

**Increases in Security Costs
Are Likely under the Afghan Public Protection Force;
USAID Needs to Monitor Costs and Ensure
Unlicensed Security Providers Are Not Used**



June 29, 2012

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SIGAR

Special Inspector General for Afghanistan Reconstruction

SIGAR Audit-12-10

June 2012

Increases in Security Costs Are Likely under the Afghan Public Protection Force; USAID Needs to Monitor Costs and Ensure that Unlicensed Security Providers Are Not Used

What SIGAR Reviewed

During fiscal years 2009 through 2011, the U.S. Agency for International Development (USAID) provided more than \$4.2 billion to its implementing partners to carry out reconstruction and development assistance programs in Afghanistan. Implementing partners are responsible for their own security needs and most contracted with private security contractors (PSC) for security services for their offices, housing, and project sites and for the movement of their personnel. In March 2011, the Afghan government issued *The Bridging Strategy for Implementation of Presidential Decree 62*, which provided for the eventual dissolution of most PSCs. Under this strategy, the Afghan government required that security services for development programs and projects transfer to a state-run Afghan Public Protection Force (APPF) by March 20, 2012. In January 2012, President Karzai approved a model allowing implementing partners to use risk management companies (RMC) to advise on the security of sites, personnel, logistics, transportation of goods and equipment, and contract management. SIGAR's objectives were to assess (1) the costs and the number of personnel and vehicles associated with PSCs for selected USAID projects during fiscal years 2009 through 2011 and (2) the potential costs related to the transition of security services from PSCs to the APPF and the plans of implementing partners after the transition. SIGAR also determined whether USAID's implementing partners for selected projects were using PSCs licensed by the Afghan government. To accomplish these objectives, SIGAR analyzed invoices and other data from 13 implementing partners responsible for 29 of USAID's largest projects during fiscal years 2009-2011 and discussed cost and transition issues with USAID, the Departments of Defense and State, and six implementing partners. SIGAR conducted work in Washington, D.C., and in Kabul, Afghanistan, from September 2011 to June 2012 in accordance with generally accepted government auditing standards.

What SIGAR Found

For the 29 USAID projects SIGAR examined, at least \$300 million of the \$2.9 billion (or 10.4 percent) expended during fiscal years 2009 through 2011 was for security services. At least \$140 million of this \$300 million was for PSC personnel, and about \$27 million was for vehicles. SIGAR found that some implementing partners that had purchased armored vehicles also leased vehicles to meet their needs, at a cost of \$4.1 million, because they could not get the purchased vehicles through Afghan registration and customs in a timely manner.

Assuming security requirements for armed Afghan guards do not change, the transition to the APPF could increase Afghan labor costs by up to 46 percent or \$3.1 million for the 13 of the 29 projects SIGAR examined that transitioned to the APPF. In addition, SIGAR notes that some implementing partners indicated they may hire more expatriates through RMCs to facilitate the transition; by one estimate, expatriate labor costs could increase as much as 200 percent or \$52.1 million during the first year for the 13 projects that transitioned to the APPF. Implementing partners identified other factors, such as increased security infrastructure, that may further increase costs. In April 2012, USAID provided SIGAR its analysis of data provided by implementing partners for the first month after the transition to the APPF. It showed security costs had decreased. However, SIGAR found that the data submitted to USAID was inconsistent and incomplete, which calls into question USAID's overall conclusions. Finally, as of June 2012, most of USAID's implementing partners had less than 3 months experience with the APPF. Some expressed concern about the initial transition, including APPF personnel showing up with improper uniforms, weapons not being provided, and demands for services that were not anticipated. While the transition to the APPF is underway, the eventual costs of security for USAID's ongoing and future programs and projects remain to be determined.

Finally, a May 2010 report by the USAID Office of Inspector General found that USAID had not ensured that all PSCs used by implementing partners were licensed by the MOI, as required. Despite the Inspector General's report, SIGAR found that implementing partners used unlicensed PSCs for six projects as of December 2011, which is illegal, putting USAID projects and reconstruction funding at risk.

