, *Letter to The Honorable John F. Sopko*, February 5, 2016.

CNG Filling Station: An Ill-Conceived $43 Million Project

In October 2015, SIGAR issued a review of the TFBSO Downstream Gas Utilization Project (the formal name of the CNG filling station project).[68] This project was intended to take advantage of Afghanistan's natural gas reserves and reduce the country's reliance on expensive imported gasoline. The project consisted of the construction and initial operation of a CNG automobile filling station in the city of Sheberghan, near Afghanistan's natural gas fields.[69]

TFBSO initiated the CNG filling station project, the first of its kind in Afghanistan, to demonstrate that compressed natural gas is commercially viable as an automobile fuel in Afghanistan and to promote its wider use in the country. According to TFBSO documents, the overall goals of the project were to:

- Build the first ever CNG complex in Afghanistan, consisting of a fully-functional fueling station with two dispensers/four hoses, one CNG trailer filling point, a car conversion center, an administrative office building, and gas compression and processing equipment;
- Prove that there was an interest on the part of the Afghan government in CNG, thereby reducing the risk to the investor through government support;
- Provide subject matter experts and legal support to the CNG office in the Ministry of Mines and Petroleum in tendering the TFBSO built CNG station;
- Create a market value for a CNG station;
- Expand the CNG industry to Mazar-e-Sharif, the second-largest city in Afghanistan (sic), with a market of 100,000 cars;
- Provide subject matter expert support to the CNG station to increase the size of the CNG market; and
- Increase the value of CNG investments in Afghanistan, reduce the risk to investment, and increase the domestic consumption of natural gas.[70]

In August 2011, TFBSO awarded a construction contract to Central Asian Engineering to build the station on land belonging to the Afghan Ministry of Mines and Petroleum

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[68] SIGAR, *DOD's Compressed Natural Gas Filling Station in Afghanistan: An Ill-Conceived $43 Million Project*, SIGAR 16-2-SP, October 22, 2015.

[69] Vestige Consulting, LLC; Acertas, LLC, *Economic Impact Assessment, Task Force for Business & Stability Operations (TFBSO) in Afghanistan*, December 29, 2014, p. 96.

[70] TFBSO, *Energy Program Management Report*, November 10, 2014, p. 36.

(MOMP).[71] The CNG station became operational in May 2012. TFBSO personnel worked with MOMP and the Ministry of Commerce and Industry to develop the tender and licensing procedures for the station, and Qashqari Oil and Gas Services took over operation of the station in May 2014.

The Total Cost of the Project was Nearly $43 Million

The contract awarded to Central Asian Engineering to construct the station was for just under $3 million. SIGAR identified approximately $2.1 million more in contract costs directly associated with the CNG filling station project, bringing the total contract costs to $5.1 million, plus an additional $7.3 million in subject matter expert (SME) labor. However, the total cost was evidently much higher.

Near the end of its operations in Afghanistan, TFBSO commissioned Vestige Consulting, LLC/Acertas, LLC (referred to as "Vestige") to perform an economic impact assessment of the contributions that TFBSO programs made to the Afghan economy.[72] TFBSO paid Vestige approximately $2 million for the assessment. TFBSO provided program cost data to Vestige to complete the assessment and, throughout 2014, senior Task Force officials and program managers reviewed multiple iterations of the assessment.

In December 2014, Vestige completed its final assessment. According to the assessment and SIGAR interviews, including with Vestige's Chief Executive Officer, the total cost associated with the CNG filling station project was approximately $43 million. Specifically, the assessment found:

> *"The Task Force spent $42,718,739 between 2011 and 2014 to fund the construction and to supervise the initial operation of the CNG station (approximately $12.3 [million] in direct costs and $30.0 [million] in overhead costs)."*[73]

SIGAR's analysis of e-mail correspondence and drafts of the assessment show that, over the course of multiple reviews, TFBSO officials never questioned the reported cost of the CNG filling station project.[74]

Furthermore, on May 18, 2015, SIGAR sent an inquiry letter to DOD requesting information concerning the cost of the CNG filling station project.[75] In response, DOD did not provide any

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[71] DOD, Contract awarded to Central Asian Engineering Construction Company, Awarded August 14, 2011; contract modification number P0008, March 12, 2012.

[72] Vestige Consulting, LLC, and Acertas, LLC, *Economic Impact Assessment, Task Force for Business & Stability Operations (TFBSO) in Afghanistan*, Dec. 29, 2014.

[73] Vestige Consulting, LLC; Acertas, LLC, 2014, p. 98.

[74] In an August 2014, draft of the assessment provided to TFBSO senior leaders for review, TFBSO's program manager for its Energy Program highlighted the incorrect inclusion of a Micro-Hydro project as part of the Downstream Gas Utilization project (the CNG filling station project), which put the cost of the project at $53 million but did not question the other costs, including SME labor costs or overhead allocations.

explanations or contest the reported cost of the project, and instead stated that the Department no longer possessed the personnel expertise to address our questions. Similarly, on September 24, 2015, SIGAR submitted a draft of the CNG report to DOD for review and comment prior to publishing the final report. DOD's comments (included with the report) did not dispute any of the facts in the report, or the $43 million cost figure.

Nevertheless, in a hearing on January 20, 2016, before the Senate Armed Services Subcommittee on Readiness and Management Support, chaired by Senator Ayotte, Principal Deputy Under Secretary of Defense for Policy, Brian McKeon, raised questions about this cost figure.[76] Mr. McKeon's *Statement for the Record* at that hearing stated:

> "We believe the methodology used by EIA, and relied on by SIGAR, is flawed, and that the costs of the station are far lower. I believe the consulting firm has also reviewed its work and engaged the Committee staff, and we have received a copy of their memo to one of your staff that indicates that the total costs of the station are likely 'well under $10 million.'"[77]

Mr. McKeon's statement references a memorandum completed by "the consulting firm" that was sent to staff of the Senate Armed Services Committee, which he used as a basis for questioning the previously reported total cost of the project. While SIGAR cannot be sure what memorandum Mr. McKeon is referencing in his statement, we obtained a memorandum from the CEO of Vestige Consulting to the Senate Armed Services Committee dated January 12, 2016, and believe this may be the referenced document (appendix III contains the January 12, 2016, memorandum).[78] The Vestige memorandum breaks down the $42,296,220 project cost, including overhead costs of $30,011,706 and Subject Matter Expert (SME) labor of $7,285,776 and then states:

> "*It has become apparent to all* that the CNG Gas Station construction project involved a significantly lower level of SME [subject matter expert] effort and corresponding overhead than other energy projects (ie: four large tender support projects). A more accurate allocation is closer to 2%-4% versus 20%. This would put the total CNG station costs at well under $10M." (Emphasis added)

Since the January 2016 hearing, SIGAR has conducted additional interviews (including two interviews of Robert Schraven, the CEO of Vestige who sent the January 12, 2016

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[75] SIGAR, *Inquiry Letter: Downstream Gas Utilization Project*, SIGAR-15-60-SP, May 18, 2015.

[76] In a January 2016, letter to the Senate Armed Services Committee, Vestige cites the total project cost for the project at $42,296,220, rather than $42,718,739 (as stated in its December 29, 2014, *Economic Impact Assessment*).

[77] Brian P. McKeon, Principal Deputy Under Secretary of Defense for Policy, *Statement for the Record*, Senate Armed Services Subcommittee on Readiness and Management Support, January 20, 2016.

[78] Robert Schraven, Memorandum to Senate Armed Services Committee, *Compressed Natural Gas (CNG) Cost Breakdown*, January 12, 2016.

memorandum), issued multiple document subpoenas, and conducted a more thorough review of a hard drive containing over 100,000 TFBSO-related files that DOD provided to SIGAR on January 14, 2016.

Using this information to supplement data already collected, SIGAR has concluded that the best supported total project cost is still approximately $43 million and there has been no other supportable total cost figure for the project presented by DOD, Vestige, or any other party.

In fact, in a February 10, 2016 interview, Mr. Schraven told SIGAR that he strongly disagreed with Mr. McKeon's claim that the calculations in the EIA were flawed. He maintains that the figures presented in the *Economic Impact Assessment* are accurate and that the cost of the CNG filling station project, "depends on how you look at it." Specifically, he stated that when overhead is included, the project cost $43 million—apparently contradicting his own memo to the Senate Armed Services Committee from just a month earlier.

In another interview with SIGAR on March 14, 2016, Mr. Schraven reiterated that the total cost for the CNG Filling Station Project was approximately $43 million and he stood by the December 2014 *Economic Impact Assessment*.[79] Mr. Schraven also stated that he did not author the paragraph quoted above from the January 12, 2016 Vestige memorandum to the Senate Armed Services Committee or re-calculate the allocation of SME effort and corresponding overhead.[80] He stated that the language contained in his January 2016 memorandum was "speculative."

Ultimately any recalculations of overhead costs appear unsupported and do not seem either plausible or possible because, as the Comptroller for the Defense Security Cooperation Agency (responsible for reviewing project cost data at the request of the DOD Principal Deputy Under Secretary of Defense for Policy) told SIGAR in an interview on February 19, 2016, there was a "lack of oversight" regarding records management at TFBSO and existing TFBSO records are wholly insufficient to support any new analysis that would allow one to arrive at a more accurate allocation of overhead for the CNG filling station project, or any other project.[81] Although the Comptroller could not verify the overhead costs, or the rationale

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[79] During the March 14, 2016, Mr. Schraven was accompanied by his legal counsel from Redgrave, LLP.

[80] E-mail correspondence obtained by SIGAR shows that Mr. Schraven collaborated with a former TFBSO official in composing the January 12, 2016 memorandum. In an April 1, 2016, interview with that former TFBSO official, who did not participate in preparing the EIA and left the Task Force in 2012, he told SIGAR that he had conversations with Mr. Schraven, but that he did not know how any information he provided may have been used and that he did not review the final memorandum before Mr. Schraven submitted it to the Senate Armed Services Committee.

[81] SIGAR had previously interviewed the Comptroller for the Defense Security Cooperation Agency on January 19, 2016. During that meeting, he stated that the methodology used for allocating overhead was "lazy" and that while he thought the overhead allocation could be lower, it was not possible to arrive at a more accurate estimate because the available records were so poor.

used by TFBSO for assigning it to various projects, he believed that the overhead could have been much higher or much lower than $30 million, but he was unable to determine which with any confidence because the TFBSO records were so poor.

The final $43 million total cost of the CNG filling station project far exceeds the estimated cost of CNG stations elsewhere. According to a 2010 publication of the International Energy Association, "the range of investment for a public [CNG] station serving an economically feasible amount of vehicles varies from $200,000 to $500,000. Costs in non-OECD [Organization for Economic Co-operation and Development] countries are likely to be in the lower end of this range."[82] Consistent with that finding, a 2005 CNG station feasibility study conducted by Pakistan's Small and Medium Enterprise Development Authority concluded that the total cost of building a CNG station in Pakistan would be approximately $306,000 at current exchange rates.[83] In short, at $43 million, the TFBSO filling station in Afghanistan cost 140 times as much as a CNG station in Pakistan.

It Appears TFBSO Never Examined the Feasibility of its CNG Filling Station Project Prior to Committing Millions of Dollars to Construction

SIGAR was unable to find any evidence that TFBSO considered the many potential obstacles to the CNG filling station's success before initiating the project. On May 18, 2015, SIGAR sent an inquiry letter to DOD requesting information concerning the CNG filling station. Part of that request included a request for copies of any feasibility study conducted prior to building the CNG station. In response, DOD did not provide any such document and instead stated that the Department no longer possessed the personnel expertise to address our questions.[84]

If TFBSO had conducted a feasibility study of the project, the Task Force might have noted that Afghanistan lacks the natural gas transmission and local distribution infrastructure necessary to support a viable market for CNG vehicles. According to the World Bank, "[t]he cost of distribution of natural gas to a large number of small consumers can be expensive. The development of such markets often depends on the proximity of gas transmission pipelines which have been financed already through major gas supply projects to the power and industrial sectors."[85] Similarly, an International Energy Agency analysis found that

[82] Michiel Nijboer, International Energy Agency, *The Contribution of Natural Gas Vehicles to Sustainable Transport,* 2010, p.22.

[83] Small and Medium Enterprise Development Authority, Government of Pakistan, *Pre-Feasibility Study CNG Filling Station*, May 2005, p. 7.

[84] SIGAR, *Inquiry Letter: Downstream Gas Utilization Project*, SIGAR-15-60-SP, May 18, 2015.

[85] John Homer, The World Bank, *Natural Gas in Developing Countries, Evaluating the Benefits to the Environment*, January 1993, p. 19.

natural gas was not competitive with gasoline in markets that lacked "well-developed" transmission and distribution infrastructure.[86]

Furthermore, TFBSO believed that the private operator who took over the Sheberghan station would build a second station in Mazar-e-Sharif (Afghanistan's fourth largest city, which is approximately 120 kilometers from Sheberghan). TFBSO documents state "[r]eliable gas availability at the site of the potential [Mazar-e-Sharif] CNG Station" as essential for expansion of CNG use by automobiles in that city.[87]

However, Mazar-e-Sharif has only a limited supply of natural gas, via a Soviet-built pipeline from Sheberghan to a single industrial user in Mazar-e-Sharif. As we previously reported, the pipeline has limited excess capacity and is apparently unsafe to operate at high pressure, which is necessary to increase output and CNG availability in Mazar-e-Sharif, despite a recent partial refurbishment funded by TFBSO.[88] Nevertheless, even if Mazar-e-Sharif were to obtain a reliable supply of natural gas, there is no way to deliver it to small consumers, such as filling stations, because the city's local distribution network is currently defunct and a USAID study estimates that it would cost $50 million to rehabilitate it.[89]

Finally, it appears that the cost of converting a gasoline-powered car to run on CNG may be prohibitive for the average Afghan. TFBSO's contractor states that conversion to CNG costs $700 per car; other sources estimate that it costs up to $800. According to the World Bank, the average annual income in Afghanistan is $690. This may explain why the U.S. government paid for the conversion of over 120 Afghan vehicles to CNG so that they could use the filling station because ordinary Afghans simply couldn't afford to do it. Not surprisingly, SIGAR found no evidence that any other vehicles were converted to CNG during the course of our review and investigation.

CNG Filling Station Was Found to be a "Net Loss" of $31 Million

Ironically, TFBSO's own *Economic Impact Assessment* found that the CNG filling station would have "little-to-no" impact on Afghanistan's gross domestic product (GDP) through 2018 and that the project was generally a failure, in economic terms.[90] The assessment

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[86] Michiel Nijboer, International Energy Agency, 2010, p.37.

[87] TFBSO, Energy Program Management Report, November 10, 2014, p. 36.

[88] SIGAR, *TFBSO Pipeline Project*, SIGAR 15-15-AL, December 11, 2014.

[89] TFBSO's January 2015 report to Congress stated that Qashqari Oil and Gas Services, the firm that purportedly was licensed to operate the Sheberghan CNG filling station, "indicated that it will start construction of a sister station in Mazar-e-Sharif." However, SIGAR was unable to find support for this statement in TFBSO documents and Afghan government documents obtained by SIGAR indicate that the business license of Qashqari Oil and Gas Services expired in November 2014—only six months after Qashqari purportedly began operating the filling station.

[90] Vestige Consulting, LLC and Acertas, LLC, 2014, p. 98. The report refers to the CNG Station by its formal name, the Downstream Gas Utilization Project.

went on to state that the project produced no discernable macroeconomic gains and resulted in a discounted net loss of $31 million.[91]

TFBSO's Project to Bolster the Cashmere Goat Industry in Afghanistan Appears to have Failed to Meet Its Objectives

On January 25, 2013, TFBSO awarded a grant worth approximately $1.5 million to Colorado State University (CSU) to implement the Task Force's cashmere goat project in Afghanistan.[92] Between February 2013 and December 2014, the grant was modified five times. Those modifications extended the period of performance through June 30, 2015, (six months after TFBSO concluded its operations in Afghanistan) and increased the value of the grant by $805,844, placing the total value of the grant at approximately $2.3 million.[93]

CSU implemented the project primarily in Herat, Afghanistan.[94] TFBSO project documents state, "The purpose of the cashmere project is to identify gaps in the Afghan cashmere supply chain, and then fill those gaps with business opportunities. The relationships created are intended to better the industry in Afghanistan and create profitable long-term business for the companies involved."[95]

TFBSO Rationale for Implementing the Project

Afghanistan is the third largest producer (approximately 7 percent) of raw (greasy) cashmere in the world, after China (approximately 72 percent) and Mongolia (approximately 18 percent).[96] Despite Afghanistan being the world's third largest producer of raw cashmere, only 30 percent of the nine million cashmere-producing goats in Afghanistan are harvested for cashmere production.[97] Moreover, Afghanistan's indigenous cashmere is composed of 80 percent dark, 18 percent light, and only 2 percent white hair, and there is a significant need to develop lighter and white haired feedstock for the commercial fashion industry, which is the primary end user for cashmere.[98] When the project began, Afghanistan

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[91] Ibid., pp. 98-101.

