SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION

WRITTEN TESTIMONY FOR

ACTING SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION

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TO THE

HOUSE OVERSIGHT AND GOVERNEMENT REFORM SUBCOMMITTEE ON NATIONAL SECURITY, HOMELAND DEFENSE AND FOREIGN OPERATIONS

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Statement for the Record

Acting Special Inspector General for Afghanistan Reconstruction

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House Oversight and Government Reform Subcommittee on National Security, Homeland Defense and Foreign Operations

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Mr. Chairman, Ranking Member Tierney, and Members of the Committee,

Thank you for inviting me today to discuss the potential impact on reconstruction of the Afghan government's decision to dissolve all private security companies (PSCs) and transfer their responsibilities to a new Afghan Public Protection Force (APPF), which operates under the authority of the Ministry of Interior. Although this hearing is focused on whether changes in security policy are jeopardizing U.S. Agency for International Development (USAID) reconstruction projects and personnel in Afghanistan, the process that is underway to transition PSCs to an Afghan state-owned enterprise affects all U.S. government agencies, as well as the entire international community.

The Afghan government planned for the APPF to assume responsibility for all international development projects and convoys on March 20 of this year. On March 18, two days before the deadline for the transition, the Afghan government announced that it had granted 30-90 day provisional licenses to some implementing partners to give them time to finalize contracts with the APPF.

As I testified before this committee in December of last year, reconstruction cannot take place unless U.S. implementing agencies and their contractors are able to provide security for their staff and facilities. Because PSCs have been essential to the reconstruction effort and Congress has raised questions about their accountability and performance in Afghanistan, SIGAR identified the management of PSCs as a critical focus area for our audits. Although security is absolutely critical to the reconstruction effort, no one has had a clear picture of how PSCs operated, how many personnel they employed, or how much they cost. One of our principal objectives has been to help answer these questions so that implementing agencies and policy makers can make informed decisions on how the U.S. government can most effectively deploy its resources for the reconstruction of Afghanistan.

In 2010, SIGAR began a series of audits to assess the management and oversight of PSCs by the Department of Defense (DoD), the Department of State (DoS), and USAID. In the audit plan we submitted to Congress in January 2011, we outlined our strategy to examine the costs, administration, and oversight of PSC contracts.[1] To determine contract costs and whether contractors complied with the U.S. and Afghan government regulations for PSCs operating in Afghanistan, we have also looked at how the impending transfer of security functions to the APPF might affect reconstruction efforts.

To date, SIGAR has completed three reports related to PSCs. These include two audits of PSC contracts—one funded by the U.S. Army Corps of Engineers (USACE) and one by USAID. Due to sensitivities in Afghanistan over the role of PSCs, the implementing agencies asked SIGAR not to publicly release these audits. Consequently, we did not publish them, but we delivered both audits to our Congressional oversight committees. In addition, as mandated by Section 1219 of the Fiscal Year 2011 National Defense Authorization Act (NDAA), we provided Congress with an analysis of contracting in Afghanistan that included a substantial section on the U.S. reliance on PSCs. SIGAR has also provided updates and commented on the Afghan government's decision to dissolve PSCs and the evolution of the APPF in the last six quarterly reports.

SIGAR is currently conducting an audit to 1) identify the PSCs used by USAID's implementing partners, 2) assess the costs of providing security, and 3) determine what plans USAID's

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[1]SIGAR, Plan for Performance Audits of Contracts and Other Financial Mechanisms to Meet the Requirements of P.S. 110-181, Section 842 (a) (3), January 28, 2011

implementing partners have for continuing reconstruction work as security is transferred to the APPF. We recently issued a management letter, alerting USAID to our findings that the transition to the APPF may increase security costs significantly. Moreover, as the Afghan government's March 20 deadline for the dissolution of PSCs rapidly approached, we observed that USAID's assessment of its implementing partners contingency plans had concluded that a number of USAID-funded projects were at significant risk of termination if the APPF was not capable of providing the required security services.

The APPF is rapidly evolving as it hastens to build the capacity to provide security services. Because the entire reconstruction effort will depend on the capability of the APPF to provide security services, later this year SIGAR will begin two additional audits. One will assess the security costs of transitioning PSCs that currently provide security services for projects funded through the DoD-managed Afghanistan Security Forces Fund (ASFF), which supports the development of the Afghan National Security Forces (ANSF). This fund accounts for more than half of all U.S. reconstruction dollars. SIGAR will also conduct an audit to examine the cost and other issues related to the transition of PSCs to the APPF. These audits will assess how the transition has affected U.S.-funded reconstruction projects and the extent to which costs are affected by the transition.