What SIGAR Recommends

SIGAR is making three recommendations to the USAID Mission Director in Kabul. Given the likely increase in security costs under the APPF, USAID should systematically assess security costs for (1) ongoing projects and (2) new and follow-on contracts, cooperative agreements, and grants. In commenting on a draft of this report, USAID said it had done the analysis recommended for ongoing projects and its existing policies and procedures already require that security costs for future programs and projects be addressed. SIGAR disagrees that this is sufficient. Because the APPF is new and unique and its capabilities have not been proven, its costs should be closely monitored as USAID's implementing partners gain more experience with it. In addition, to help ensure that implementing partners only use RMCs licensed by MOI, SIGAR recommends that the Mission Director institute a formal review process to ensure implementing partners are using licensed RMCs. In its comments, USAID concurred with this recommendation.

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OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION

June 29, 2012

The Honorable Hillary Rodham Clinton
Secretary of State

The Honorable Leon E. Panetta
Secretary of Defense

The Honorable Ryan C. Crocker
U.S. Ambassador to Afghanistan

Dr. Rajiv Shah
Administrator, U.S. Agency for International Development

Dr. S. Ken Yamashita
USAID Mission Director for Afghanistan

This report discusses the results of the Office of the Special Inspector General for Afghanistan Reconstruction's (SIGAR) audit of the costs associated with private security contractors (PSCs) used by the U.S. Agency for International Development's (USAID) implementing partners in Afghanistan during fiscal years 2009 through 2011, and the costs of security and plans of those implementing partners after the transition of security services to the Afghan Public Protection Force (APPF). We also determined whether USAID's implementing partners for selected projects were using PSCs licensed by the Afghan government. This report makes three recommendations to the USAID Mission Director, Kabul, to systematically assess security costs for (1) ongoing projects and (2) new and follow-on contracts, cooperative agreements, and grants. We also recommended that the Mission Director help ensure that USAID's implementing partners only use risk management companies licensed by the Afghan government.

When preparing the final report, we considered comments from USAID. USAID did not agree that it should do any additional cost assessments than it has already done or what would be done under its normal policies and procedures. We disagree that this is sufficient. Because the APPF is new and unique and its capabilities have not been proven, its costs should be closely monitored as USAID's implementing partners gain more experience with it. USAID concurred with our third recommendation. USAID's comments are reproduced in appendix III. We conducted this performance audit under the authority of Public Law No. 110-181, as amended; the Inspector General Act of 1978; and the Inspector General Reform Act of 2008.

Steven J Trent
Acting Special Inspector General for
Afghanistan Reconstruction

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ABBREVIATIONS AND ACRONYMS

APPF	Afghan Public Protection Force
FAR	Federal Acquisition Regulation
GIRoA	Government of the Islamic Republic of Afghanistan
ISAF	International Security Assistance Force
MOI	Ministry of Interior
OAA	Office of Acquisition and Assistance
OFM	Office of Financial Management
PLSO	Partner Liaison Security Office
PSC	Private Security Contractor
RMC	Risk Management Company
SIGAR	Special Inspector General for Afghanistan Reconstruction
USAID	U.S. Agency for International Development



Increases in Security Costs Are Likely under the Afghan Public Protection Force; USAID Needs to Monitor Costs and Ensure Unlicensed Security Providers Are Not Used

The U.S. Agency for International Development (USAID) relies heavily on implementing partners¹ to carry out its reconstruction and development assistance programs in Afghanistan. During fiscal years 2009 through 2011, USAID provided its implementing partners over \$4.2 billion for these programs. Implementing partners are responsible for their own security needs and, for the most part, contract with private security contractors (PSCs) for security services for their offices, housing, and project sites and for the movement of their personnel.