[92] Washington Headquarters Service, Acquisition Directorate, Grant to Colorado State University to implement a Cashmere Farm and Certification Business, HQ0034-13-1-0001, January 25, 2013.

[93] When overhead is included (to calculate the total project cost), the Task Force reportedly spent $6.1 million to implement its cashmere goat project (see, Vestige Consulting, LLC and Acertas, LLC, 2014, p. 107).

[94] Both the farm and lab were located in Herat, Afghanistan, but some activities such as trade show attendance and Afghan government engagement took place elsewhere.

[95] TFBSO Metrics Team, *Indigenous Industries Program Management Report v.0.8*, June 2, 2014, p.29.

[96] Frauke de Weijer, Cashmere Value Chain Development Consultant, USAID/Accelerating Sustainable Agriculture Program (ASAP), *Cashmere Value Chain Analysis Afghanistan*, produced for review by USAID, p. i.

[97] Vestige Consulting, LLC and Acertas, LLC, 2014, p. 109.

[98] TFBSO Metrics Team, *Indigenous Industries Program Management Report v.0.8*, June 2, 2014, p. ix.

exported almost all of its cashmere in its raw form and most of the value of the Afghan cashmere was captured outside Afghanistan.[99]

TFBSO's cashmere goat efforts focused on supporting the development of a value chain that could produce high-end cashmere for export.[100] TFBSO decided to implement the primary components of the project (establishing the farm and certification laboratory) in Herat, Afghanistan. Cashmere is harvested only in limited areas of Afghanistan, most notably in the western provinces of Herat, Farah, Ghor and Badghis, and the main trade center is Herat.[101]

TFBSO's Cashmere Project did not Achieve Intended Outcomes

Although the rationale for TFBSO's cashmere project in Afghanistan might appear reasonable, SIGAR's preliminary review of the project shows that it did not achieve the outcomes TFBSO intended. The grant required CSU to develop a cashmere farm business and a cashmere certification business. Specifically, the grant called for CSU to:

1. Develop a cashmere farm business, "which produces lighter/whiter cashmere. The farm should have multiple revenue streams from activities such as sales of products and outsourcing of goats and semen. The recipient is expected to develop a lucrative and realistic business to transition over to a private entity in Afghanistan."[102] The farm was expected to contain an estimated 2,000 goats, and 1,000 females were to be bred no later than November 30, 2013.[103] Upon completion of the grant period of performance, the farm was to be turned over to the Afghan Ministry of Agriculture, Irrigation and Livestock to tender the farm to a private entity that would expand the model throughout Afghanistan.[104]

2. Develop and operate a cashmere certification business that will, "generate revenue from the certifying process either from the seller of the cashmere, the buyer of the cashmere or a combination of both. The process shall have a mechanism in place to ensure certified cashmere matches the certificate produced; preferably a website."[105] Upon completion of the grant period of performance, the lab was to be

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[99] Frauke de Weijer, p. i.

[100] S. R. Zimmerman, D. Egel, and I. Blum, *Task Force for Business and Stability Operations – Lessons from Afghanistan*, RAND Corp. Prepared for the Office of the Secretary of Defense, 2016, p.38.

[101] Frauke de Weijer, p. i.

[102] Washington Headquarters Service, Acquisition Directorate, Grant to Colorado State University to implement a Cashmere Farm and Certification Business, HQ0034-13-1-0001, January 25, 2013, p. 8.

[103] Ibid.

[104] TFBSO Metrics Team, *Indigenous Industries Program Management Report v.0.8*, June 2, 2014, p. ix.

[105] Washington Headquarters Service, Acquisition Directorate, Grant to Colorado State University to implement a Cashmere Farm and Certification Business, HQ0034-13-1-0001, January 25, 2013, p. 8.

handed over to the Ministry of Agriculture, Irrigation & Livestock to tender off to a credible certification company.[106]

The TFBSO program failed to achieve either outcome. In fact, according to the Contracting Officer's Representative, deliverables were often months late or not accomplished.

With regard to the cashmere farm business, while CSU established the farm, it was only large enough to sustain a maximum of 400 goats, rather than the 2,000 required by the grant. To populate the farm, CSU brought in 270 female goats (does) and 19 males (bucks)—nine from Italy at the beginning of the grant and ten from Tajikstan in early 2015.[107] In addition, the grant called for 1,000 females to be bred no later than November 30, 2013; however, when CSU submitted its final report to the Washington Headquarters Service (the contracting service used by TFBSO) in June 2015, it reported that only 116 females were bred in 2013 and 236 in 2014.[108] Similarly, while CSU established a laboratory for the certification business, the laboratory had not been certified to officially label cashmere for international markets by the time the grant ended.[109]

In addition, neither the cashmere farm nor the certification business (which was not accredited to certify) were taken over by a private business. Rather, on March 24, 2015, CSU hired Noor Agro Group to assume direct operation and management of the farm and laboratory.[110] SIGAR has not yet been able to confirm the current operational status of the farm or the laboratory. This project will be included in SIGAR's ongoing performance audit of TFBSO activities in Afghanistan.

Poor Planning and Weak Oversight Contributed to Failures

As previously stated, the farm on which TFBSO and CSU implemented the cashmere project was far too small to achieve the required outcomes. In addition to being too small to sustain 2,000 goats (as required), the farm also lacked a grazing area sufficient to support even the approximately 300 goats initially brought in to stock the farm. As reported by CSU in June 2015, "Though it would be optimal for the goats to graze on pasture and to produce all feed on the farm, there is insufficient land to produce enough fodder for the entire herd for

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[106] TFBSO Metrics Team, *Indigenous Industries Program Management Report v.0.8*, June 2, 2014, p. x

[107] Colorado State University, *Development of Cashmere Enterprise and Supply Chain in Afghanistan Final Report Funding Opportunity Number HQ0034-13-1-0001*, June 2015, p. 21.

[108] Ibid, p. 16. In addition, SIGAR's preliminary review showed that CSU staff traveled to Mongolia from April 13-17, 2014, as part of an effort to procure Mongolian cashmere goat semen to use for artificial insemination on the Afghan farm.

[109] SIGAR has not yet been able to confirm the current certification status of the laboratory, and this will be included as part of SIGAR's ongoing performance audit of TFBSO activities in Afghanistan.

[110] Colorado State University, *Development of Cashmere Enterprise and Supply Chain in Afghanistan Final Report Funding Opportunity Number HQ0034-13-1-0001*, June 2015, p. 43.

grazing. Therefore most of the feed supply is purchased from local suppliers and the goats graze the small pasture on the farm for supplemental nutrition."[111]

Purchasing feed from suppliers is far more expensive than sustainable grazing, and this additional expenditure directly affected the commercial viability of the farm and the willingness of private companies to assume operations. For example, one company, Afghanistan Cashmere Manufacturing Association (ACMA), which had submitted a tender offer to take over the farm, later found that the annual feed procurement necessary for operations is more than $50,000 per year—a cost the company deemed unsustainable. The company ultimately withdrew its tender offer for the farm.

In addition to problems with the farm, there were also significant issues with the goats used to stock it. Specifically, health records for many of the goats brought onto the farm were not available and TFBSO did not require CSU to test the goats for disease before bringing them onto the farm. It appears that at least a portion of the goats used to stock the farm were infected with Johne's disease (paratuberculosis), which is a transmittable, fatal gastrointestinal disease that has the potential to wipe out an entire herd.[112] When the goats were finally tested for disease in 2014, several tested positive for Johne's disease and 37 male kids suspected of infection were culled (slaughtered) in January 2015.[113] When withdrawing its tender offer via e-mail on November 5, 2014, the responsible ACMA official stated that things at the farm had "gone from bad to worse" and that it had become "a bit of a poison chalice." The situation did not seem to improve in the months to follow and, in its June 2015 final report, CSU recommended, based on the "reported fiber results and the assumption that the information is accurate," that four of the nine the Italian Cashmere bucks be culled, three were listed as marginal, and only two were worth keeping and continuing to breed.[114]

Another operational challenge with both the farm and the certification lab, which could have been addressed in advance with better planning, was the lack of reliably available electricity and water. The original grant document stated that the Afghan government had agreed to

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[111] Colorado State University, *Development of Cashmere Enterprise and Supply Chain in Afghanistan Final Report Funding Opportunity Number HQ0034-13-1-0001*, June 2015, p. 27.

[112] According to the University of Wisconsin-Madison School of Veterinary Medicine, Johne's disease typically enters a herd when an infected, but healthy-looking, goat is introduced. The infected goat then sheds the organism onto the premises – perhaps onto pasture or into shared water sources (http://www.johnes.org/goats/faqs.html, March 9, 2016).

[113] In a serious breeding program, one should expect an average cull percentage of 30 percent, so there is ample production of secondary products while improving fiber, without interfering with the individual goat's production by expecting it to fill too many roles. This is under normal circumstances and farm operation. (see, Kravis, et.al., *Fact Sheet No. 1*, January 2014; Colorado State University (CSU), *Development of Cashmere Enterprise and Supply Chain in Afghanistan Final Report Funding Opportunity Number HQ0034-13-1-0001*, June 2015, p. 44.)

[114] Colorado State University, *Development of Cashmere Enterprise and Supply Chain in Afghanistan Final Report Funding Opportunity Number HQ0034-13-1-0001*, June 2015, p. 47.

provide electricity and water. However, CSU quickly found that neither was reliably available and that new generators were needed to provide a steady source of power—which was also needed to operate a newly installed water pump. The third modification to the grant, on August 14, 2013, provided $258,227 for "generating electricity and purchasing upgraded laboratory equipment."[115] After several delays, the generators were finally installed at the farm more than a year later, in September 2014.

All these examples point to a failure by both TFBSO and CSU in planning and overseeing the cashmere project in Afghanistan. The project appears to have been overly ambitious, poorly staffed, and mismanaged by TFBSO. As a leading expert in the field of cashmere goat genetics who worked on the project for TFBSO told SIGAR, the expectations of the project were unrealistic, TFBSO's mismanagement put the entire effort at risk, there was no way to accomplish the goals of the project in two years, and it was likely a twenty year project rather than a two year project. That expert also stated that Task Force personnel had no idea what they were doing and CSU staff determined what the project should cost, despite no one at CSU having any experience with cashmere.

Finally, as CSU wrote in its project close-out report, there was "a critical lack of direct oversight."[116] Similarly, the Contracting Officer's Representative stated, "51% of CSU's set milestones were accomplished 6 months past the original due date, or not completed at all." Ultimately, TFBSO's *Economic Impact Assessment* found that the cashmere project would lead to little-to-no GDP impact and "negligible" positive macroeconomic impacts.[117]

Conclusion

After 14 years, hundreds of billions of dollars spent to support U.S. military operations, and more than $113 billion appropriated for the largest reconstruction effort in U.S. history, the United States has shown an enduring commitment to the mission in Afghanistan.[118] Although many U.S. troops have come home and Congress has reduced annual appropriations for Afghanistan reconstruction, there was still approximately $12 billion left to be spent for reconstruction as of December 31, 2015.[119] Further, the U.S. government has committed to providing tens of billions of dollars more in reconstruction aid over the course of Afghanistan's "Transformation Decade" and recently committed to an extended

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[115] Washington Headquarters Service, Acquisition Directorate, Grant to Colorado State University to implement a Cashmere Farm and Certification Business, HQ0034-13-1-0001 Modification P00003, August 14, 2013, p. 1.

[116] Colorado State University, *Development of Cashmere Enterprise and Supply Chain in Afghanistan Final Report Funding Opportunity Number HQ0034-13-1-0001,* June 2015, p. 41.

[117] Vestige Consulting, LLC; Acertas, LLC, 2014, pp. 106-109.

[118] SIGAR, *Quarterly Report to Congress,* January 30, 2016, p. 50.

[119] SIGAR, *Quarterly Report to Congress,* January 30, 2016, p. 52.

military presence to support the Afghan government until it is able to sustain itself and independently secure itself from insurgent threats.[120]

Despite those commitments, managing and overseeing this massive, ongoing effort is being left to a decreasing number of U.S. military and civilian personnel in Afghanistan. The reduction in resources means that oversight and learning from the U.S. government's experience in Afghanistan and Iraq are more important than ever. Together with Congress, we must ensure that every dollar is spent as effectively and efficiently as possible and used as intended. In that same vein, we must seek to understand where we, as a nation, did not accomplish our goals, learn from those mistakes, and take meaningful corrective action as we move forward in Afghanistan's reconstruction. Failing to do so reduces the likelihood that Afghanistan will become a secure and stable nation, thus risking all the United States, the Afghan government, and our allies have invested.

Although TFBSO is now shut down, this nearly $800 million program was DOD's principal vehicle for stimulating private sector investment in Afghanistan in order to reduce violence, enhance stability, and stimulate the economy. An understanding of the successes and failures of TFBSO activities is critical for Congress and future administrations when considering economic development activities in future contingency operations.

To date, SIGAR has not been able to find credible evidence showing that TFBSO's activities in Afghanistan produced the intended economic growth or stabilization outcomes that justified its creation. On the contrary, TFBSO's legacy in Afghanistan is marred by unfinished, poorly planned, and ill-conceived projects.

Finally, it does not appear that DOD or Task Force leadership applied the lessons identified early in its Afghanistan operations. Specifically, TFBSO operations in Afghanistan lacked: (1) a comprehensive strategy; (2) focused and consistent processes and leadership, and (3) coordination with other U.S. and Afghan government stakeholders, as well as with other donors and local populations. DOD and the Task Force's failure to respond and implement changes based on prior lessons appears to have contributed to the unfulfilled expectations for TFBSO activities in Afghanistan.

The accompanying House Armed Services Committee Report for the National Defense Authorization Act for Fiscal Year 2012 noted that "the function of private sector business development falls outside the core competency of the Department of Defense."[121]

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[120] In August 2013, the Departments of Defense and State released the most recent revision of the *U.S. Civil-Military Strategic Framework for Afghanistan*. The framework provides strategic guidance for all American civilian and military personnel serving in Afghanistan and outlines U.S. priorities through what the framework calls the "Transformation Decade" of 2015– 2024.

[121] U.S. House of Representatives*, National Defense Authorization Act for Fiscal Year 2012, Committee Report (to Accompany H.R. 1540)*, 2011, Section 1533.

That cautionary statement now seems quite prescient in light of our findings to date of TFBSO activities. Specifically, our analysis has shown that the Task Force did not achieve most of its goals, both in the short-term and, it would appear, in the long-term. In addition, SIGAR's ongoing review of TFBSO activities in Afghanistan raises several key questions that remain unanswered and should be considered by Congress and any Administration contemplating similar programs in the future. For example:

- Should DOD be leading these types of economic development activities in future contingency operations?
- What impediments inhibited TFBSO, State, and USAID coordination and ultimately led to duplicative and sometimes competing activities and how can they be addressed in the future?
- How much private sector direct investment did TFBSO's $800 million appropriation yield and how does that compare to traditional reconstruction models using USAID and the Department of State?
- What impact did TFBSO projects and programs have on stabilizing Afghanistan, including at the local level, and can any of its successes be sustained?
- Were there systemic problems with DOD's management and oversight of TFBSO activities in Afghanistan that need to be addressed?

DOD's apparent final word on TFBSO, a January 2016 RAND report, does not sufficiently answer these questions and declares lessons learned without making an attempt to determine if TFBSO was effective in advancing its congressionally mandated goals.[122] While we appreciate that RAND has left the questions of TFBSO effectiveness—either at the level of an individual project or the overall effort—to SIGAR, it is troubling that DOD has yet to provide any evidence that the nearly $800 million appropriated by Congress for TFBSO was successful in reducing violence or increasing stability in Afghanistan.