This testimony, based on the work we have done to date, discusses PSC management, traces the evolution of the APPF, and outlines SIGAR's concerns about security for the reconstruction effort going forward.

PSCs in Afghanistan

Since the reconstruction effort in Afghanistan began in 2002, U.S. implementing agencies—primarily DoD, DoS, and USAID—and international partners have relied on private security companies to protect staff, convoys, and infrastructure. As the overall security situation deteriorated in Afghanistan and U.S. funding for reconstruction increased, the number of people working for PSCs rose sharply after 2007. According to DoD, the number of PSC personnel on DoD contracts has climbed more than six-fold over the last four years, from 3,152 in 2007 to 20,375 at the end of 2011.[2] This increase meant that by March 2011, more than one-fifth of all DoD contracted personnel in Afghanistan were providing security services. Afghan nationals accounted for about 93% of the DoD security personnel at the end of last year. Neither USAID nor DoS systematically tracks information on PSC personnel. However, the implementing partners working on 29 of USAID's largest projects reported to SIGAR that the PSCs subcontracted for their projects employed 3,717 personnel. Of these, about 85% were Afghan citizens.

Our audits have shown that security costs have been significant over the last five years. For example, in 2007, USAID awarded a five-year contract with a ceiling price of $1.4 billion for its Afghanistan Infrastructure and Rehabilitation Program. SIGAR found that by 2011, the contractor had subcontracted with six PSCs for a total of $231.6 million—more than 16% of the contract's value. The DoD has also incurred significant security costs. In May 2008, USACE awarded a $90 million indefinite delivery/indefinite quantity (IDIQ) contract to provide security services for USACE operations throughout Afghanistan. As of August 2011, USACE had issued 12 task orders, increasing the value of the contract to more than $165 million.

SIGAR is currently analyzing the security costs for 29 of USAID's largest projects for fiscal year 2009 through fiscal year 2011. Of these, 28 used at least one PSC.[3] These projects expended almost $2.9 billion and accounted for almost 70% of the dollars USAID disbursed over the three year period. SIGAR's analysis shows that security costs on these projects averaged 14%, with costs totaling as much as 42% of the total value of one project.

Determining security costs is extremely challenging because, as the Government Accountability Office (GAO) pointed out last year, the tracking systems that U.S. government agencies are using do not reliably distinguish security personnel from other contract personnel.[4] USAID does not track security costs. Therefore, SIGAR analyzed PSC invoices paid by the implementing partners on the projects we reviewed from fiscal year 2009 through fiscal year 2011. Although SIGAR attempted

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[2] CENTCOM Quarter Contractor Census Reports; CENTCOM responses to SIGAR data calls.

[3] One project that did not have a contract with a PSC but it employed internally hired armed security guards.

[4] GAO-11-886, "Iraq and Afghanistan, DoD, State, and USAID Cannot Fully Account for Contracts, Assistance Instruments, and Associated Personnel", September 2011

to collect information for all PSCs, we cannot verify that we captured all costs for PSCs hired by subcontractors for their security. Neither USAID nor its prime contractors have full visibility of the security costs incurred by subcontractors. Further complicating efforts to determine security costs, SIGAR found that some implementing partners also hired security guards internally. Their salaries are not included in reported security costs. Consequently, SIGAR's cost analysis represents the minimum spent on security. Total costs are likely higher.

As the number of private security personnel operating in Afghanistan grew, both the U.S. Congress and the Afghan government expressed concerns about the cost, management, performance, and oversight of PSCs. Important issues included allegations that PSCs lacked accountability and transparency, had caused civilian casualties, and funneled funds to the insurgents.

Congress addressed these concerns in the Fiscal Year 2008 NDAA, which mandated that the Secretary of Defense, in coordination with the Secretary of State, establish a regulatory framework for PSCs. This included developing 1) a process to authorize and account for weapons carried by personnel performing private security functions in an area of combat operations, 2) procedures and guidance for reporting and documenting all incidents involving PSCs, and 3) regulations on the selection, training, equipping, and conduct of personnel performing private security functions.[5]

In 2008, the Afghan government also tightened rules requiring PSCs to be licensed, and have permits for weapons, ammunition, armored vehicles, and telecommunications equipment. Every PSC had to register all of its Afghan and foreign personnel and provide proof of a bank guarantee and public liability insurance. The Afghan government also capped the number of armed personnel employed by a single PSC to 500.