In August 2010, Afghanistan's President Karzai issued Presidential Decree 62, calling for the disbandment of PSCs. In March 2011, the Government of the Islamic Republic of Afghanistan (GIROA) issued *The Bridging Strategy for Implementation of Presidential Decree 62*, which provided for the eventual dissolution of most PSCs.² Under this strategy, GIROA required that responsibility for security services for development programs and projects transfer to a state-run Afghan Public Protection Force (APPF) by March 20, 2012. On the day of the transition, GIROA released an APPF transition implementation plan granting interim licenses to some PSCs allowing USAID's implementing partners more time to finalize security contracts with the APPF.

We initiated this audit to assess (1) the costs and the number of personnel and vehicles associated with PSCs for selected USAID projects during fiscal years 2009 through 2011 and (2) the potential costs related to the transition of security services from PSCs to the APPF and the plans of implementing partners after the transition. We also determined whether USAID's implementing partners for selected projects were using PSCs licensed by GIROA to operate in Afghanistan.

Overall, to address our objectives, we selected 35 of USAID's largest projects based on total expenditures during fiscal years 2009 through 2011. The 35 projects represented 17 implementing partners and had expenditures totaling more than \$3.2 billion, or more than 75 percent of USAID's total expenditures during the period.³ For the 35 projects, we requested information from the implementing partners on any PSCs they used, including personnel employed and vehicles used during the period. We also requested that the implementers provide invoices for PSC costs incurred during fiscal years 2009 through 2011. In coordination with USAID, we sent our information request to the 17 implementing partners and received responses from 13—representing 29 projects with expenditures of approximately \$2.9 billion.⁴ To assess the costs and personnel associated with USAID's PSCs, we analyzed the data provided by each of the 13 implementing partners that responded to our information request. To assess the costs of armed guards after the transition, we analyzed invoices and data for the 13 of the 29 projects that were going to be active as of the March 20, 2012, deadline and applied APPF rates; for expatriates, we met with several

¹Implementing partners, as used by USAID and in this report, represents both contractors and recipients of cooperative agreements and grants.

²PSCs providing services for International Security Assistance Force (ISAF) and Afghan National Security Forces' construction sites and for ISAF bases will be allowed to operate for up to 1 additional year. Entities accredited with diplomatic status will be exempt and able to continue the use of PSCs for their security needs.

³Projects may have had expenditures before and after the period examined, and not all projects were active all 3 years.

⁴Twenty-one of the projects were contracts, representing almost \$1.7 billion, or 58 percent, expended during the period, and 8 were cooperative agreements representing \$1.2 billion, or 42 percent expended during the period. No grants were in the top 35 USAID projects.

implementing partners and two professional organizations that represent PSCs to discuss their views on what will happen after the transition. To examine PSCs' licensing status, we analyzed information provided by the 17 implementing partners for each of the 29 projects. We discussed the use of PSCs and the transition to the APPF with officials from USAID, the Departments of Defense and State, six USAID implementing partners, and the APPF Advisory Group located under the NATO Training Mission-Afghanistan/Combined Security Transition Command-Afghanistan. We conducted our work in Washington, D.C., and Kabul, Afghanistan, from September 2011 through June 2012, in accordance with generally accepted government auditing standards. See appendix I for more detail on our scope and methodology.

BACKGROUND

USAID's implementing partners are responsible for their own security in Afghanistan, which can be challenging. Although reported incidents have declined in recent years,⁵ the average daily incidents as of March 2012 still numbered from 1 to more than 3 in 15 Afghan provinces.⁶ Implementing partners have a variety of ways to provide for security of their personnel and sites—contracting with PSCs, hiring unarmed watch keepers known as “chowkidars,” or providing their own armed security personnel. Many use a combination of these services, but most have contracts with at least one PSC to provide a variety of security functions. PSCs provide four basic services:

- Static (site) security—protecting fixed or static sites, such as housing areas, reconstruction work sites, or government buildings;
- Convoy security—protecting convoys traveling through unsecured areas;
- Security escorts—protecting individuals traveling through unsecured areas; and
- Personal security details—providing full-time protective security to high-ranking individuals.