Due to the substantial, unanswered questions about TFBSO activities, and at the request of Senators Ayotte and Grassley, SIGAR has begun a comprehensive performance audit of TFBSO and a full financial audit. SIGAR remains committed to uncovering the successes and stumbles of the Task Force in Afghanistan to inform Congress, the Administration, and the American people.

Thank you for the opportunity to testify today. I look forward to answering your questions.

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[122] RAND National Defense Research Institute, *Task Force for Business and Stability Operations Lessons from Afghanistan*, 2016, p. xi.

Appendix I - Summary of Select Task Force for Business and Stability Operations Projects Reviewed by SIGAR

SIGAR has published reports on many Task Force for Business and Stability Operations (TFBSO or Task Force) projects and examined available documentation and conducted interviews related to several others. In addition to SIGAR's work related to the TFBSO compressed natural gas filling station, SIGAR's work has found the following:

- SIGAR-16-11-AR, *Afghanistan's Oil, Gas, and Minerals Industries: $488 Million in U.S. Efforts Show Limited Progress Overall, and Challenges Prevent Further Investment and Growth,* is the second of two SIGAR reports focused on the U.S. efforts to develop Afghanistan's extractive industries. Related to TFBSO projects, SIGAR found that Task Force assistance to Afghanistan's extractive industries has been directed toward developing capacity at the Afghan Ministry of Mines and Petroleum (MOMP) and its component organizations, and toward making regulatory reforms to attract private sector investment. TFBSO generally pursued short-term projects seeking immediate results and its 11 initiatives aimed at developing Afghanistan's extractive industries produced mixed results, with three of those projects showing little to no achievement of their project objectives, five partially met project objectives, and the final three generally met project objectives.

- SIGAR-16-2-SP, *TFBSO Security Inquiry Letter*, sought answers to questions related to the costly decision by TFBSO leadership to protect, house, and feed its personnel primarily on facilities that were not operated by the U.S. government at a cost of nearly $150 million.

- SIGAR 15-55-AR, *Afghanistan's Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, $488 Million in Funding is at Risk*, found TFBSO and USAID have been the two U.S. government entities that provided assistance in direct support of Afghanistan's extractive industries. TFBSO documents state that it administered 11 initiatives aimed at developing Afghanistan's extractive industries by pursuing three broad objectives: (1) restoring productive capacity in the Afghan economy wherever possible, across all industrial sectors, (2) stimulating economic growth, and (3) serving as a catalyst for private investment in Afghanistan by linking the international business community with Afghan business leaders and government officials. In addition to minerals and hydrocarbons development, TFBSO activities included projects to facilitate private investment, industrial development, and other projects that the Secretary of Defense, with the concurrence of the Secretary of State, determined would strengthen stability or provide strategic support to the counterinsurgency campaign in Afghanistan. TFBSO implemented these efforts through contracts, purchase orders, and interagency agreements totaling $282 million. SIGAR also found that there was no overall U.S. government strategy for the development of Afghanistan's extractives industries, poor interagency coordination, and a lack of planning.

- SIGAR 14-82-IP, *Gereshk Cold and Dry Storage Facility: Quality of Construction Appears To Be Good, but the Facility Has Not Been Used to Date*, found that TFBSO spent nearly $3 million to build a facility intended to improve the ability of local Afghan farmers to preserve fruits and vegetables for sale to national and international markets, which could generate revenues far greater than selling their produce locally. The facility appeared well-built and ready for productive use. However, TFBSO contracted for and built the facility without buy-in and formal commitment from a private investor and the facility remains unused, resulting in a nearly $3 million waste.

- Herat Business Incubator: TFBSO funded the $46.8 million[123] Herat Incubator Project to "create an environment with necessary network and computing resources that fostered a creative atmosphere and begin linking the international IT industry to this center" and established what was intended to be a "true Silicon Valley-style start-up incubator" in Herat.[124] According to Paul Brinkley, he had the idea for the incubator following the revelation that there were "long-haired" Silicon Valley-type Afghans already operating businesses in the city that could benefit from TFBSO assistance.[125] Additionally, Herat was appealing because the city was generally stable with a relatively high quality of human capital, stable electricity, and airport access.[126]

  However, neither the incubator model nor the businesses it sought to develop appear to have been sustainable. In an interview with SIGAR, one former TFBSO employee told us, "In fact, nothing was sustainable."[127] Similarly, a former TFBSO director, James Bullion, told SIGAR that the contractor implementing the project, "did nothing" and that contractor staff were rarely on site in Herat.[128] Ultimately, Mr. Bullion stated

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[123] In June 2015, in response to SIGAR questions, counsel for the TFBSO contractor implementing the incubator project stated the company had received $46,832,494.64. According to TFBSO's Economic Impact Assessment report issued in December 2014, the project cost $42,352,992.20. Here, SIGAR is using the $46.8 million figure since it is more recent.

[124] Paul A. Brinkley, *War Front to Store Front: Americans Rebuilding Trust and Hope in Nations Under Fire* (New York, NY: Turner Publishing Company/Wiley General Trade, 2014), p. 291.

[125] Paul Brinkley, interview by SIGAR, December 17, 2015.

[126] RAND National Defense Research Institute, 2016, p. 32.

[127] By 2012, analysis of lessons identified from the incubator led to a gradual shift of the model to one that became called an "accelerator," which focused on taking local companies with track records of success across a range of sectors and helping them grow.

[128] James Bullion, interview by SIGAR, January 23, 2015.

that he refused to renew the contract for the incubator project because it appeared to him it "did nothing." SIGAR is still investigating this program.

- Village Stability Operations: TFBSO's Village Stability Operations initiative is perhaps the Task Force program most explicitly tied to TFBSO's mandated stabilization mission. This $14.4 million program was intended to support a bottom-up counterinsurgency strategy that was supposed to expand security while connecting local governance to district government, and district governance to the national government.[129] Of these funds, TFBSO obligated $14.3 million to identify potential small-scale mineral development opportunities in strategic villages and develop a plan for training local partners in proper artisanal mining methods. From these plans, TFBSO undertook only one $55,000 activity for purchases of chromite-processing equipment.

  The cost difference between developing plans and actual programming was not the most egregious aspect of this program. The one activity TFBSO actually executed was for the purchase and delivery of chromite-processing equipment that would allow a commander and deputy commander of the Afghan Local Police to begin chromite processing. When TFBSO officials later consulted with Afghan legal experts, they learned that their chromite facility violated the Afghan Minerals Law, which prohibits the granting of mining licenses to, among other Afghan officials, employees of the Ministry of Interior. Fortunately, once TFBSO learned of this violation, they contacted the Minister of Mines and Petroleum (MOMP) to explain the violation, and the project was later cancelled at the minister's behest. TFBSO's ignorance of the minerals law, despite significant investments in planning this activity, is particularly concerning because TFBSO provided the MOMP with legal advice to help Afghanistan meet worldwide standards for transparency and social responsibility in mineral exploitation.[130]

- Amu Darya Oil Basin: TFBSO's $73 million efforts to assist the MOMP and the Afghanistan Petroleum Authority in initiating and managing contract tenders for the development of Afghanistan's oil and natural gas reserves focused primarily on the Amu Darya and Afghan-Tajik Basins in northern Afghanistan.[131] Building from TFBSO's work in December 2011, the Afghan government approved a hydrocarbons exploration and production sharing contract with the China National Petroleum Corporation (CNPC) and its Afghan partner, Watan Oil and Gas, for three oil blocks in

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[129] SIGAR, *Quarterly Report to the U.S. Congress*, January 30, 2014, p. 121.

[130] Vestige Consulting, LLC and Acertas, LLC, 2014, pp. 66–69.

[131] The total costs included support for multiple hydrocarbon tenders and seismic testing at Amu Darya and Afghan-Tajik Basins; the discrete costs associated with TFBSO work supporting the Amu Darya Oil Basin could not be disaggregated from the total expenditures with available documentation.

the Amu Darya Basin.[132] The CNPC award prompted the Senate Armed Services Committee to include the following language in in its Committee Report accompanying the fiscal year 2014 National Defense Authorization Act:

> The TFBSO has contributed to the stability of Afghanistan's economy, particularly the development of its mining sector. However, the committee strongly believes that TFBSO funds for the development of Afghanistan's mining should not go towards subsidizing the ability of foreign companies, in particular the Chinese mineral extraction industry, to exploit the estimated $1.0 trillion worth of Afghanistan resources. The committee believes that companies who mine Afghanistan's rare earth minerals should be the ones investing in the mining infrastructure of Afghanistan.[133]

In August 2015, Tolo News reported that an Afghan government investigation found that CNPC had violated the terms of its 2011 contract to extract oil from three blocks in the Amu Darya Basin.[134] The Afghan government accused CNPC of owing the government $68 million for not developing land surrounding their operations as stipulated, and of improper extractions leading to corruption.[135]

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[132] Also in the Amu Darya Basin, TFBSO experts worked with MOMP to rehabilitate and reopen an additional four oil wells. To reduce the security risk for international oil companies to enter the Amu Darya region, TFBSO also funded the clearance of 41,200 square meters of landmines.

[133] Committee on Armed Services, United States Senate, *Report 113-44 to Accompany S.1197*, June 20, 2013.

[134] Tolo News, "Ministry Looks to Enforce Contract Signed with Chinese Firm for Amu River Oil Fields," August 6, 2015.

[135] While TFBSO provided technical assistance to the MOMP for this award, USAID, which funds the only U.S. government extractives assistance program in Afghanistan, is not involved and could provide further information.

Appendix II - Summary of Task Force for Business and Stability Operations Projects

This summary utilizes Task Force for Business and Stability Operations (TFBSO) cost and expenditure data from the Economic Impact Assessment (denoted by "*" next to the project name) and cost and expenditure data from project contracts reviewed by SIGAR (denoted by "**" next to the project name).[136]

Project	Project Cost	Dates Active	Purpose	Outcome
			Hydrocarbon Tender Development $104,375,666.04	
First Hydrocarbon Tender**	$1,900,000.00	2009-2010	The purpose of this program was the provision of promotion and advisory services for TFBSO's first hydrocarbon tender round, as well as a follow-up hydrocarbon tender.	This program failed to garner significant interest or tender offers from the international business community, and resulted in the failure of TFBSO's first hydrocarbon promotion efforts.
Subsequent Hydrocarbon Tender Support**	$60,077,029.04	2010-2014	This program was dedicated to providing the MOMP, and the Afghan Petroleum Authority (APA), with support in tendering exploration and production sharing contracts for Afghanistan's hydrocarbon resources.	TFBSO's hydrocarbon tender development efforts resulted in three finalized hydrocarbons contracts. Additionally, TFBSO officials stated that they had another two contract tenders "well underway," and the Afghan government had received several bids for one of these contracts. However, the MOMP did not complete the tender process for these two projects before TFBSO departed Afghanistan in December 2014.

[136] This list and associated costs may not be exhaustive and we have not verified all data. However, the list contains the best available information as of January 13, 2016.

Project	Project Cost	Dates Active	Purpose	Outcome
				TFBSO officials stated that it was also instrumental in helping to establish the APA as the Ministry's central authority for hydrocarbons. However, the contractor for USAID's SGGA program reported that the new central government did not approve continued funding for the salaries of the "vast majority of APA staff members"; 72 APA employees were laid off in December 2014, leaving only approximately 35.
Afghan-Tajik and Amu Darya Seismic**	$12,714,000.00	2011-2012	During its hydrocarbon tender development efforts, TFBSO determined that seismic reflection surveys could help to confirm prior data collected by geologists during the Soviet era, and that this would help spur further exploration investment by international oil and gas companies. To this end, TFBSO contracted to collect seismic reflection data from the Afghan-Tajik and Amu Darya basins in Northern Afghanistan.	TFBSO activities reports indicate that it successfully collected the 460 kilometers of seismic data required under the Afghan-Tajik and Amu Darya contract. During an interview with SIGAR, Mr. Brinkley, TFBSO's first director, stated that he issued a memorandum prohibiting seismic testing in northern Afghanistan. This memorandum was ignored or overturned by later directors.
Kushka Seismic**	$29,637,939.00	2012-2014	Similar to efforts to collect seismic reflection data within the Afghan-Tajik and Amu Darya basins in Northern Afghanistan, TFBSO twice contracted to collect data in the Kushka basin.	According to TFBSO, its first, firm fixed-price contract did not result in the collection of any seismic data from the Kushka basin due to security concerns and inclement weather. After granting several months of delays, in March 2013, TFBSO terminated this contract for default. In September 2013, TFBSO executed a second contract to collect seismic data in the Kushka Basin. TFBSO officials stated that TFBSO leadership proceeded with the second and more

Project	Project Cost	Dates Active	Purpose	Outcome
				expensive cost-plus-fixed-fee contract over the objections of the project managers and subject matter experts. The second contract ultimately failed for similar reasons as the first. TFBSO ended the contract following the collection of data on 52 kilometers of 300 contracted kilometers.
Landmine Removal**	$46,698.00	2011	TFBSO funded the removal of landmines at prospective hydrocarbon well sites in the Amu Darya basin.	The contractor cleared 41,200 square meters of landmines.
Enhancing Access to Energy Resources $82,337,139.15				
Compressed Natural Gas Station*	$42,718,739.00	2011-2013	This program funded the construction and operation of a compressed natural gas (CNG) fueling station, two dispensers, one CNG trailer filling point, car conversion center, administrative office building, and gas compression and processing equipment.	We found no indication that, prior to construction, TFBSO considered the feasibility of achieving the station's broader objectives or considered any of the potentially considerable obstacles to the project's success. The station was purportedly passed to a private company. However, kits to convert a vehicle to CNG cost the equivalent of the average Afghan's annual salary, leaving them out of reach for many Afghans.
Sheberghan - MeS Pipeline**	$39,618,400.15	2012-2014	The purpose of this project was (1) to rehabilitate the 45-year-old, 89.1-kilometer pipeline connecting the Khoja Gorgordak natural gas field near Sheberghan, Jowzjan province to the Northern Fertilizer and Power Plant in Mazar-e-Sharif, Balkh province; and (2)	With materials and technical assistance provided by TFBSO, AGE completed repairs for 12 of the 15 kilometers of pipeline targeted. USAID reported in July 2015 that AGE has not yet managed to complete the remaining 3 kilometers of planned repairs due to security concerns in the project areas. USAID and Department of State

Project	Project Cost	Dates Active	Purpose	Outcome
			to facilitate the construction of a new 89.1-kilometer pipeline to run alongside the old one.	officials say that they remain skeptical of the partially rehabilitated pipeline's safety.
				TFBSO reportedly expedited delivery of 94.5 kilometers of pipe for construction of the new pipeline. However, these construction materials remain unused at locations in Sheberghan and Mazar-e-Sharif. U.S. officials are unable to visit the Sheberghan location and confirm the status of these materials due to security concerns.
			Alongside these pipeline projects, TFBSO provided materials and support for the construction of an amine plant, for processing the sulfur out of natural gas, and a compressor facility, to increase the pressure of natural gas flowing through the Sheberghan pipelines.	TFBSO completed the compressor facility, and successfully constructed (but did not commission) the amine plant in 2014. A TFBSO subject matter expert stated that, at their current levels of knowledge and capacity, it would be "irresponsible" for the Afghans to operate and maintain the amine plant. He estimated that it would cost about $5 million to hire four expatriate contractors to perform operation and maintenance for this facility. USAID claimed that TFBSO's amine plant will be of limited use to the Afghan government, should it ever be commissioned, as it cannot remove certain corrosive contaminants prevalent in the gas produced in the Sheberghan area, and it does not have sufficiently high capacity.
Mineral Development Projects $72,859,440.64				

Project	Project Cost	Dates Active	Purpose	Outcome
Mineral Tenders**	$65,686,294.89	2010-2014	The purpose of this program was to provide the MOMP with commercial, technical, and legal expertise for the minerals tendering process. TFBSO expected these activities would result in at least eight new mineral contracts—ideally with reputable multinational mining companies with expertise in developing mines in post-conflict states—and improved capacity at the MOMP to execute future contracts.	TFBSO's mineral tender consultants, in conjunction with the U.S. Geological Survey (USGS) and the MOMP, identified four areas of interest for development, referred to as the "Round 1" tenders. TFBSO signed follow-on contracts in September 2012 in order to support the launch of tenders for four additional sites, referred to as the "Round 2" tenders. These projects were scheduled to begin in March 2013 and conclude before June 2014. TFBSO's Round 1 tenders required significantly more time than expected. As of July 2015, the Round 1 mineral tenders and cement tenders remained incomplete, and the Round 2 mineral tenders have not yet been launched. In a follow up response to our first audit, USAID reported that there is a very high probability that the Afghan government and MOMP will seek an independent legal review of the terms and structure of all mining contracts negotiated under the previous administration before finalizing these contracts. Furthermore, according to senior representatives from USAID's MIDAS program, the documents that TFBSO prepared for the Round 2 tenders are substantively incomplete and will require further work before the MOMP can utilize them in future tenders. Finally, even if TFBSO's tenders become finalized contracts, the tendering model that TFBSO followed does not appear to be sustainable for the Afghan government. In a report, MIDAS subject matter experts suggested that it might be 10 to 15 years