SIGAR audits have shown that PSC partners have struggled to fully comply with U.S. and Afghan government regulations, but they have made progress in accounting for personnel and equipment, documenting incidents, and implementing a broad range of regulations. For example, it took one contractor more than two years before it was finally in compliance with the Fiscal Year 2008

[5] Public Law No. 110-181, Section 862

NDAA requirements and had successfully 1) registered personnel and weapons, 2) drug tested all of its employees, and 3) biometrically screened its non-U.S. citizens.

Both SIGAR and GAO have found that while implementing agencies have met many of their contract management obligations, they have not been able to fully document contractor performance or account for contracts and associated private security personnel. In September 2011, GAO reported to Congress that neither DoD, DoS, nor USAID could fully account for contracts, other assistance instruments, and associated personnel as required by Congress. GAO found that the system currently used to track contract personnel—the Synchronized Pre-deployment and Operational Tracker (SPOT)—has several limitations. Among other things, it does not provide a reliable means of distinguishing personnel performing security functions from other contract employees.[6]

The Afghan government's decision in 2010 to disband PSCs has created new security challenges for U.S. agencies and their implementing partners.

Presidential Decree 62

In August 2010, Afghanistan's President Hamid Karzai issued a decree ordering the complete dissolution of all domestic and foreign PSCs within four months. According to the decree, PSCs were being disbanded in order to fight corruption, safeguard lives, and prevent the misuse of weapons, uniforms and military equipment.[7] Under the decree, foreign embassies and consulates would be allowed to use their own security personnel to provide security for their compounds and diplomatic staff.

President Karzai issued the decree before the Afghan government had developed an alternative plan for providing security for reconstruction activities. At the time, the U.S. Embassy in Kabul told SIGAR that the decree could negatively affect 96 DoS and USAID projects valued at about $2

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[6] GAO-11-886, "Iraq and Afghanistan, DoD, State, and USAID Cannot Fully Account for Contracts, Assistance Instruments, and Associated Personnel", September 2011

[7] Decree of the President on Dissolving of Private Security Companies, No 62, August 17, 2010

billion.[8] At the end of October 2010, President Karzai established a committee to develop a plan for the disbandment of PSCs. In December 2010, the Afghan Ministry of Interior announced that PSCs could continue to operate, with some restrictions, until their contracts expired and their responsibilities could be transitioned to the ANSF.

In March 2011, the Afghan government, in consultation with the United States and its coalition partners, announced a "bridging strategy" for implementing the presidential decree to dissolve PSCs. Under this strategy PSC functions would be transferred over a period of two years to a new state-owned enterprise, administered by the Ministry of Interior, to provide commercial security services. The strategy identified the APPF, which was created in 2009 to provide security guards to protect key infrastructure, facilities, construction sites, and personnel, as the entity that would provide the security services. The APPF had been providing security guards for a number of public and private entities, including for the China Metallurgical Group Corporations, the Chinese company that is developing the Aynak Copper Mines in Logar Province.

The bridging strategy also provided that a team made up of officials from the Afghan Ministry of Interior, ISAF, and the U.S. Embassy jointly conduct assessments after six months and every three months thereafter to determine if the APPF had the capability to provide the necessary security services as the transition progressed.

The APPF Advisory Group

An APPF Advisory Group, composed of 170 representatives, including 130 advisors and 40 translators, from the NATO Training Mission-Afghanistan (NTM-A) and the Combined Security Transition Command-Afghanistan (CSTC-A), the DoS, USAID, the Department of Justice, and several other U.S. government agencies, is supporting the development of the APPF. The stated goal of the APPF Advisory Group is to build the capacity of the APPF to provide contracted security guards for all international reconstruction and development efforts. By March 2013, the APPF is to also assume security responsibility for all ISAF/ANSF construction sites and ISAF

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[8] SIGAR, *Quarterly Report to the United States Congress*, October 2010

bases. Embassies and other diplomatic missions will be able to continue to employ their own personal security services. The exemption also applies to police training missions.