PSCs may also provide other security services, such as operational coordination, intelligence analysis, and security training.

The vast majority of PSC personnel in Afghanistan are Afghan nationals. Expatriates and third-country nationals are also hired by PSCs, most often to provide management services or as security escorts for implementing partner personnel. While no official definition of an expatriate exists, USAID and its implementing partners generally consider expatriates to be U.S., Australian, Canadian, South African, or British citizens. Citizens of other countries—often from the Middle East or Central Asia—are considered third-country nationals.

Implementing partners are required to ensure that PSCs are approved for providing security services by GIRONA and USAID. Under Afghan law, implementing partners may only hire PSC firms that are registered with the Afghan Ministry of Interior (MOI). As of the end of fiscal year 2011, 45 PSCs were approved and registered with MOI. Implementers must also seek and receive consent or approval from USAID's Office of Acquisition and Assistance (OAA) at USAID's Kabul Mission before entering into any subcontract, including those with PSCs.⁷ OAA is responsible for managing most of USAID's contracts, cooperative agreements, and grants in Afghanistan.⁸ Further, USAID established the Partner

⁵Reported incidents were 6,386 in the first 3 months of 2012, compared to 7,413 in the first 3 months of 2011.

⁶Defense Intelligence Agency, *Afghanistan Security Incidents Database*, April 13, 2012.

⁷According to USAID, implementing partners are generally required to seek subcontract consent for contracts, and the Federal Acquisition Regulation (FAR) 44.2 provides the requirements concerning subcontract consent. Code of Federal Regulations Title 22 Part 226.25 requires recipients of USAID funds under a cooperative agreement seek approval of subcontracts. According to OAA, consent or approval only constitutes approval for the implementing partner to enter into a subcontract agreement with the PSC and not actual approval of the subcontract. Grants do not require OAA's consent.

⁸A limited number of financial instruments are managed at USAID headquarters in Washington, D.C.

Liaison Security Office (PLSO) at its Kabul Mission to provide a link between implementing partners and USAID for the safety and security of implementing partner personnel. PLSO personnel are available to assist OAA contracting and assistance officers by reviewing implementing partner security plans and vetting proposed security contract modifications. After OAA approves or consents to an agreement, implementers may enter into a subcontract for security services with PSCs. Subcontracts for PSC services may be found at multiple tiers of a contract or cooperative agreement; that is, an implementing partner may further subcontract a portion of a project to another entity, which may then subcontract for its security requirements.

Transition of Security Services to the Afghan Government

Because of Afghan concerns with the use of PSCs, on March 15, 2011, the head of the Afghan MOI and the Senior Advisor to the President issued a strategy for the dissolution of PSCs providing security services for reconstruction efforts. Under this strategy, all PSC contracts for development projects were to terminate by March 20, 2012, and responsibility for security transferred to a state-run APPF.⁹ Also in March 2011, the Commander of ISAF and the U.S. Ambassador to Afghanistan issued a memorandum responding to President Karzai's announcement concerning dissolution of PSCs and transfer to the APPF.¹⁰ The memorandum expressed support for the transfer of security services, but noted that a successful transition would depend on certain actions by the Afghan government, including the development of a fully functioning APPF by the end of the bridging period. The strategy called for periodic assessments conducted jointly by the U.S. and Afghan governments to assess the capabilities of the APPF at 6-, 9-, and 12-month intervals, and every 3 months thereafter. The first assessment, released in September 2011, found that the APPF did not show adequate competency in any of the six essential tasks and only met standards for 46 of the 166 transition-readiness areas. A second assessment was completed in December 2011, and a third assessment was due in March 2012. According to the U.S. Central Command, results are pending on the third assessment. To date, however, neither the December 2011 nor the March 2012 assessments have been released. In addition, according to the strategy, another assessment is due at the end of June 2012.