Project	Project Cost	Dates Active	Purpose	Outcome
				before any of the early-stage exploration projects currently underway will produce significant revenue for the Afghan government.
North Aynak Drilling**	$5,126,948.75	2012-2013	This program was designed to conduct capacity building and exploratory drilling for copper deposits in North Aynak.	The drilling program in North Aynak was completed successfully. The contract required the contractor to mobilize all equipment to the drilling site, conduct 1,500 meters of core drilling and 1,000 meters of reverse circulation, and then restore the drilling site to its approximate preexisting condition. According to the contractors' final report, 2,101 meters of core drilling and reverse circulation alongside 12 embedded Afghanistan Geological Survey (AGS) personnel was performed. SIGAR has been unable to determine if the exploratory drilling found significant copper deposits in North Aynak.
Lithium Drilling**	$1,823,336.00	2014	This program was designed to perform exploratory drilling for lithium deposits in Dasht-e-Newar, Ghazni Province.	In its *Activities Report to Congress for Fiscal Year 2014*, TFBSO stated that the lithium drilling project successfully confirmed the quality of lithium in the area. SIGAR has not conducted an independent analysis of the lithium drilling program.
Drill Training Support**	$222,861.00	2013	The purpose of this program was to develop and implement a training curriculum for the Chinese-manufactured drilling rigs that the MOMP owned but did know how to use.	Unplanned and unavoidable delays resulted in the completion of only 9.5 weeks of the planned 12-week curriculum. Nonetheless, the contractor reported that, as a result of the program, the AGS now has several operational drilling rigs as well as an adequate and experienced driller and crew who can operate drilling machines under

Project	Project Cost	Dates Active	Purpose	Outcome
				supervision. However, the contractor also voiced several concerns with the project, including the fact that the AGS did not appear to screen the trainees it nominated, resulting in the majority of the trainees being functionally illiterate and innumerate, and approximately half the trainees openly acknowledge that they only attended the drill rig trainings for the free lunches and salary benefits. Additionally, the contractor expressed reservations about the program length, which it felt was far too short. They wrote that training a person to become a driller who can safely and independently operate a drill can be a one- to two-year process, longer than the 3-month program executed by TFBSO.
Banking and Finance Support $69,219,230.00				
Banking and Financial Systems Development Support*	$69,219,230.00	2010-2012	The purpose of this program was to promote the electronic transfer of funds between government agencies and Afghan businesses. This program also resulted in the Economic Roundtable Conference, which pushed a holistic approach to business transformation in Afghanistan.	SIGAR has not conducted an independent analysis of the banking and financial systems development programs.
Business Advisory Sector Support $42,352,992.00				

Project	Project Cost	Dates Active	Purpose	Outcome
Business Incubator and Accelerator*	$42,352,992.00	2011-2014	The purpose of the program was to develop a Silicon Valley-modeled start up incubator in Afghanistan. As the program grew, it shifted to small-and-medium sized businesses, paying for consultants to work with enrolled businesses.	SIGAR is currently conducting a review of the business advisory programs and has found that the program lacked a way of measuring success and appears to be a failure. Mr. Bullion, a former director of TFBSO, stated that he refused to renew IBM's contract because IBM "did nothing" on the project ant that IBM staff were "never there."
			Capacity Building for MOMP and AGS $38,511,289.57	
USGS Support**	$36,157,563.18	2009-2014	The purpose of this program was to support USGS activities in Afghanistan. According to USGS officials, the USGS requires a sponsoring agency in order to conduct operations outside of the United States. USAID provided initial support to USGS, and TFBSO later became the sponsoring agency for the USGS activities in Afghanistan.	The USGS successfully compiled digital data for the 24 areas of interest, as well as an additional 33 sub-areas. USGS geologists and hydrologists performed laboratory studies and remote sensing studies within and outside the areas of interest. The USGS compiled these maps and data, along with digitized versions of older Soviet maps and records, into a new data center constructed by TFBSO at the AGS headquarters in Kabul. USGS led capacity-building efforts included database training, geographic information system software training, remote sensing training, and on-the-job training at field sites and at the AGS headquarters. However, TFBSO did not provide any program reporting that would be useful for assessing the successes or failures of these trainings. One USGS representative stated that, in their assessment, the AGS is now capable of producing new data and information packages without outside assistance. However, this

Project	Project Cost	Dates Active	Purpose	Outcome
				representative also said that security, funding, transportation, and infrastructure problems will continue to hinder AGS's work.
Contractor Support for Data Center**	$1,504,276.39	2010-2012	Provision of equipment and support to the creation and operation of the AGS data center in Kabul to contain USGS collected and analyzed geologic data.	The contractors provided equipment and support to the creation and operation of the AGS data center in Kabul. The AGS data center was turned over to the Afghan government when TFBSO concluded operations in Afghanistan at the end of 2014. The USGS collected and analyzed geologic data is available at the data center as well as on a related website.
Educational Exchange**	$500,000.00	2014	The purpose of this program was to update Kabul Polytechnic's mining curriculum and train its geology professors in contemporary mining practices. According to representatives from TFBSO and the MOMP, schools such as Kabul Polytechnic University needed this support because their curricula still reflected Soviet central planning practices.	TFBSO sponsored an intercollegiate information exchange between Kabul Polytechnic University and three international universities. Seven senior professors received training and then mentored younger associate professors. USGS officials also hosted several classes at Kabul Polytechnic that were open to anyone in the Afghan government who was involved or interested in the extractives industries. Although TFBSO did not provide us with program reports, TFBSO and USGS representatives both claimed that the training efforts at Kabul Polytechnic were highly successful. In an attempt to secure continued funding, TFBSO representatives say they met with State and USAID to try to reach an agreement for transitioning the program. However, none of these efforts were successful, and the program has been discontinued.

Project	Project Cost	Dates Active	Purpose	Outcome
BLM Support**	$349,450.00	2014	BLM provided training in support of USGS activities in Afghanistan.	BLM supported USGS activities in Afghanistan.
			Private Sector and Public Private Partnership $37,692,232.00	
Private Sector and Public Private Partnership Support*	$27,876,331.00	2012-2014	This program was designed to facilitate large investment projects by private sector actors and the Afghan government. TFBSO worked to bring international investors and the Afghan government together to create an independent power producer, a glass tempering facility, and develop a scrap steel industry.	SIGAR has not conducted an independent analysis of the Private Sector and Public Private Partnership programs.
Private Investment Support*	$9,815,901.00	2013-2014	This program was designed to vet and market small-to-medium sized businesses to the international investment community. Additionally, TFBSO helped the Afghan businesses with loan applications, financial models, and marketing materials.	SIGAR has not conducted an independent analysis of the Private Investment programs.
			Agriculture Sector Support $28,425,689.00	
Agricultural Diversification Support*	$28,425,689.00	2010-2013	The purpose of the program was to improve crop yields, quality, and distribution processes. TFBSO provided equipment; built facilities, including the	SIGAR has performed an inspection of the Gereshk cold storage facility constructed under this program and found it to be unused by Afghan farmers and businesses. SIGAR has not

Project	Project Cost	Dates Active	Purpose	Outcome
			Gereshk cold storage facility; and provided training to farmers and universities.	conducted a full, independent analysis of the remainder of the agricultural diversification programs.
			Local Industries Support $20,970,007.00	
Carpet Support*	$7,560,758.00	2011-2014	The program was designed to increase the sales of hand knotted carpets from Afghanistan through the construction of two cut and wash facilities, training in new weaving techniques with Afghan carpet businesses, and presenting products at tradeshows.	SIGAR has not conducted a full, independent analysis of the carpet support program. TFBSO claims to have created nearly 10,000 carpet weaving jobs through this program, however our initial analysis has left us questioning the veracity of this figure.
Artisanal Industry Support*	$7,316,112.00	2011-2014	The program was designed to develop a market for high-end artisanal gemstone, woodworking and ceramic products from Afghanistan in international markets. TFBSO focused on training jewelry makers, developing a market for Afghanistan branded jewelry, and generating employment.	SIGAR has not conducted a full, independent review of the artisanal support program. Initial analysis has found concerns related to the sustainability of the program, as well as personnel costs.
Cashmere Support*	$6,093,137.00	2012-2014	This program was designed to improve the quality and quantity of Afghan cashmere and increase Afghanistan's international profile. TFBSO worked to increase expertise at the farm level, obtain quality certifications for companies and technicians, and	SIGAR has not conducted an independent analysis of the cashmere support program. TFBSO's economic impact assessment (EIA) claims to have created 250 to 350 jobs with this program. Additionally, TFBSO worked with the Afghan government to ban the export of raw/greasy cashmere. According to SIGAR's initial analysis, TFBSO purchased 9 male goats from

Project	Project Cost	Dates Active	Purpose	Outcome
			increase product visibility at trade shows.	Italy, constructed a farming facility, and provided funding and built and staffed a laboratory to certify Afghan cashmere according to internationally-recognized standards.
			TFBSO Funded Reviews of Operations $20,643,214.90	
TFBSO Funded Reviews of Operations	$20,643,214.90	2010-2015	TFBSO or DOD TFBSO funded a series of reviews of its operations, management, and close-out. Boston Consulting Group was paid approximately $1.6 million, McKinsey and Company approximately $17 million for a series of assessments, Leidos approximately $2 million for an economic impact assessment (ultimately completed by Acertas LLC and Vestige LLC.), and RAND approximately $204,000 for another lessons learned report.	SIGAR has not conducted a full, independent review of TFBSO funded reviews of operations
			Village Stability Operations (VSO) $14,404,816.69	
Village Stability Operations Planning**	$14,349,916.68	2012-2013	The purpose of this program was to contract with private sector business to develop a concept of operations and provide management support for mining sector-oriented VSO projects. TFBSO intended for contractors to support Combined Joint Special Operations Task	TFBSO did not provide us with any documentation of activities for one contractor. According to the final monthly status report of a second contractor, remote sensing analysis was commissioned in order to identify tracts that might be favorable for future Village Stability Operations and coal exploration projects, as well

Project	Project Cost	Dates Active	Purpose	Outcome
			Force and Special Operations Task Force teams in training local partners in proper artisanal mining methods and identifying potential small scale mineral development opportunities in strategic villages.	as provide capacity building to AGS geologists. However, this contractor reported nearly every other Village Stability Operations milestone as incomplete or premature. Following the cancellation of TFBSO's first VSO project, the MOMP refused to approve any other TFBSO supported VSO projects. This resulted in the waste of remaining project funds.
Chromite Mining**	$54,900.01	2011-2012	TFBSO executed one Village Stability Operations-related project, for the purchases of chromite processing equipment to be utilized by artisanal miners in Khas Kunar, Kunar Province.	TFBSO purchased and rush delivered the chromite processing equipment between December 2011 and April 2012. TFBSO trained the local commander and deputy commander of the Afghan Local Police to set up a small chromite processing unit for the local community. When TFBSO officials later consulted with Afghan legal experts, they learned that the chromite facility violated the Afghan Minerals Law, which prohibits the granting of mining licenses to employees of the Ministry of Interior Affairs. A senior TFBSO official told SIGAR Investigations that, upon learning this, he wrote a letter to the Minister of Mines and Petroleum explaining the violation, and the project was later cancelled at the Minister's behest. Following the cancellation of this project, the MOMP refused to approve any additional TFBSO supported VSO projects.
Alternative Energy Development Support $11,042,402.00				
Micro	$10,792,492.00	2011-2012	The goal of this program was to connect	SIGAR has not conducted an independent

Project	Project Cost	Dates Active	Purpose	Outcome
hydroelectric Support*			the Tira Koh pumping station to a micro hydroelectric grid along with the capacity to expand to other grids.	analysis of the micro hydroelectric program. According to TFBSO's EIA, this project was cancelled before any gains were realized.
Biofuel Research**	$249,910.00	2010-2011	The purpose of this program was to fund an Afghan biofuels study.	SIGAR has not conducted an independent analysis of the Afghan biofuels program
Women's Advancement Support $10,856,233.00				
Women's Advancement Support*	$10,856,233.00	2011	The purpose of this program was to enhance women's involvement in the information, communications, and indigenous industries. The program worked to establish the International Center for Afghan Women's Economic Development at the American University of Afghanistan.	SIGAR has not conducted an independent analysis of the women's advancement programs.
Cross Program Support $5,917,173.60				
Transportation Support**	$5,519,464.00	2012-2014	The purpose of this program was to provide fixed and rotary wing transportation support for TFBSO initiatives.	SIGAR has not conducted an independent analysis of the transportation support program.
Accounting Transparency Support**	$215,000.00	2011	This program was designed to promote accounting transparency.	SIGAR has not conducted an independent analysis of the accounting transparency program.

Project	Project Cost	Dates Active	Purpose	Outcome
Advisory Support for Resource Exploration**	$159,793.92	2014	The purpose of this program was to provide natural resource exploration advisory support services.	SIGAR has not conducted an independent analysis of the mineral exploration advisory program as the contract was cancelled for the government's convenience.
Liaison Services**	$22,915.68	2010-2011	The purpose of this program was to provide a liaison between TFBSO and the Afghan government.	SIGAR has not conducted an independent analysis of the liaison services program
Industrial Development Support $451,760.00				
Industrial Development Support*	$451,760.00	2010-2012	The purpose of this program was to develop infrastructure in Afghanistan. The program built security infrastructure at Herat government buildings; constructed the Emaar Girls School, Herat Teacher's Training Institute, and Herat University's women's dormitory; and equipped the Lashkar Gah marble factory with grinding machines.	SIGAR has not conducted an independent analysis of the industrial development programs.
TFBSO Security Costs $148,000,000.00				
TFBSO Security Costs	$148,000,000.00	2010-2014	TFBSO paid security contractors to provide continuous security and life support services.	TFBSO utilized housing and life support functions outside of Embassy and DOD control. This allowed TFBSO employees and contractors greater freedom of movement throughout Afghanistan. SIGAR is currently conducting a

Project	Project Cost	Dates Active	Purpose	Outcome
				review of TFBSO's security costs.
Total:	$560,059,285.59			

Appendix III - January 12, 2016, Memorandum to the Senate Armed Services Committee

VESTIGE
CONSULTING, LLC

A Service-Disabled Veteran-Owned Small Business

12 January 2016

From: Robert Schraven
To: Senate Armed Services Committee
Subject: Compressed Natural Gas (CNG) Cost Breakdown

Thank you for meeting with me today as a follow-up to our meeting on 15 December 2015. The purpose of this memo is to provide the SASC with additional information related to the TFBSO Compressed Natural Gas Station that was referenced in the October 2015 SIGAR Report (SIGAR-16-2-SP). The table below includes roll up details related to the $43M total expenditure that was cited in the TFBSO Economic Impact Assessment (EIA) report prepared by Vestige/Acertas in December of 2014.

CNG Cost Breakdown (FY11-FY13)

ITEM	COSTS (USD)	DESCRIPTION
Direct	**$12,284,514**	
Construction Contracts	*$4,998,738*	*Contractor: Central Asian Development Group*
- Phase 1 - Station Construction & Car Conversion Kits	*$2,949,544*	
- Phase 2 - Generator Conversion & additional Car Conversion Kits	*$2,049,194*	
Subject Matter Expert (SME) Labor	*$7,285,776*	*Equal split between 5 TFBSO energy projects **
Overhead	**$30,011,706**	*Allocation of 47% of all TFBSO overhead ***
TOTAL	**$42,296,220**	

** 20% split was provided by TFBSO Energy team lead and assumes that all 5 energy projects were equal in size*
*** Allocation of Energy Team project overhead at 47% of total TFBSO overhead was provided by TFBSO Management*

The total SME labor for TFBSO energy project FY11-FY13 was $36,413,880. Per TFBSO guidance this SME labor was evenly allocated across all energy projects.