The six month assessment of the APPF raised significant questions about its ability to assume responsibility for providing security for reconstruction projects. Completed in September 2011, the assessment focused on two key questions to determine the APPF's capacity and capability. First, could the APPF execute the business functions needed to be a security service provider? Second, could the APPF generate and employ the guard forces required to meet the demand? To answer these questions, the group evaluated six essential tasks and looked at 166 transition-readiness standards. The assessment found that the APPF did not have sufficient capacity or capability to perform any of the six essential tasks and only met 46 of the transition-readiness standards. It concluded that the APPF was not on track to assume PSC security responsibilities by March 20, 2012. The assessment team made a number of urgent recommendations that included the following:

- Establish a framework to manage the business functions inherent in transitioning and executing the security service contracts.
- Develop a phased plan and implementation guidance to transition PSC contracts, people, and equipment to the APPF.
- Provide an operating budget to support APPF development and initial business costs.
- Recruit, train, and resource the APPF headquarters, the APPF Training Center, and the Zone/Provincial headquarters.
- Approve the charter for the state owned enterprise.
- Develop command/control and operational procedures for convoy security and personnel security details.

The assessment noted that the risk for Afghanistan of not accomplishing these tasks was "the possible loss of billions of dollars in development projects, loss of revenue and jobs, a diversion of counter-insurgency forces to self-security roles, and general lack of confidence by the international community and Afghans alike in the ability of the Government to provide security." It added, "A commitment by the GIRoA and specifically the Ministry of Interior is essential in order to expeditiously develop the capability and capacity of the APPF to provide the security services acceptable to the international community."[9]

A second joint Afghan and U.S. government assessment was completed in December 2011, but it has not been released. It is our understanding that this assessment identified areas that had improved since the September 2011 report. However, in response to a SIGAR data call for our last Quarterly Report to Congress, DoD reported that the APPF staff section—the deputy minister and his administration—could not accomplish its mission without significant coalition assistance.

The APPF has been continually adapting during this transition period to meet the needs of the international community. For example, in January 2012, in response to U.S. and coalition concerns about the capabilities and management of APPF guards, President Karzai authorized the creation of risk management companies (RMCs) to provide advice on security issues. A PSC may disband, establish a new legal corporate entity and reapply for a license as an RMC. A single company may not hold both a PSC license and an RMC license. The risk management consultants may not provide security services, but they may provide security consulting services and on-site training and mentoring of APPF guards. The regulations also permit them to carry light arms for self-defense. Moreover, the regulations allow them to assist an implementing partner to contract for security services with the APPF. The Afghan government is charging international RMCs $124,000 for a license to operate. These companies must also post a bond of about $300,000.

The APPF is employing personnel who voluntarily transfer from their current jobs with PSCs; it is also recruiting and training new guards. Those who have been trained and certified by PSC employers are assumed to have been trained and thus do not have to attend training at the APPF Training Center. At the end of 2011, the APPF reported having authorized 6,558 of the 11,000 trained security personnel the advisory group estimated it needed to provide security for development projects and convoys. The APPF goal is to have 25,000 guards on the APPF roster by March 2013.

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[9] Final Report to the 6-Month Assessment to the Bridging Strategy for Implementation of Presidential Decree 62 (Dissolution of Private Security Companies), Bridging Period March 22, 2011 to March 20, 2012.

To date, the APPF reported it had signed 18 contracts to provide guard services for development activities. SIGAR understands that it has issued licenses to 15 RMCs.

SIGAR Concerns

As a result of our prior and ongoing audit work and discussions with U.S. government officials and contractors, SIGAR has a number of concerns about security costs and the ability of U.S. agencies and their implementing partners to successfully provide and oversee the necessary security for reconstruction projects. We also have concerns about the APPF transition process. We recently sent a management letter to USAID that highlighted these issues because we were completing an audit that concerned USAID projects affected by the March 20, 2012 deadline, which, according to USAID, put at least 10 ongoing projects at serious risk of termination had contractors and other implementing partners not been given additional time to negotiate contracts with the APPF.

SIGAR auditors, as part of ongoing work concerning PSCs used by USAID's implementing partners in Afghanistan, assessed the costs associated with the transition. SIGAR's analysis indicates that the transition may significantly increase personnel costs. For example, for 13 projects SIGAR examined, Afghan guards may cost an additional $3.1 million—as much as 46% higher than current costs—and expatriate labor costs could rise by as much as $52.1 million—as much as 200% more than current costs—during the first year of the transition.

These potential cost increases result from new fees—including a 20 percent profit that will be applied to most charges associated with each guard—that the APPF is planning to levy. Moreover, implementing partners reported to SIGAR that they expect to have to hire more expatriates as risk management consultants because of the uncertainty over the quality of service the APPF will be able to provide. The APPF official website acknowledges the uncertainty about how much the new arrangement is going to cost, noting that "while it is impossible to provide exact figures at this time before contracts have been established, we expect there will be some increase in cost for companies, particularly if they choose to use the services of a Risk Management Consultancy in addition to contracting with the APPF for guards."