To assist with the buildup of the APPF and help ensure a smooth transition of security services, ISAF established the APPF Advisory Group to work with MOI to build and assess the capacity of the APPF. The working group includes representatives from the U.S. Embassy Kabul and USAID. Further, the Overseas Security Advisory Council has acted as a source of information and a forum for concerns for implementing partners on the transition. The Overseas Security Advisory Council is comprised of U.S. private sector and four public sector member organizations that represent specific industries or agencies operating abroad and provides direction and guidance to develop programs that most benefit the U.S. private sector overseas.

On January 10, 2012, President Karzai approved a model that allows implementing partners to use a risk management company (RMC) to advise on the security of sites, buildings, and personnel; logistics; transportation of goods and equipment; and contract management. RMCs can also provide training, contracting, and security advisory services to clients. Under this model, implementing partners requiring security services must contract with the APPF for security services, but they have the option of hiring an RMC to provide security consulting services. In addition, RMCs are allowed to provide lightly armed personnel for the purposes of personal protection. Current PSCs may become an RMC; however, a PSC may not hold both a PSC and an RMC license.¹¹ On March 20, 2012, GIRoA released an APPF transition

⁹MOI, *The Bridging Strategy for Implementation of Presidential Decree 62, (Dissolution of Private Security Companies); Bridging Period March 22, 2011 to March 20, 2012*, dated March 15, 2011. Security for ISAF convoys also transferred to the APPF in March 2012, but security services for ISAF facilities and construction sites will transfer to APPF in March 2013. The strategy exempts PSCs providing security services for diplomatic organizations.

¹⁰Letter to Minister of Interior, Afghanistan Bismullah Khan Mohammadi, March 15, 2010.

¹¹If current PSCs want to keep a PSC license to serve diplomatic clients, they must form a separate entity as an RMC.

implementation plan granting interim licenses to some PSCs allowing implementing partners more time to finalize security contracts with the APPF.

SIGAR's Alert Letter to the USAID Mission Director to Afghanistan

On March 9, 2012, we issued an alert letter to the USAID Mission Director, Kabul, identifying three concerns that we determined warranted immediate consideration ahead of the March 20, 2012, deadline for transitioning security services to the APPF. First, we noted the transition to the APPF could increase Afghan guard and expatriate personnel costs by as much as \$55.2 million for 13 of USAID's largest projects in the first year after transition to the APPF. Second, if the APPF was not fully functioning by the March 20, 2012, deadline and no extension was granted, at least 10 ongoing USAID projects with a total award value of \$899 million were at significant risk of termination based on USAID's own reporting. Third, we found two PSCs that were not licensed by MOI had contracts with USAID implementing partners as of December 2011. We suggested that the USAID Mission Director, Kabul, take certain actions addressing the concerns we raised, but he rejected our letter in its entirety. Because the Mission Director did not agree with our suggested actions, we address these concerns again in this report. In addition, our concerns were the subject of a Congressional hearing on March 29, 2012.¹²

AT LEAST \$300 MILLION WAS EXPENDED FOR SECURITY SERVICES FOR 29 USAID PROJECTS DURING FISCAL YEARS 2009-2011

At least \$300 million of the \$2.9 billion (or 10.4 percent) expended on 29 of USAID's largest projects during fiscal years 2009 through 2011 was for security services.¹³ Of this, at least \$140 million was for PSC personnel and \$27 million for vehicles. Other costs included communications equipment, fuel, life support, and additional labor.

All but one of the 29 projects we examined had PSCs for security during this period.¹⁴ Table 1 shows USAID's expenditures for the 29 reconstruction projects we examined and the portion that was spent on PSCs by fiscal year. Appendix II provides additional information on each of the 29 USAID projects we examined, including the PSC costs reported by the implementing partner.

¹²U.S. House of Representatives, Committee on Oversight and Government Reform, Subcommittee on National Security; *Are Changes in Security Policy Jeopardizing USAID Reconstruction Projects and Personnel in Afghanistan?*, March 29, 2012.