It has become apparent to all that the CNG Gas Station construction project involved a significantly lower level of SME effort and corresponding overhead than other energy projects (ie: four large tender support projects). A more accurate allocation is closer to 2%-4% versus 20%. This would put the total CNG station costs at well under $10M.

As the EIA Report highlights, overall, TFBSO Projects could lead to an additional $54.6B in GDP by 2025. Specifically, TFBSO Energy Sector Projects will have the largest impact to the Economy by 2025:

- GDP Growth from $53.2B to $75.3B

- Revenue to Afghan Economy in excess of $20B

In order for these results to be achieved it is imperative that the EIA report and associated economic model be readily shared with the Afghan government, the international community and continuously updated. This will enable and support the government to accomplish the following:

- effectively measure the progress that is being made on strategic projects;
- adjust funding of projects as necessary;
- ability to forecast future year funding in the appropriate strategic projects.

Appendix IV - Related Products

SIGAR

1. SIGAR, *DOD Task Force for Business and Stability Operations in Afghanistan: Preliminary Results Show Serious Management and Oversight Problems*, SIGAR 16-14-TY, January 20, 2016.
2. SIGAR, *Afghanistan's Oil, Gas, and Minerals Industries: $488 Million in U.S. Efforts Show Limited Progress Overall, and Challenges Prevent Further Investment and Growth*, SIGAR 16-11-AR, January 2016.
3. SIGAR, *DOD's Compressed Natural Gas Filling Station in Afghanistan: An Ill-Conceived $43 Million Project*, SIGAR 16-2-SP, October 22, 2015.
4. SIGAR, *Afghanistan's Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain* Investments *Made, $488 Million in Funding is at Risk*, SIGAR 15-55-AR, April 24, 2015.
5. SIGAR, *TFBSO Pipeline*, SIGAR 15-15-AL, December 11, 2014.
6. SIGAR, *Gereshk Cold and Dry Storage Facility: Quality of Construction Appears To Be Good, but the Facility Has Not Been Used to Date*, SIGAR 14-82-IP, July 16, 2014.
7. SIGAR, *High-Risk List*, December 2014.

Others

1. Center for Strategic and International Studies, *Final Report on Lessons Learned Department of Defense Task Force for Business and Stability Operations*, June 2010.
2. GAO, *DOD Task Force for Business and Stability Operations: Actions Needed to Establish Project Management Guidelines and Enhance Information Sharing*, GAO-11-715, July 29, 2011.
3. GAO, *Agencies Could Benefit from a Shared and More Comprehensive Database on U.S. Efforts*, GAO-13-34, November 7, 2012.
4. RAND National Defense Research Institute, *From Insurgency to Stability Volume I: Key Capabilities and Practices*, 2011.
5. RAND National Defense Research Institute, *Task Force for Business and Stability Operations Lessons from Afghanistan*, 2016.
6. Special Inspector General for Iraq Reconstruction, *Learning from Iraq*, March 2013.
7. Vestige Consulting, LLC and Acertas, LLC, *Economic Impact Assessment Task Force for Business and Stability Operations (TFBSO) in Afghanistan*, December 29, 2014.

John F. Sopko
Special Inspector General

John F. Sopko was sworn in as Special Inspector General for Afghanistan Reconstruction on July 2, 2012. Mr. Sopko, appointed to the post by President Obama, has more than 30 years of experience in oversight and investigations as a prosecutor, congressional counsel and senior federal government advisor.

Mr. Sopko came to SIGAR from Akin Gump Strauss Hauer & Feld LLP, an international law firm headquartered in Washington, D.C., where he had been a partner since 2009.

Mr. Sopko's government experience includes over 20 years on Capitol Hill, where he held key positions in both the Senate and House of Representatives. He served on the staffs of the House Committee on Energy and Commerce, the Select Committee on Homeland Security and the Senate Permanent Subcommittee on Investigations.

In his most recent congressional post, Mr. Sopko was Chief Counsel for Oversight and Investigations for the House Committee on Energy and Commerce, chaired by Rep. John D. Dingell (D-Mich.), during the 110th Congress. There, he supervised several investigations focused on matters regulated by the Food and Drug Administration, Department of Energy, Department of Commerce, Federal Communications Commission, Federal Energy Regulatory Commission, U.S. Commodity Futures Trading Commission and Consumer Product Safety Commission.

Mr. Sopko also served as General Counsel and Chief Oversight Counsel for the House Select Committee on Homeland Security, where he focused on homeland security and counter-terrorism investigations and issues.

At the Senate Subcommittee on Investigations, chaired by then-Sen. Sam Nunn (D-Ga.), Mr. Sopko conducted investigations on a broad range of issues, from healthcare insurance to complex weapons systems. From 1982 to 1997, Mr. Sopko led investigations for the chairman and subcommittee members that included a multi-year investigation related to health insurance; union infiltration by organized crime; protection of critical infrastructure; the potential spread of weapons of mass destruction in the former Soviet Union and elsewhere; enforcement of the Foreign Corrupt Practices Act; cybersecurity; international drug interdiction programs; counter-terrorism policies and procedures; government procurement fraud and the illegal export of dual-use technologies.

After his work in the Senate, Mr. Sopko was recruited by the Commerce Secretary to manage the department's response to multiple congressional, grand jury and press inquiries. While at the Commerce Department, Mr. Sopko was named Deputy Assistant Secretary for Enforcement for the Bureau of Export Administration, and Deputy Assistant Secretary for the National Telecommunications and Information Administration.

Mr. Sopko previously served as a state and federal prosecutor. As a trial attorney with the U.S. Department of Justice Organized Crime and Racketeering Section, he conducted numerous long-term grand jury investigations and prosecutions against organized crime groups. He was the lead attorney in the first successful federal RICO prosecution of the entire leadership structure of an American La Cosa Nostra crime family. In 1982 he received the Justice Department's Special Commendation Award for Outstanding Service to the Criminal Division, and in 1980 he received the department's Special Achievement Award for Sustained Superior Performance.

Mr. Sopko began his professional career as a state prosecutor in Dayton, Ohio, with the Montgomery County prosecutor's office. He served as an adjunct professor at American University's School of Justice, where he received the Outstanding Adjunct Faculty Teaching Award in 1984 and the Professor of the Year Award in 1986. He received his bachelor's degree from the University of Pennsylvania in 1974, and his law degree from Case Western University School of Law in 1977. He is a member of the bars of Ohio and the District of Columbia.

April 15, 2016

Expected Release

9:00am

Statement of
Jacqueline L. Wicecarver
Acting Deputy Inspector General for Auditing
Department of Defense Office of Inspector General

before the

Subcommittee on Oversight and Investigations
House Armed Services Committee

on

Defense Logistics Agency Product Aviation Processes to Obtain Restitution from Contractors that Provide Defective Spare Parts

Good morning Chairwoman Hartzler, Ranking Member Speier, and distinguished members of the Subcommittee. Thank you for the opportunity to appear before you today to discuss our audit, Report Number DODIG-2016-052, of Defense Logistics Agency (DLA) Aviation processes to obtain restitution from contractors that provide defective spare parts. I request that this report be submitting for the record.

We initiated a series of audits on DLA Product Quality Deficiency Report (PQDR) processing based on our research that showed several potential problems involving the PQDR processing, DLA contract management, and warfighter support. The first two audits in this series focused on the DLA Aviation supply chain.[1] A third on-going audit is focusing on the DLA Land and Maritime supply chain.[2]

Background

DLA provides the U.S. military and combined allied forces with logistics, acquisition, and technical services, including providing more than 85 percent of the military's spare parts. DLA Aviation is DoD's integrated materiel manager for more than 1.1 million repair parts and operating supply items in support of all fixed- and rotor-wing aircraft. DLA Aviation purchases spare parts from contractors, stores the parts in DLA distribution depots, and sells and issues parts to DoD customers. DoD organizations use PQDRs to report defective parts that result from deficiencies in design, workmanship, specifications, material, or other nonconforming conditions.

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[1] Report No. DODIG-2015-140, "Defense Logistics Agency Can Improve Its Product Quality Deficiency Report Processing," July 1, 2015, and DODIG-2016-052, "Defense Logistics Agency Aviation Can Improve its Processes to Obtain Restitution From Contractors That Provide Defective Spare Parts," February 23, 2016.
[2] Audit of Defense Logistics Agency Land and Maritime Product Quality Deficiency Report Processing (Project No. D2016-D000AG-0085.000)

Our objective for the Audit of Defense Logistics Agency Aviation Product Quality Deficiency Report Processing was to determine whether DLA Aviation personnel were adequately processing PQDRs and obtaining appropriate restitution (reimbursement) from contractors that provided defective spare parts. As part of this audit we also determined whether DLA personnel adequately removed the defective parts from the DoD supply system. During the audit we reviewed a statistical sample of 65 stock numbers for which DoD customers submitted PQDRs and DLA investigations identified contractor fault for causing defective parts.[3] Our audit did not include the identification or investigation of counterfeit or substitute parts. However, when DLA encounters potential counterfeit or substitute parts it refers the matter to the DLA Counterfeit Material and Unauthorized Product Substitution team, which engages the DoD Defense Criminal Investigation Service, if warranted. The Defense Criminal Investigation Service is the criminal investigative arm of the DoD OIG.

Overall, we found that DLA Aviation did not pursue and obtain appropriate restitution from contractors who supplied defective parts.[4] In addition to our finding from DODIG-2015-140, DLA Aviation did not adequately process and properly code the deficiency reports to reflect the root causes of the deficiencies, in DODIG-2016-052, we found DLA Aviation did not pursue and obtain appropriate restitution from contractors who supplied defective parts.

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[3] The scope of our review included 312 stock numbers with associated PQDRs closed between January 2014 and June 2014. Based on the results of our finding for the 65 sample items, we projected 269 stock numbers for which contractors supplied defective parts.

[4] For DODIG-2016-052, we defined the term restitution to mean the value of parts the PQDR investigation determined to be defective as a result of contractor noncompliance. Restitution can be in the form of replacement parts, refunds, or voluntary consideration obtained in accordance with acquisition regulations. For all instances where DLA Aviation pursued restitution for our sample items, the restitution was generally in the form of replacement parts, not refunds or consideration.

Pursuing and Obtaining Restitution for Defective Parts

When a DoD customer submits a PQDR for a defective part, DLA conducts an investigation to determine the cause of the defect. When DLA's investigation determines that a contractor caused the defect, DLA logistics operations and acquisition personnel should complete the following steps:

- contact the contractor and request restitution;
- adequately search DoD's inventory to identify and remove all defective parts on the associated contract(s);[5]
- obtain a monetary refund or return the defective parts to the responsible contractor for repair or replacement, and
- track the status of all parts returned to the responsible contractor for replacement (if restitution was in the form of replacement parts) and ensure that serviceable replacement parts are provided.

In most cases, failure to successfully complete any of these steps will prevent or limit DLA's ability to pursue and obtain appropriate restitution for the defective parts. Through our audit efforts, we found failures in the above processes occurred because of inadequate DLA policy and ineffective communication among personnel involved in all steps of processing PQDRs and pursuing and obtaining restitution. For example, we determined that DLA Aviation quality assurance personnel did not coordinate with acquisition personnel to contact responsible contractors as part of the PQDR investigations. In addition, DLA lacked sufficient oversight and

[5] This involves searching existing stock on hand at all 24 of DLA's distribution depots for additional defective spare parts provided on the contract(s) and notifying DoD customers who purchased the defective parts to have them search their on-hand inventory.

controls over the process to ensure the completion of all necessary steps. For example, quality assurance supervisors did not always ensure that quality assurance specialists completed the necessary steps during PQDR investigations. In addition, DLA lacked controls to ensure that all defective parts were returned to the contractor by logistics operations personnel and adequately tracked by acquisition personnel.

In addition, the shortcomings in DLA Aviation's PQDR processing left defective parts unaccounted for in the DoD supply system, negatively impacting warfighter readiness and safety. Overall, we projected DLA Aviation did not pursue and obtain appropriate restitution for a projected 269 stock numbers for which contractors supplied defective parts. As a result, we projected that DLA Aviation did not recover at least $12.3 million in restitution.[6] By not receiving appropriate restitution for defective parts, DLA may spend additional funds to purchase needed parts to replace the defective parts and to replenish its supply levels.

For example, we reviewed a PQDR investigation for tie-down straps valued at about $1 per hundred straps. Despite the low cost, these items were considered critical application items and were used to attach oxygen hoses to pilot's helmets. The 412th Maintenance Group, Edwards Air Force Base, CA., identified deficient tie-down straps on a PQDR and stated that the ties broke and did not hold the oxygen hose to the oxygen mask, causing loss of oxygen to aircrew members during flight. The PQDR investigation determined that the contractor was responsible for the defect, and the contractor delivered 52,314 tie-down straps on the associated contract. DLA Aviation quality assurance reviewed multiple PQDRs, searched the DLA distribution depots, and located only 16,701 of the defective tie-down straps. The remaining 35,613 tie-down

[6] $12.3 million represented the projected value of the defective parts that were not replaced or refunded and does not include any additional amounts associated with consideration or voluntary refunds.

straps purchased off the contract were unaccounted for, and DLA Aviation's quality assurance personnel did not alert other customers who purchased the defective tie-down straps nor request a search of DoD's inventory. The defective tie-down straps potentially jeopardized the safety of the aircrew.

DLA agreed to develop a plan to review all stock numbers with associated PQDRs closed from January 2014 through November 2015 where the investigation indicated that the PQDR was valid and that the deficiency was due to a contractor noncompliance. In addition, the plan will address how DLA Aviation will take steps to identify high-value, critical safety items, and take prompt action to pursue appropriate restitution and to ensure that related defective parts are removed from the DoD supply system once the population is identified.

In another example, we reviewed a PQDR investigation for three defective co-pilot control wheels for the C-5 aircraft valued at $35,909 each. The 436th Maintenance Group, Dover Air Force Base, initiated the PQDR and stated that the improperly manufactured parts prevented the control wheel hub assembly from being installed properly. The complaint further stated that continuously changing the component had consumed numerous valuable hours and effort that caused a work stoppage with completing the required maintenance task. The PQDR investigation determined that all 30 parts provided on the contract were defective and that the contractor was at fault. The contractor replaced 3 parts from the PQDR and agreed to replace the remaining 27 parts upon their receipt. DLA Aviation searched the DLA distribution depot inventory in March 2014 and identified that 23 of the remaining defective control wheels were being stored at the DLA distribution depot in Warner Robins, Georgia. DLA Aviation instructed the DLA distribution depot to ship the parts back to the contractor.

However, DLA Aviation officials did not respond to our inquiries about the 23 control wheels and DLA transaction data showed that the defective control wheels were never shipped from the DLA distribution depot in Warner Robins. Accordingly, DLA Aviation could not produce any evidence that it received restitution for 23 of the 27 defective parts, valued at $825,907. In addition, DLA Aviation did not notify the other customers who purchased the remaining 4 of the 27 defective control wheels nor requested a search of DoD's inventory for the unaccounted parts. As a result, the shortcomings in DLA Aviation's PQDR processing left defective parts unaccounted for in the DoD supply system, potentially requiring additional maintenance and delays in the return of the aircraft to mission ready condition, thereby negatively impacting warfighter readiness and safety.

Recommendations

We made a total of five recommendations to DLA Headquarters to address the deficiencies identified during the audit. Specifically, we recommended that the Director, DLA, develop a plan of action with milestones to improve the agency's processes to identify defective spare parts and pursue and obtain restitution from contractors that provide defective spare parts. The plan should address the findings our report identified and establish controls and oversight to ensure DLA Aviation logistics operations and acquisition personnel:

- coordinate and pursue restitution from contractors that provide defective parts;
- adequately search all DoD's inventory to identify and remove defective parts;
- return defective parts to responsible contractors for replacement;
- track the status of defective parts shipped back to contractors and ensure that appropriate restitution is provided in the form of replacement parts; and

- review all stock numbers with associated product quality deficiency reports closed from January 2014 through November 2015 where DLA investigations concluded that the contractor provided defective parts, take prompt action to pursue and obtain appropriate restitution, and remove all defective parts from the DoD supply system.

The Director, DLA, agreed with our recommendations and stated that DLA will complete corrective actions by March 31, 2016. As of April 8, 2016, DLA had not provided a formal written response outlining the status of the corrective actions. However, a DLA official overseeing implementation of the corrective actions informed the audit team that DLA has several corrective actions either planned or in progress. These actions included updated guidance, expedited training, system changes, black belt initiatives, and a deep dive review of all PQDRs.