USAID’s January 2012 evaluation of the contingency plans submitted by its implementing partners found that ten projects with a total award value of $899 million were at risk of termination if the implementing partners had not been given more time to be in compliance with Afghan regulations. An additional 19 projects valued at $451 million were also at risk of scaling back their operations. Even after these projects begin to receive security services from the APPF, they will remain at risk until it is clear that the APPF can provide the essential security.

Conclusion

The transition to the APPF poses one of the most significant challenges that the U.S. government and its implementing partners have faced since the beginning of the reconstruction effort in 2002. SIGAR’s audit work highlights a number of factors—increased costs, difficulty complying with changing rules and regulations, and lack of U.S. control over the current process—that make the transition particularly difficult. U.S. government agencies are making concerted efforts to comply with the mandate to transition security services from PSCs to an Afghan government entity. The APPF Advisory Group, for example, has worked closely with the APPF to develop a template for contracting with USAID Implementing Partners. However, it is too early to assess if the hard work that agencies like USAID are doing to manage the transition will be enough to transition to the APPF without adversely affecting the reconstruction effort.

The ability of contractors, non-government organizations, and other entities to implement reconstruction projects will depend on the ability of the APPF to provide adequate security services. For this reason, SIGAR intends to continue to closely monitor the transition to the APPF, assess transition outcomes, and keep key policy and decision makers informed about the results of our work.

Steven J Trent
Acting Special Inspector General for Afghanistan Reconstruction

President Obama designated Steven J Trent as Acting Special Inspector General on September 3, 2011. Mr. Trent, who held Senior Executive Service (SES) positions in the U.S. Customs Service and the Department of Homeland Security, joined SIGAR in March 2010. Most recently he was Acting Deputy Inspector General; prior to that he was Assistant Inspector General for Investigations, where he oversaw SIGAR's criminal investigations. During a distinguished 29-year career in federal law enforcement, Mr. Trent developed special expertise in internal affairs investigations, money laundering and narcotics trafficking, arms smuggling and commercial fraud. Before joining SIGAR, Mr. Trent was Special Agent in Charge of Investigations (SAC) in Baghdad for the Special Inspector General for Iraq Reconstruction (SIGIR). Prior to that, he was an adviser to the Iraqi Commission on Integrity, also in Baghdad.

Mr. Trent's career with the U.S. Customs Service began in 1978 with an internship while a graduate student at American University in Washington, D.C. He served as both an Intelligence Analyst and Program Analyst, and in 1982 he was selected to become a Special Agent. After graduating from the Federal Law Enforcement Training Center, Mr. Trent joined the agency's San Diego field office. Mr. Trent became the supervisor for the Financial Investigations Group in San Diego, and in 1987 he became Resident Agent in Charge (RAC) of a multi-agency task force in the San Diego community of San Ysidro at the U.S.-Mexico border. There, Mr. Trent oversaw major narcotics and money-laundering cases developed at the largest international land border crossing in the world.

In 1991, Mr. Trent returned to Customs Headquarters in Washington, D.C., where he led efforts to centralize the agency's nationwide investigations operations. From 1991 to 1994, Mr. Trent was Chief of Administration (COA) for the agency's Office of Investigations where he managed the budget, hiring, discipline, training, mobility and firearms programs for some 5,300 agents, intelligence analysts and support staff in 144 domestic and 23 foreign offices.

In 1994, Mr. Trent was named Special Agent in Charge of the Tampa Field Office, where he directed the criminal, civil and administrative investigations of 300 agents, intelligence analysts and support personnel in eight offices throughout Central and Northern Florida. From 1999-2003, Mr. Trent directed the agency's Miami Internal Affairs Office, overseeing investigations throughout the Southeastern United States, Puerto Rico and the U.S. Virgin Islands. He returned to Tampa in 2003 to run the Department of Homeland Security's Immigration and Customs Enforcement (ICE) field office. Mr. Trent is a Vietnam veteran, was awarded the Bronze Star and, following Vietnam, served as a police officer for three years with the Mesa (Ariz.) Police Department. Mr. Trent holds bachelor's and master's degrees from American University, and he is a graduate of the Senior Executive Fellows program at the John F. Kennedy School of Government at Harvard University.