¹³Projects may have multiple tiers of subcontractors. While we attempted to identify PSC costs at all tiers, we could not verify whether we captured all PSC costs beyond a first-tier subcontractor reported by the implementing partner for any project. In addition, some implementing partners provided their own security services during this period, which we did not attempt to quantify for this report.

¹⁴For one project, the implementing partner hired its own armed security, which is also required to transition to the APPF.

Table 1: Total Project and PSC Expenditures for 29 USAID Projects, Fiscal Years 2009–2011 (dollars in millions)

Fiscal year	Total expenditures ^a	Expenditures for PSCs ^b	PSC expenditures as percent of total
2009	\$817.8	\$91.7	11.2
2010	992.1	105.8	10.7
2011	1,066.8	102.4	9.6
Total	\$2,876.7	\$299.9	10.4

Source: SIGAR analysis of USAID financial data and implementing partners' PSC invoices.

Notes:

^aAmounts paid by USAID to implementing partners.

^bAmounts paid by implementing partners to PSCs based on our review of invoices.

Personnel Costs Comprised \$140 Million in Expenditures

Personnel costs made up almost half of the \$300 million spent on security costs. Specifically, for 23 of the 29 projects we examined, at least \$140 million was for PSC personnel.¹⁵ The majority of PSC personnel were Afghans—more than 89 percent of all PSC positions were Afghan nationals¹⁶—yet over half of the personnel expenditures were for expatriate staff. Specifically, 59 percent was expended on expatriate labor, while 33 percent was for Afghan labor.¹⁷ Table 2 shows amounts spent on PSC personnel by fiscal year for these 23 projects.

Table 2: PSC Expenditures by Personnel Type, Fiscal Years 2009–2011 (dollars in millions)

Labor type	2009	2010	2011	Total	Percent of total
Expatriate	\$14.8	\$32.6	\$35.1	\$82.5	58.8
Third-country national	2.2	5.3	3.8	11.3	8.1
Afghan national	6.3	19.3	20.7	46.3	33.0
Total	\$23.3	\$57.2	\$59.6	\$140.2	100.0

Source: SIGAR analysis of data obtained from PSC invoices collected from 12 implementing partners

Note: Totals affected by rounding.

Data reported by implementing partners show that the number of armed expatriate PSC personnel steadily increased from fiscal year 2009 through fiscal year 2011, while armed Afghan PSC personnel first increased then decreased. Specifically, armed expatriate PSC personnel increased from 71 to 207, or almost 192 percent, from fiscal year 2009 to 2011, and armed Afghan PSC positions dropped in fiscal

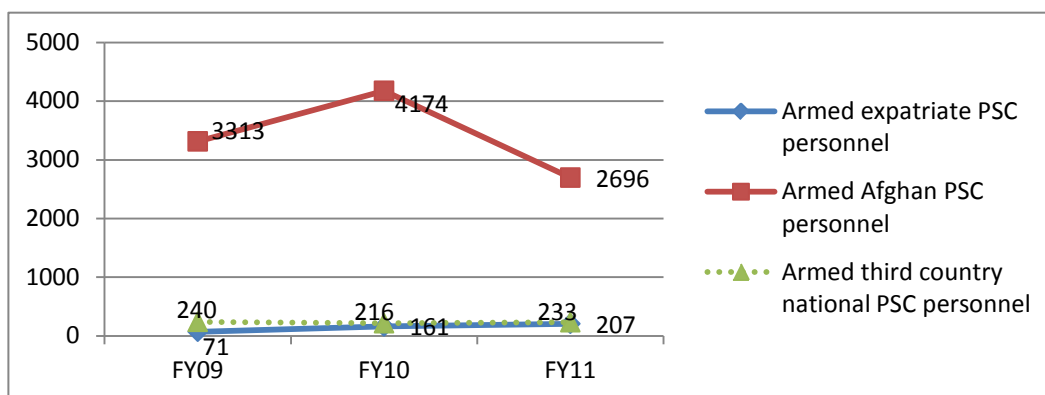
¹⁵We did not include labor costs for six projects implemented by the Louis Berger Group Inc./Black & Veatch Joint Venture because it did not provide the necessary detail. In addition, we could not determine labor categories from some of the PSC invoices for the remaining 23 projects, which results in understating the labor costs for these projects.