Conclusion

DLA Aviation did not pursue and obtain appropriate restitution from contractors that supplied defective parts. In addition, the shortcomings in DLA Aviation's PQDR processing left defective parts unaccounted for in the DoD supply system, negatively impacting warfighter readiness and safety. We made recommendations to DLA to improve its processes for pursuing and obtaining restitution from contractors that provide defective parts and for identifying and removing defective parts from the DoD supply system. DLA agreed with our recommendations and is in the process of completing corrective actions. As stated earlier, we have an on-going audit to determine if similar problems exist at the DLA Land and Maritime supply chain. This concludes my statement and I would be happy to answer any questions you may have regarding this audit.

Jacqueline L. Wicecarver
Acting Deputy Inspector General for Auditing
Department of Defense

Ms. Wicecarver was named Acting Deputy Inspector General for Auditing in January 2016. Previously, she served as the senior executive in charge of providing oversight to DoD acquisitions. She was appointed to the Senior Executive Service in December 2011.

Ms. Wicecarver began her tenure with the Department of Defense, Office of Inspector in June 1990. She was the Program Director for the DoD Acquisition and Contract Management Program Audits from March 2004 to January 2011. As Program Director, Ms. Wicecarver focused on a wide variety of acquisition and contract management challenges facing the Department of Defense and led numerous acquisition and contract related audits.

Ms. Wicecarver is a recognized Department of Defense acquisition executive who has led numerous audits resulting in billions of dollars in monetary benefits. She has been awarded the Distinguished Civilian Service Award, the Meritorious Civilian Service Award, and the President's Council on Integrity and Efficiency Award for her achievements. Ms. Wicecarver is a graduate of the Federal Executive Institute and holds a Level III Internal Acquisition Certificate. She is a certified Information Security Specialist.

Prior to joining the DoD IG, Ms. Wicecarver worked for the U.S. Air Force as an accounting and finance manager, and for the U.S. Army as a technician performing logistics engineering, comptroller, and accounting and finance functions.

WRITTEN STATEMENT OF

MR. CHARLIE LILLI

DEPUTY COMMANDER, DLA AVIATION

BEFORE THE

OVERSIGHT & INVESTIGATIONS SUBCOMMITTEE

OF THE

HOUSE ARMED SERVICES COMMITTEE

APRIL 15, 2016

FOR OFFICIAL USE ONLY
UNTIL RELEASED BY THE
HOUSE ARMED SERVICES COMMITTEE

Good morning, Chairwoman Hartzler, Ranking Member Speier, Distinguished Members of the Subcommittee. I am Charlie Lilli, the Deputy Commander of Defense Logistics Agency Aviation. Headquartered in Richmond, Virginia, DLA Aviation is a field activity of the Defense Logistics Agency, the Department of Defense's combat logistics support agency.

DLA's mission is to provide effective and efficient global solutions to Warfighters and our other valued customers. Our primary focus is supporting America's Soldiers, Sailors, Airmen and Marines. We are a global enterprise and manage nearly 5.1 million line items via 9 supply chains through which we provide virtually every consumable item our military forces require, including food, fuel, medical supplies, uniform items, construction equipment and weapon systems repair parts. In fact, we supply the Military Services with 86% of their repair parts, supporting more than 2,300 weapons systems.

DLA Aviation is the lead for more than 1,340 aviation platforms and systems and acts as the U.S. military's integrated materiel manager for more than 1.2 million national stock numbered items, industrial retail supply and depot-level repairable acquisitions. Last year, we delivered repair parts valued at roughly 4.2 billion dollars, procuring those items from more than 4,500 unique suppliers.

On average, we receive 2,400 deficiency reports annually and of those about 20% , or about 480 reports, represent defective material. We take very seriously our responsibilities to identify and prevent defective parts from entering into the supply chain and to ensure we are good stewards of taxpayer dollars.

We appreciate this opportunity to discuss the findings of the February 23, 2016, DOD-IG Report and inform you of the actions we have taken and will take to improve our processes to obtain restitution from contractors that provide defective spare parts to the United States government.

We recognize the issues identified in the report and concur with their recommendations. We agree the oversight and management control of this program needs to be strengthened and have taken action as recommended by the IG. Our first priority was and is to ensure defective parts are removed from the supply chain to mitigate any impact on warfighter readiness and safety. To that end, we immediately reviewed the entire population of Product Quality Deficiency Reports received at DLA Aviation over the last 24 months and took the necessary action to segregate and freeze defective stock until proper disposition could be determined. In addition, we alerted customers about the deficiencies and provided them with interim disposition instructions.

As a result of the findings documented in the draft report published in October of last year, we have taken a number of actions to begin addressing this issue.

First, we updated our desk top guides based on best practices across the

DLA enterprise. These guides provide step-by-step procedures to ensure that material is dispositioned as required.

Second, we conducted training with all personnel involved with the proper processing of deficiency reports and the new procedures implemented in the updated guides.

Third, we developed a plan to pursue restitution of any material or funds the government is entitled and will execute that plan over the next 6 months.

Finally, we established both first line and senior leader oversight procedures, corporate metrics and a surveillance program to enable us to more effectively manage this program in the future.

As an enterprise, the Director of Logistics Operations directed all DLA supply chains conduct a comprehensive review of deficiency reports received since January 2014 to validate removal of deficient items from inventories.

In addition, DLA established an agency-wide Supplier Restitution Working Group consisting of a cross-functional team which will thoroughly evaluate requirements for enhanced oversight of the PDQR process, examining from a process and system level what changes would improve the visibility and facilitate the resolution of these cases. This team will work to identify process improvements and deliver recommendations to DLA leadership.

Madam Chairwoman, distinguished committee members, we have gained valuable insight from the DOD-IG, and we appreciate any feedback that improves our support to the Warfighter and strengthens our management controls. As a retired Navy flag officer, father of two daughters in the Naval officer corps, and the father-in-law of a Marine V-22 pilot currently deployed to the Middle East, I assure you no one takes this issue more seriously than I do.

Thank you for the opportunity to testify today. I welcome your questions.

Charlie Lilli
Deputy Commander
DLA Aviation

Charlie Lilli is the Deputy Commander of DLA Aviation, a field activity of the Defense Logistics Agency. Headquartered in Richmond, Va., and operating at 18 other sites across the United States, DLA Aviation is the aviation demand and supply chain manager for Defense Logistics Agency with more than 3,500 civilian and military personnel.

DLA Aviation supports more than 1,900 weapon systems, with focused support to 143 major weapon systems, and is the U.S. military's integrated materiel manager for more than 1.1 million national stock number items, industrial retail supply and depot-level repairable acquisitions. Mr. Lilli, along with the DLA Aviation Commander, oversees an aviation demand chain responsible for more than $3.8 billion in annual sales.

Positioned alongside its military customers, DLA Aviation manages industrial support activities at Robins Air Force Base, Ga., Tinker AFB, Okla., Hill AFB, Utah, Marine Corps Air Station Cherry Point, N.C., Naval Air Station North Island, Calif., and NAS Jacksonville, Fla.

DLA Aviation also manages depot-level repairable procurement operations at Robins, Tinker and Hill Air Force Bases; Naval Supply Systems Command (NAVSUP) Weapon Systems Support, Philadelphia; and at Redstone Army Arsenal, Ala.

DLA Aviation also operates an industrial plant equipment maintenance, repair and overhaul facility at Mechanicsburg, Pa.

Prior to assuming his current position, Mr. Lilli was the Director of Sustainment and Supply Chain Integration for Lockheed Martin.

Mr. Lilli served 28 years on active duty in the United States Navy, as a member of the Supply Corps, retiring at the rank of rear admiral. In his last active duty assignment Mr. Lilli was assigned as Director of Supply, Ordnance and Logistics Operations in the Office of Chief of Naval Operations.

Other assignments included duty as Director of Logistics and Engineering, Headquarters North American Aerospace Defense Command and United States Northern Command at Peterson Air Force Base, Colo. and Commander, Defense Supply Center Columbus, Ohio.

Mr. Lilli also served on four ships during his naval career: the USS California (CGN 36), USS Kidd (DDG 993), USS Supply (AOE 6) and USS Essex (LHD 2).

A native of East Stroudsburg, Pa, he received his bachelor's degree in political science from Muhlenburg College, Allentown, Pa. in 1980 and a master's degree in inventory management from the Naval Postgraduate School, Monterey, Calif. in 1992.

DOCUMENTS SUBMITTED FOR THE RECORD

APRIL 15, 2016

Not for Public Release until Approved by the
House Armed Services Committee

STATEMENT OF

BRIAN P. MCKEON

PRINCIPAL DEPUTY UNDER SECRETARY OF DEFENSE

FOR POLICY

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Chairwoman Hartzler, Ranking Member Speier, and Members of the Subcommittee, I regret that I am unable to appear at this hearing, due to a longstanding family plan to be on personal leave outside Washington this day.

My testimony will address several subjects – the history of the Task Force for Business and Stability Operations (TFBSO), including the decision to close it down, OSD Policy's engagements with the Special Inspector General for Afghanistan Reconstruction regarding the work of the Task Force, some specifics of the Compressed Natural Gas Station project, TFBSO's security expenditures, the Cashmere Goat Textile project, and finally, lessons learned.

I was not serving in the Department of Defense for most of the period of the operation of the Task Force. I have reviewed many reports, including reports by SIGAR, some of the records of the Task Force, and spoken to many former senior U.S. officials, civilian and military, involved in Afghanistan policy during the operation of the Task Force in Afghanistan, including Generals McChrystal, Petreaus, and Allen, and Ambassadors Eikenberry and Crocker.

These conversations make clear that there was a strong demand signal from the field, strong support in the Pentagon, and strong support in the government of Afghanistan, for the work of the Task Force, the objective of which was to assist the government of Afghanistan to generate economic activity in support of the military campaign plan. Many of the commanding generals in Afghanistan had seen the work of the Task Force in Iraq, and welcomed its contributions in Afghanistan.

The Task Force was, in a sense, expeditionary, operating not under Chief of Mission authority but under authority of the military commander. This unique status gave them a certain freedom to move around the country and engage more directly with Afghans than employees of the U.S. Embassy.

During the course of its operation in Afghanistan, the Task Force obligated close to $800 million and disbursed over $600 million, which was roughly evenly divided between projects and support costs. These support costs are undoubtedly higher in Afghanistan due to the security requirements of operating in a war zone. The Task Force's work in Afghanistan was focused on a few major lines of effort, particularly efforts to assist Afghanistan benefit from its mineral resources and fossil fuels.

Time will tell whether the Task Force succeeded in its objectives. Independent assessments tell us that it had mixed results, with some successes and some failures. We welcome continued oversight of the Task Force to help us understand lessons that can be applied to any future contingency operation.

I. History of the Task Force for Business and Stability Operations

The origins of the Task Force for Business and Stability Operations are rooted in the chaos of Iraq in 2006, before President Bush ordered the military surge early in 2007.

On June 22, 2006, Deputy Secretary of Defense Gordon England issued a memo entitled "Accelerating Reconstruction and Stability Operations in Iraq." The memo stated that the formation of a government in Iraq had created a "short window to accelerate stabilization and reconstruction operations." Toward that end, Deputy Secretary England appointed Paul Brinkley, then Deputy Under Secretary of Defense for Business Transformation, to head a Task Force to Support Improved DoD Contracting and Stability Operations in Iraq. As the name implied, it was charged with adapting and unifying military contracting in Iraq such that the Task Force could become an engine for stability through economic development and job creation. The mandate of the Task Force was also to look forward to examine possible changes to acquisition law and practice to address future contingency operations, as well as to accelerate the definition of contingency operations doctrine in the business mission area. In short, the Task Force was born from the concept that economic development and job creation were necessary conditions for building a stable and secure Iraq.

On March 11, 2009, Secretary Gates issued a memo indicating that he had asked Mr. Brinkley to continue the Task Force's economic revitalization efforts in Iraq for "an appropriate transitional period into the new Presidential Administration" and shifted the chain of command to have Mr. Brinkley report directly to him.

A year later, on March 25, 2010, Secretary Gates issued a new memorandum, directing that Mr. Brinkley extend the efforts of the Task Force to support Operation ENDURING FREEDOM, and directing that it focus on "development of economic opportunities including private investment, industrial development, banking and financial system development, agricultural diversification and revitalization, and energy development."

Later that same year, some uncertainty about the status of the Task Force arose when the Office of General Counsel cast doubt on the legal authority of the Department of Defense to conduct economic development activities in a foreign country, as they appeared to be inconsistent with the Department's authorities. Many activities of the Task Force were suspended.

Congress clarified the situation in the FY 2011 National Defense Authorization Act, providing statutory authority for activities of the Task Force in Afghanistan. The NDAA provided, however, that this authority would expire on September 30, 2011, and directed a plan to transition the activities of the Task Force to the Department of State and the U.S. Agency for International Development.

The sunset provision caused an impression within the Department that the Task Force would continue only through Fiscal 2011, and contributed to a decision by Mr. Brinkley and other senior staff at the Task Force to depart in the summer of 2011. Consequently, Senators Levin and McCain, then the Chairman and Ranking Member of the Senate Armed Services Committee, wrote to Secretary Gates on April 19, 2011, stating that the NDAA provision should not be read as requiring the shutdown of the Task Force. Citing congressional testimony in support for the Task Force by then-Chairman of the Joint Chiefs Michael Mullen and by General David Petraeus, the two senators urged the Department to keep the Task Force in operation so that it could "continue to serve as an important strategic tool for General Petraeus' counterinsurgency campaign in Afghanistan."

On August 10, 2011, Secretary Panetta issued a new memo, underscoring that the activities of the Task Force remained "critical to the current mission in Afghanistan." The memo altered the reporting chain, and required the Director of TFBSO to report directly to the Under Secretary of Defense for Policy. The Task Force was further directed to emphasize areas of indigenous industries, mineral development, and energy development.

Consistent with the transition recommendation provided to Congress on May 1, 2012, indicating the agreement of the State Department, USAID, and DoD that Task Force operations should continue through 2014, Secretary Panetta issued a memorandum on October 18, 2012, reiterating TFBSO's mission and the expectation that it would continue through 2014, stating that, "TFBSO will focus on developing economic opportunities, including mining sector development, private sector investment, and industrial development."

In the FY 2014 NDAA, Congress made a parallel amendment to law, authorizing the Task Force through calendar 2014. The Senate report on the legislation said that the TFBSO "has contributed to the stability of Afghanistan's economy, particularly the development of its mining sector."

Consistent with this statutory provision, policy guidance, and plans to drawdown U.S. force levels in Afghanistan, the Task Force ceased operations in Afghanistan in December 2014. The Task Force requested authority for an additional three-month administrative sunset period, during which a small number of Task Force employees engaged in close-out activities, as well as responded to information requests by SIGAR.

Shutting down the Task Force – records management, audits, and lessons learned

Regarding DoD's oversight of TFBSO activities, at the outset, I would make two broad points.

First, I wish to emphasize that TFBSO did not have independent contracting authority. All Task Force contracting and disbursement of funds and other support functions were handled by U.S. Army Central (ARCENT), by a DoD headquarters element, or by other U.S. government contracting offices.

Second, I can only speak to the period of oversight by the Office of the Under Secretary for Policy, which commenced in August 2011. I have spoken to all of my predecessors, all of whom reported that they had regular meetings with Task Force leadership and that the Deputy Assistant Secretary of Defense for Afghanistan and Pakistan also engaged closely on all activities. This level of oversight and engagement is similar to that is provided by OSD Policy to the two defense agencies and one field activity that report to the Under Secretary. I have no insight into the oversight during the period that the Task Force reported directly to the Secretary or Deputy Secretary.

In 2014, the Task Force focused its efforts on bringing projects to completion or getting them to a point where the Afghan government or another U.S. entity might be able to continue the Task Force's work. From the Office of the Under Secretary of Defense for Policy's perspective, the emphasis during that period was on ensuring an orderly and responsible shutdown, including an effort to gather lessons learned.

In February 2014, with the departure of the Task Force Director, the Deputy Director was appointed Acting Director. He commissioned two studies: the RAND Corporation was hired to conduct a study of lessons learned, while Vestige Consulting, LLC was hired to conduct an Economic Impact Assessment of Task Force work. This latter project was completed December 29, 2014. The RAND study was completed last fall and published January 12, 2016.

On April 7, 2014, Assistant Secretary of Defense (Special Operations & Low Intensity Conflict) Michael Lumpkin, then Performing the Duties of the Under Secretary of Defense for Policy, asked the DoD Inspector General (IG) to perform an overarching audit of the Task Force's operations, financial actions, and contracts to "help to ensure DoD captures lessons learned and closes the TFBSO books efficiently." On August 26, 2014, the DoD IG replied that it could not undertake the requested audit based on limited resources and the need to focus its efforts "on projects with the greatest potential return on investment."

Under Secretary Wormuth and I assumed our current positions in OSD Policy in the summer of 2014. Ms. Wormuth began her service as Under Secretary in late June, and I assumed the role of her Principal Deputy in mid-August. I oversaw the closure of the Task Force.

After my arrival in August, until the final administrative closeout in March 2015, I met every few weeks with the Acting Director of the Task Force. My primary focus in these meetings was on ensuring the orderly shutdown of the Task Force and the responsible preservation of the records. In the fall of 2014, I requested that the Washington Headquarters Services (WHS), which provided administrative and financial support services for the Task Force, undertake a closeout audit of the Task Force.

WHS developed a statement of work, solicited contract support, and awarded a contract to conduct an independent audit of the TFBSO operations. The audit focus was to validate and fully support forensic documentation of TFBSO's operation from inception to closure. WHS awarded this contract to the firm of Williams Adley. It began work in early January 2015, and provided a final report on April 30, 2015. The final report was entitled "Agreed-Upon Procedures Report for the Task Force for Business and Stability Operations in Afghanistan." The agreed-upon procedures were developed to support WHS's management objective of determining whether TFBSO transactions were in compliance with Authorization Acts and fiscal guidance. These procedures where arranged, and agreed to, between Williams Adley (the contractor) and WHS (the client) The audit results concluded that while there were transactional discrepancies, there were no identifiable material weaknesses, deficiencies, or reportable conditions of the procedures and/or practices that guided TFBSO's financial operations.

OSD Policy Engagement with SIGAR in 2014 and 2015 regarding TFBSO

In 2014, the Task Force provided SIGAR with several tranches of documents and content, in response to specific queries, on the Task Force's extractives industry programs.

In late November 2014, a media account in a defense trade publication reported that Mr. Sopko intended to conduct an in-depth review of the TFBSO, which he asserted had been an "abysmal failure" and that, as far as he could determine, had "accomplished nothing." On December 9, 2014, I phoned Mr. Sopko, and explained that following the administrative sunset period, the Department would not be in a position to retain TFBSO personnel for the purpose of responding to SIGAR requests.

The SIGAR sent a letter to me the following day, requesting the preservation of Task Force records to enable ongoing SIGAR work. As noted, records preservation was already a focus of shutdown efforts.

On January 15, 2015, the TFBSO staff provided information requested by SIGAR the previous December regarding travel and spending by Task Force employees and contractors, information on the program working with indigenous jewelry makers, the Economic Impact Assessment contract and draft deliverable, and copies of other consulting contracts. On January 29, 2015, SIGAR requested significant additional information on all Task Force work, including a list of all Task Force employees and their titles from 2010 to the present. All of the requested information was provided on March 3, 2015. During this period, SIGAR staff continued to interview a number of TFBSO staff, including the Acting Director.

On March 30, 2015, I sent a letter to SIGAR with information regarding TFBSO records preservation, the location of the records, and points of contact following the March 31, 2015, closedown. On March 31, 2015, the sunset period was concluded and all records had been provided to WHS Executive Archives. At that point, the Task Force ceased to exist.

SIGAR's release of CERP data

On May 18, 2015, we discovered that a media organization had published nearly 18,000 records on projects DoD implemented in Afghanistan under the Commander's Emergency Response Program (CERP) on its website. The data, which the media organization received pursuant to a Freedom of Information Request (FOIA) submitted to SIGAR, included names and, in some cases, contact information for U.S. military personnel and civilians and Afghan civilians who received CERP funding.

OSD expressed concern to SIGAR about the release of this information, and the security implications for our personnel and our Afghan partners. SIGAR's Chief of Staff conceded by email that the release was a breach of policy saying, "The SIGAR FOIA clerk who handled this request did not follow SIGAR's procedures for processing FOIA requests. She is no longer with the agency. I am consulting with SIGAR's Office of General Counsel about this issue, but any future FOIA requests for data will be held until we can resolve how to handle the data." SIGAR requested DoD assistance to review the data, as SIGAR contended that it was too big a project for them to handle in way that fully addressed DoD concerns. The Department also asked the media organization to remove the data from its website.

Engagement regarding the compressed natural gas station

Also on May 18, 2015, DoD received a letter from SIGAR requesting additional information on the compressed natural gas (CNG) station project that is the subject of this hearing. The Task Force had already provided extensive information about the CNG station in response to a SIGAR audit that commenced in the summer of 2014 that examined all U.S. Government efforts, including the Task Force's, in the extractives sector. That audit report, released in April 2015, explains the purpose of the CNG station, and notes that $5.1 million was expended on the construction and tender of the station, conversion of four existing Ministry of Interior diesel generators, and provision of and training for the installation and maintenance of CNG engine conversion kits.

On June 17, 2015, DoD's reply indicated that with the closure of TFBSO, OSD no longer possessed the personnel expertise to address the questions about the gas project or to assess properly the information in the Executive Archive. DoD also indicated it was fully prepared to arrange for access to TFBSO information, and suggested that our staffs meet to work out the modalities of SIGAR's access to the information requested.

On June 30, 2015, our staffs met. DoD made clear that SIGAR would have unrestricted access to the TFBSO records in a reading room managed by WHS. SIGAR was informed that if it wanted to obtain copies of any documents, the documents would first need to be reviewed by DoD attorneys to protect information that may be withheld from release under FOIA. DoD believed this step was necessary following the unwarranted release of the CERP data, which I outlined above. No limitation was placed SIGAR's access to unredacted documents. SIGAR never responded to this offer.

On September 24, 2015, SIGAR sent us the draft version of its report on the CNG filling station. DoD was troubled by SIGAR's apparent decision not to undertake due diligence in reviewing the records, so our October 9, 2015, reply indicated both our continued willingness to provide access to the documents and to any DoD personnel that SIGAR wished to interview.

On October 22, 2015, SIGAR's report on the CNG station was published.

Access to TFBSO records

I wish to underscore that at no time has SIGAR been denied access to any available records of TFBSO.

The Department believes that providing SIGAR unfettered access to review unredacted TFBSO archived materials via a reading room, as outlined previously, satisfies the objective of providing access while mitigating the risk of inappropriate release of FOIA-exempt information. Such an arrangement is fully consistent with the statutory requirement for

Inspector General "access" under the Inspector General Act (5 USC App. § 6). Further, this approach has been used with other SIGAR staff as part of a separate SIGAR Afghan war lessons learned project, without any objections from SIGAR.

On December 15, 2015, pursuant to my suggestion, Mr. Sopko and I met in his offices in Crystal City to discuss SIGAR's access to TFBSO records. Following an exchange of letters, and receipt of certain assurances from SIGAR, DoD agreed to provide a copy of the hard drive of TFBSO's unclassified records. That hard drive and a list of TFBSO personnel that we have determined still work within DoD was delivered to SIGAR on March 14, 2016. On March 14, 2016, pursuant to a request received on March 8, 2016, the Department of Defense delivered to SIGAR the TFBSO records from DoD's Secret Internet Protocol Router Network that are stored at the OSD Executive Archives.

The Compressed Natural Gas (CNG) Filling Station

SIGAR's report on the Compressed Natural Gas filling station asserts that the project cost the United States Government $43 million, and was ill-conceived.

A report to Congress on FY2011 Task Force activities (transmitted on December 16, 2011) explained the purpose of the project: "As a pilot project, the TFBSO funded the construction of a CNG complex in Sheberghan City, including the compression station, pipeline extension from the current gas grid, desulphurization and dehydration systems, engine conversion kits, and installation and maintenance training for station operators. The TFBSO is also coordinating with the taxi association in Sheberghan for the first opportunity to convert their fleet of cars to dual-use (CNG/gasoline) engines." That report indicated that construction of the station and its associated refining and conversion facilities cost $2.9 million.

A SIGAR report on extractive industries in Afghanistan, issued in April 2015, described the project in a similar fashion:

> Because Afghanistan's electric power plants and transport fleet rely on expensive diesel imports, TFBSO leadership decided that taking steps to develop a domestic fuel market would be critical to Afghanistan's economy and energy security. As a proof of concept to demonstrate that Afghanistan's automotive fleet could transition from a reliance on foreign diesel and instead use cheaper, locally-produced natural gas, TFBSO funded the construction of a compressed natural gas complex in Sheberghan City, including a compression station, pipeline extension from the current natural gas grid, desulphurization and dehydration systems, engine conversion kits, and installation and maintenance training for station operators. Additionally, TFBSO coordinated with the taxi association in Sheberghan to convert its fleet of approximately 150 cars to dual-use-compressed natural gas/petroleum-engines. TFBSO also converted two diesel generators operated by the Afghan Ministries of Interior and Defense to run on compressed natural gas.[1]

[1] SIGAR Audit Report 15-55, "Afghanistan's Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, $488 Million in Funding is at Risk," April 2015, page 27.

The CNG station was part of a larger effort to create a viable energy market within Afghanistan. The SIGAR Extractives report notes that TFBSO was working with the Afghan authorities to refurbish an existing pipeline running between natural gas fields in Sheberghan and a power plant near Mazar-e-Sharif. TFBSO also planned to build an entirely new pipeline alongside this older pipeline. In parallel, USAID was investing funds to rehabilitate and develop natural gas wells in Sheberghan, and construction of a nearby natural gas processing plant. The Task Force's focus on the natural gas sector was consistent with guidance from the Secretary of Defense, and with the overall effort to assist in the development of Afghanistan's natural resources.

The CNG project was detailed in the annual TFBSO activities reports to Congress and referenced in several quarterly SIGAR reports. In its July 30, 2012, quarterly report to Congress, SIGAR noted as follows:

> This quarter, the compressed natural gas station (CNG) in Sheberghan was handed over to the Ministry of Mines. It began commercial operation in May. Construction of the station had been funded by [TFBSO]. Because CNG is 50% cheaper than gasoline, as well as cleaner, the TFBSO said the CNG station should reduce fuel imports and provide greater security.[2]

In preparing its report on the CNG station project issued last October, SIGAR relied on information provided by the Economic Impact Assessment (EIA) prepared by a consulting firm engaged by TFBSO. That EIA report stated that the Task Force spent $43 million to fund the CNG station, of which there were $12.3 million in direct costs and $30 million in overhead costs.

We believe the methodology used by EIA, and relied on by SIGAR, is flawed, and that the costs of the station are far lower. The EIA was focused not on accounting for the cost of projects, but rather their broader impact on Afghanistan's economy. I believe the consulting firm has also reviewed its work and engaged the Senate Armed Services Committee staff, and we have received a copy of their memo to the Senate staff that indicates that the total costs of the station are likely "well under $10 million."

CNG Station Cost Breakdown

In recent months, DoD has reviewed available records to ascertain the costs of the CNG station.

Let me breakdown the costs of the CNG station as we understand them today.

First, the costs for the entire station project were $5.1 million. As noted previously, the costs for the station portion of the project were $2.9 million. The $5.1 million covered the costs of the fueling station, two dispensers, one CNG trailer filling point, a car conversion center, an administrative office building, gas compression and processing equipment, and the conversion

[2] SIGAR quarterly report to Congress, July 30, 2012, page 123.

of two generators to power Ministry of Interior bases. This is consistent with the amount reported by SIGAR in its April 2015 audit report.

Second, the data provided to the EIA team suggest that approximately $7.3 million was spent on subject matter experts (SMEs) working to support the technical, legal, financial, policy and governance requirements for a natural gas consuming industry. The SME work supported the gas station project as well as a broader effort to help the Afghan government develop a natural gas industry. The SMEs supported the Afghan government as they went through the process of setting a price for natural gas, creating a framework for licensing a station, creating safety standards, and creating a legal framework for distributing natural gas to individual consumers for the first time. The figure of $7.3 million is based on an average of all labor costs by the SMEs across the entire energy sector, divided by the number of projects. The assumption that the labor costs were equal across all projects is likely flawed. The consulting firm estimates that the more accurate allocation of the SME costs to the CNG station project is two to four percent of the total labor costs of $36.4 million.

DoD cannot validate the figure of $30 million in overhead costs set forth in the SIGAR report as directly attributable to the CNG station project. This appears to represent an effort to capture the amount shared across all natural gas or energy projects. This is a flawed method to determine overhead costs for a given project. The preferred method is to use actual cost data attributed to the specific project, because each project has unique support requirements. The support costs data available to us do not provide the necessary fidelity to determine overhead costs in support of the CNG project.

The SIGAR report also compares the cost of this station to a comparable station in neighboring Pakistan. We believe that there are several reasons this station was more expensive than a station in Pakistan.

First, this station was the prototype for all of Afghanistan. In 2012, Pakistan had one of the most established and largest CNG distribution networks, with 2.9 million CNG vehicles and 3,330 refueling stations.[3] With a large and established market, along with the ability to source locally or import construction materials by sea and rail, building new CNG stations is substantially less expensive in Pakistan.

Second, this station had several additional components not included in a basic filling station. It had the ability to fill trailers for use by future stations, to convert cars, and to refine the sour gas coming into the station.[4] The ability to fill trailers was critical to the business model being established as it eliminated the need for direct pipeline access. DoD understands that the Afghan government continues to plan for a future station in Mazar-e-Sharif, and that these trailers will assist in that effort.

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[3] Data from the International Association for Natural Gas Vehicles.

[4] As SIGAR notes in the April 2015 extractive industries audit, "Sour gas is natural gas that contains measurable amounts of hydrogen sulfide. It is colorless, flammable, poisonous to humans and animals, and, unlike sweet natural gas, it is extremely corrosive and requires refining before use", page 27.

Third, the costs of construction in Afghanistan are much higher than in neighboring countries due to the lack of existing production and manufacturing capacity related to construction in general and for extractive industries specifically, the land-locked nature of the country, and the costs of security in a war zone.

SIGAR noted that that the cost of converting cars would be prohibitive to the average Afghan. To be sure, the average Afghan does not own a vehicle. As the Fiscal Year 2011 report to Congress highlighted, a primary focus of this project was those who *do* own vehicles, primarily taxi drivers. In addition, it was expected that the government would seek to convert its vehicle fleets. For taxi drivers, conversion would reduce monthly fuel consumption costs by 50 percent. DoD understands that, in many neighboring nations, conversion costs are paid upfront by station owners, who then charge vehicle owners more for gas until the conversion cost is paid for, generally within a year, due to the price differential. In this case, the Task Force committed to paying for conversion of 120 vehicles to ensure the targeted community of vehicle owners would be able to demonstrate the value of conversion.

Last, SIGAR's report questioned whether the station is still operating. My staff contacted the operator of the CNG station by email on November 15, 2015. The operator indicated that the station was working normally, that 230 cars had been converted, and that every day approximately 160 cars obtain fuel from the station.

Security Expenditures

As I have mentioned, the Task Force operated under the authority of the military commander, rather than Chief of Mission authority, and had the freedom to move around the country and engage more directly with Afghans than employees of the U.S Embassy were able to do.

Another manifestation of TFBSO's unique role was the use of private housing and private security guards for its employees in Afghanistan. This arrangement was an outgrowth of the nature of the task force's mission, and provided the flexibility the task force believed that it required. As I understand it, in order to promote business development, TFBSO hosted meetings with Afghan officials at off-hours. The U.S. military's logistic or movement planning also did not factor in the nature of TFBSO's business. Therefore, to satisfy the irregular movement schedule to numerous locations outside forward operating bases (FOB), TFBSO contracted for private housing, security, and transportation logistics. The merits of this approach should be examined, and we welcome the ongoing review that SIGAR is conducting.

In June 2011, the outgoing Director of the Task Force, Paul Brinkley, issued an internal memo to TFBSO staff directing the closure of off-FOB housing and the relocation of TFBSO personnel to International Security Assistance Force-managed compounds. It is unclear why Mr. Brinkley's memo was not implemented following his departure, and the Department of Defense is continuing to review the records to determine what subsequent decisions were made.

Cashmere Goat Textile Project

Afghanistan is the third largest producer of cashmere in the world and there are varying degrees of cashmere quality. A large percentage of Afghan-produced raw cashmere is illegally sold to China where it may or may not be treated before it is harvested for clothing manufacturing and sold around the world.

In 2012, TFBSO developed a business development plan for the Afghanistan cashmere industry with the intent to improve the quality of Afghan cashmere as well as the value chain of the commodity in the market. TFBSO engaged goat farmers and developed an Afghan cashmere coop. TFBSO partnered with Colorado State University through a $2.3 million grant to develop a cashmere certification lab and goat farm. The grant funded testing equipment and the purchase and shipment of nine bucks from Italy to breed with the Afghan goats at the farm. The certification farm ensured international standards were met related to cashmere production and distribution. TFBSO also helped Afghanistan enact a law banning the export of raw cashmere.

According to the Economic Impact Assessment, "the Task Force spent $6,093,137 between 2012 and 2014 to implement its cashmere projects (approximately $2.6M in direct costs and $3.5M in overhead costs). This project group has a benefit-to-cost ratio of 3.3, and a positive Net Present Value (NPV)."

The cashmere lab and goat farm was tendered off to an Afghan cashmere producer and continues to operate today.

Lessons Learned

At the Task Force's request, Vestige Consulting, LLC provided an Economic Impact Assessment (EIA) for TFBSO work done in Afghanistan. DoD also commissioned reports by CSIS in 2010 and RAND in 2015. In addition, GAO, the Special Inspector General for Iraq Reconstruction (SIGIR), and SIGAR have all conducted reviews of TFBSO activity. The two reports from SIGIR (2008 and 2009) highlighted the difficult environment in which the Task Force was operating, suggested some process improvements, and clarified the resources and activities of Task Force work in Iraq. I commend all of these reports to the Committee.

The CSIS lessons learned report endorsed the value of the Task Force and its approach in Iraq, stating that, "The Task Force needs to retain its essential attributes of entrepreneurial leadership, a broad mandate that enables flexibility in approach and operations, and responsiveness to military commanders in theater....The Task Force has demonstrated value to DoD field commanders and to Iraqis. It serves a useful and key role as part of economic operations in conflict zones, and it helps fill the gap between initial stabilization and longer-term economic development."[5]

[5] CSIS, "Final Report on Lessons Learned: Department of Defense Task Force for Business and Stability Operations," June 2010, page 5.

One important point made by CSIS was that it was difficult to measure the real value and merit of specific Task Force projects, saying, "CSIS concludes that many of the activities the Task Force pursued were worthwhile, with the caveat that for a specific activity, it is difficult to ascertain whether the value the Task Force generated or received – economic or otherwise – exceeded the money spent. Some results achieved by the Task Force can be reasonably quantified, though calculation of a return on investment or similar metric is often not possible and perhaps not meaningful."[6]

The report also recommends developing a more sustainable approach to economic operations in combat zones, "There is a substantial gap in U.S. government capability with regard to economic operations. That gap in capability is caused in part by resource shortfalls but also by significant and unresolved policy differences…Further action to address these challenges is needed…"[7] The report then provides more detailed findings, including recommending "an effort to analyze and develop longer-term options for organization both for DoD civilian support for expeditionary operations and for DoD economic operations in conflict environments."[8]

The RAND lessons learned report's review of TFBSO project implementation concludes "TFBSO's record is very mixed overall. Stakeholders who discussed these projects and other sources pointed to numerous instances of both success and failure. Respondents who discussed the business accelerator, the carpet program, Ariana Airlines, and, to some extent, the Amu Darya tender often commented that the programs were helpful. In several of these cases, project successes grew out of early failures, but it was possible to see learning and improvement. Respondents saw other projects, such as the Sheberghan Gas Pipeline and the Khas Kunar chromite crusher, as more problematic. In general, TFBSO had problems implementing large, complicated infrastructure investments. In the cases in which TFBSO interventions were more in the vein of advising, matchmaking, and closing small gaps in value chains, the implementation seems to have been smoother."[9]

RAND offered the overarching recommendation that, "Economic development is likely to remain a key component of U.S. contingency operations. And regardless of today's perceived effectiveness of the Task Force in Afghanistan, or Iraq, it is likely that these future economic development efforts will contain private sector-focused elements akin to those employed by TFBSO. The U.S. policy community should plan for future organizational solutions to these same challenges."[10]

The recently released second SIGAR Audit on extractives also highlighted TFBSO's mixed record, saying, "TFBSO's 11 projects achieved mixed results, with 3 of those projects

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[6] Ibid, page 29.
[7] Ibid, page 5.
[8] Ibid, page 51.
[9] RAND, "Task Force for Business and Stability Operations: Lessons from Afghanistan," January 12, 2016, page 82.
[10] Ibid, pages xviii-xix.

showing little to no achievement of their project objectives, 5 partially met project objectives, and the final 3 generally met project objectives."[11]

In closing, the overarching question of how we promote economic development during a contingency operation remains a challenge for all of us in the U.S. government, both in the legislative and executive branches. I am skeptical that the Department of Defense is the natural home for that mission. We have struggled with this challenge over the last decade or more, and as a government we need to develop a functioning mechanism so that we are prepared for future contingencies. I commend the Committee for engaging in this discussion.

[11] SIGAR 16-11 Audit Report, "Afghanistan's Oil, Gas, and Minerals Industries: $488 Million in U.S. Efforts Show Limited Progress Overall, and Challenges Prevent Further Investment and Growth," January 2016, page i.

Brian P. McKeon
Principal Deputy Under Secretary of Defense for Policy

Brian P. McKeon was confirmed as the Principal Deputy Under Secretary of Defense for Policy on July 28, 2014. He is responsible for advising the Under Secretary of Defense for Policy and the Secretary of Defense on all matters pertaining to the development and execution of U.S. national defense policy and strategy.

Previously, Mr. McKeon served as Deputy Assistant to the President, Executive Secretary of the National Security Council (NSC), and Chief of Staff for the National Security Council staff at the White House, a position he held from 2012-2014. In this position, he was the Chief Operating Officer for two National Security Advisers, managing all administrative, budget, and personnel matters for the NSC staff. Prior to joining the NSC staff, Mr. McKeon served as the Deputy National Security Advisor to the Vice President from 2009 to 2012, where he advised Vice President Biden on all national and homeland security matters.

Before serving in the Executive Branch, Mr. McKeon was Chief Counsel for the Democratic members of Senate Foreign Relations Committee from 1997 to 2009; he served concurrently as Deputy Staff Director from 2007 to 2009. In addition to helping to manage the Committee's agenda and staff, he played a lead role on nominations, treaties, the management and operations of the Department of State, and was deeply involved in a broad range of regional and functional issues.

Mr. McKeon served as a law clerk to U.S. District Judge Robert G. Doumar of the Eastern District of Virginia in 1995 to 1996. Earlier in his career, he worked for Senator Joseph R. Biden, Jr. in various capacities from 1985 to 1995, including seven years as a Legislative Assistant for Foreign Policy and Defense.

Mr. McKeon received a B.A. in Government and International Studies from the University of Notre Dame and a J.D. from the Georgetown University Law Center.

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APR 2 7 2016

The Honorable Vicki Hartzler
Chairwoman
Subcommittee on Oversight and Investigations
Committee on Armed Services
U. S. House of Representatives
Washington, DC 20515-6035

Dear Chairwoman Hartzler:

Thank you for the opportunity to testify before your Subcommittee on April 15, 2016, during the hearing on Evaluating DOD Investments: Case Studies in Afghanistan Initiatives and U.S. Weapons Sustainment.

Based on the discussion during the hearing, the DoD OIG wanted to provide some clarification on the sampling methodology used for audit report DODIG-2016-052, "Defense Logistics Agency Aviation Can Improve its Processes to Obtain Restitution From Contractors That Provide Defective Spare Parts."

We identified the population of deficiency reports closed from January 1, 2014, through June 30, 2014, where Defense Logistics Agency (DLA) Aviation was responsible for taking action on the deficiency reports. During that 6-month period, DoD organizations submitted 1,299 deficiency reports that identified problems in the design, workmanship, specifications, material, or other nonconforming conditions with 860 spare parts. We reviewed the codes that identified the cause of the deficiencies and other deficiency indicators and concluded that for 312 defective parts, 522 associated deficiency reports had a likelihood that the contractor was at fault for the deficiency and DLA should seek restitution for these defective parts.

To project the effect to the universe of deficiency reports and the total dollar values (high and low dollars) we used a statistical sample of 65 stock numbers and associated deficiency reports. We then determined whether DLA Aviation personnel were obtaining appropriate restitution (reimbursement) from contractors that provided those defective parts. The statistical sample included items with a wide range of dollar values, such as critical application items and critical safety items.

As explained in our audit report, there are several steps involved in deficiency report processing and in pursuing and obtaining contractor restitution for defective parts. A critical step involves DLA identifying all defective parts from a contract and removing defective parts from the DoD supply system. In addition, we found that in many cases the responsible contractor will only replace the defective parts returned to them so DLA's actions to identify all defective parts plays an important part in the restitution process. DoD should not repair defective parts provided by a contractor which could void contractor responsibility for restitution. Further, using more parts than required or calls for repairs is not prudent. In regards to obtaining appropriate restitution for all defective parts, it is especially important to recover restitution for those parts that DLA invested the largest amount of funds to obtain and to take defective critical safety and application items out of the supply chain. Our statistical sample covered both item criticality and dollar value.

Overall, we determined that DLA Aviation did not adequately perform the steps needed to obtain appropriate contractor restitution for 88 percent (57 of the 65) sample items and resulted in DLA Aviation receiving less than appropriate restitution. We calculated the difference between the restitution that DLA Aviation should have received versus what it actually received for defective parts. The value of defective parts associated with the 65 sample items was $4,180,479 and DLA Aviation only provided evidence that it received $287,330 in restitution.

The OIG DoD's analyst projected the audit findings to the population of defective parts and concluded that DLA Aviation did not recover at least $12.3 million in restitution for 269 of the 312 spare parts identified as contractor supplied defective parts.

I hope this information is helpful in explaining the sampling methodology used during the audit. Should you have any questions regarding this matter please contact me at (703) 604-8324.

Sincerely,

Kathie R. Scarrah

Kathie R. Scarrah
Director,
Legislative Affairs and Communications

cc: The Honorable Jackie Speier
Ranking Member

WITNESS RESPONSES TO QUESTIONS ASKED DURING THE HEARING

APRIL 15, 2016

RESPONSE TO QUESTION SUBMITTED BY MS. SPEIER

Ms. WICECARVER. The sampled product quality deficiency report was submitted by the Edwards Air Force Base maintenance group in September 2012 and was one of several deficiency reports submitted by Air Force customers for the defective tie down straps delivered on the contract. The DLA product quality deficiency report investigation was completed and closed in January 2014. Our audit found that the DLA product quality deficiency report investigation did not account for all defective tie down straps in the DOD inventory. [See page 12.]

RESPONSES TO QUESTIONS SUBMITTED BY MR. CONAWAY

Ms. WICECARVER. The answer to the question, "What I'm asking, of the 65 percent that was wrong, that you found wrong, how much of that do you say is in the full universe of 269 parts? Of the 65 that you audited, how many of those had problems?" is as follows. Specifically, of the 65 sampled stock numbers, there were 57 that had problems. These problems resulted in DLA Aviation receiving less than appropriate restitution. This projected to 269 of 312 stock numbers with problems in the population. [See page 19.]

Ms. WICECARVER. Overall, we determined that DLA Aviation did not adequately perform the steps needed to obtain appropriate contractor restitution for 57 of the 65 sample items and resulted in DLA Aviation receiving less than appropriate restitution. We calculated the difference between the restitution that DLA Aviation should have received versus what they actually received for the defective parts. The value of the defective parts associated with the 65 sample items was $4,180,479 and DLA Aviation only provided evidence that it received $287,330 in restitution. The OIG DOD's analyst projected the audit findings to the population of defective parts and concluded that DLA Aviation did not recover at least $12.3 million in restitution for 269 of the 312 stock numbers that it identified contractors supplied defective parts. [See page 20.]

RESPONSE TO QUESTION SUBMITTED BY MS. McSALLY

Mr. SOPKO. As cited in SIGAR's written testimony[1] before the subcommittee, "TFBSO [Task Force for Business Stability Operations] was originally created in 2006 by the Deputy Secretary of Defense to help revive the post-invasion economy of Iraq. The Task Force reported to the Office of the Secretary of Defense. At its inception, TFBSO was not envisioned to execute projects and programs, but rather to advise Department of Defense (DOD) entities on ways to improve contracting processes and procedures. The memorandum establishing the Task Force stated,

"The Task Force will not be responsible for contracting, but will advise existing DOD contracting offices on improved contracting processes and associated systems solutions consistent with applicable statutory and regulatory requirements as a means to create economic opportunity."[2]

Over time, TFBSO evolved to take a larger role in identifying economic development needs in Iraq and directly executed programs and projects in response to those needs. In 2009, the Secretary of Defense formalized a new TFBSO mission and called on the Task Force to leverage economic development in Iraq as a strategic

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[1] SIGAR Testimony before the House Committee on Armed Services Subcommittee on Oversight and Investigations titled "DOD Task Force for Business and Stability Operations in Afghanistan: Review of Selected Expenditures Highlights Serious Management and Oversight Problems."—Statement of John F. Sopko, Special Inspector General for Afghanistan Reconstruction, April 15, 2016 (SIGAR 16–29–TY).

[2] Memorandum from Deputy Secretary of Defense Gordon England to the Secretaries of the Military Departments, et.al. June 22, 2006.

and operational tool.[3] Late in 2009, TFBSO was redirected to Afghanistan, and it began operations there in early 2010."[4]

As referenced in Principal Deputy Under Secretary for Defense for Policy Brian McKeon's written statement to the subcommittee,

"Later [in 2010], some uncertainty about the status of the Task Force arose with the Office of General Counsel cast doubt on the legal authority of the Department of Defense to conduct economic development activities in a foreign country, as they appeared to be inconsistent with the Department's authorities. Many activities of the Task Force were suspended. Congress clarified the situation in the FY 2011 National Defense Authorization Act, providing statutory authority for activities of the Task Force in Afghanistan."[5]

TFBSO was authorized in section 1535 of the National Defense Authorization Act for Fiscal Year 2011 (P.L. 111–383) and reauthorized in subsequent fiscal years. The National Defense Authorization Act for Fiscal Year 2014 (P.L. 113–66) extended TFBSO's authorization through December 31, 2014, at which time the Task Force ended its programs in Afghanistan, and ceased all operations on March 31, 2015.

In regard to Representative McSally's question about preventing similar circumstances in the future, I would point to Principal Deputy Under Secretary McKeon's statement to the subcommittee on the "overarching question" for policy makers about promoting economic development during a contingency operation. "I am skeptical that the Department of Defense is the natural home for that mission," he said.[6]

While I am hesitant to suggest legislative actions to the committee which authorized TFBSO, I would highlight two points. First, between 2006 and the DOD General Counsel's 2010 opinion, DOD was using internal funds for TFBSO operations. Increased congressional oversight, or legislation prohibiting DOD from undertaking similar economic development missions in the future without congressional authorization, may be warranted. However, if the committee determines, as it did between 2010 and 2014, that it supports DOD engaging in economic development in a contingency environment, then it should consider providing statutory authority as it did for TFBSO in Afghanistan. Such authority should include provisions providing for rigorous oversight, creating stringent project requirements, ensuring that qualified staff with regional and subject matter expertise are hired, mandating cost- benefit analyses, and requiring thorough record keeping.

Finally, SIGAR recently initiated performance and financial audits of TFBSO's activities in Afghanistan. These audits will provide additional insight into how the Task Force operated in Afghanistan and used U.S. taxpayer resources. We expect to issue these audits in late 2016 or early 2017 and we will report our findings to this committee. [See page 23.]

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[3] Memorandum from Secretary of Defense Robert Gates to the Secretaries of the Military Departments, et al., March 11, 2009.

[4] See, Robert M. Gates, Secretary of Defense, Continuation of Task Force for Business and Stability Operations, March 25, 2010; GAO, DOD Task Force for Business and Stability Operations: Actions Needed to Establish Project Management Guidelines and Enhance Information Sharing, GAO–11–715, July 29, 2011.

[5] Statement of Brian P. McKeon, Principal Deputy Under Secretary of Defense For Policy, Submitted to the House Armed Services Subcommittee on Oversight and Investigations, April 15, 2016.

[6] McKeon, Ibid.