¹⁶Although most PSC personnel were armed, PSCs also hired a number of unarmed personnel. For the 29 projects we examined, implementing partners had contracted for 501, 677, and 581 unarmed personnel as of the end of fiscal years 2009, 2010, and 2011, respectively.

¹⁷Includes expenditures for both armed and unarmed personnel because the invoices did not separate the two.

year 2011 to almost 23 percent below the fiscal year 2009 level, after having increased in fiscal year 2010. The number of armed third country nationals was relatively constant. See figure 1.

Figure 1: Number of Armed PSC Positions by Nationality for 29 of USAID’s Largest Projects for Fiscal Years 2009-2011



Source: SIGAR analysis of USAID implementing partner data.

In addition, implementing partners for 8 of the 29 projects in our selection hired their own armed security personnel. These projects averaged more than 75 additional armed personnel per year.¹⁸

Vehicles Accounted for over \$27 Million in PSC Expenditures

Vehicle expenditures constituted almost 10 percent of the \$300 million spent on security services.¹⁹ Specifically, our review of invoices for 23 projects shows that implementing partners spent over \$27 million to purchase or lease vehicles during fiscal years 2009 through 2011—\$21.5 million for armored vehicles and \$5.6 million for other vehicles.²⁰ See table 3.

¹⁸ A total of 83, 80, and 76 armed personnel were employed directly by implementing partners at the end of fiscal years 2009, 2010, and 2011, respectively.

¹⁹ These expenditures included purchasing, leasing, and maintenance of vehicles. Some invoices billed costs for vehicles with a driver.

²⁰ This represents vehicles purchased or leased by PSCs that were reimbursed by implementing partners. It does not include vehicles that an implementing partner may have leased or purchased directly. It also does not include vehicle costs for six projects implemented by the Louis Berger Group Inc./Black & Veatch Joint Venture.

Table 3: PSC Vehicle Expenditures Reimbursed by Implementing Partners During Fiscal Years 2009-2011 (dollars in millions)

Vehicle type	2009	2010	2011	Total
Armored	\$5.2	\$7.6	\$8.7	\$21.5
Other	1.3	2.0	2.4	\$5.6
Total	\$6.4	\$9.6	\$11.1	\$27.1

Source: SIGAR analysis of data obtained from implementing partners' invoices for PSC security services for 23 projects.

Note: Totals affected by rounding.

As of December 5, 2011, almost half of all armored vehicles in use for the 15 active projects that we examined were leased.²¹ Table 4 shows the number of armored vehicles used and whether the vehicles were purchased, leased, or transferred from another USAID program or project.

Table 4: Armored Vehicles Leased, Purchased, or Transferred and in Use as of December 2011

Procurement method	Total	Percent of total
Leased	68	47.6
Purchased	32	22.4
Transferred	43	30.0
Total	143	100.0

Source: SIGAR analysis of data for 15 projects active and using armored vehicles as of December 5, 2011, obtained from implementing partners.

Afghan Government Delays Led Implementing Partners to Lease Additional Vehicles

We found that some implementing partners leased vehicles, at a total cost of \$4.1 million,²² because vehicles that they had already purchased were delayed in obtaining customs and registration approvals from GIRoA.

Implementing partners and PSCs are allowed to import armored vehicles to provide for the secure transportation of their personnel, but they must be properly licensed by GIRoA.²³ A company wishing to import an armored vehicle must receive prior authorization from MOI. Licensing is required by MOI, which charges an annual fee per vehicle. The Ministry of Finance manages customs processing and charges a customs tax on the vehicles once they arrive in country. According to the APPF Advisory Group, any vehicles that are currently registered with PSCs will have to be transferred if the PSCs obtain RMC licenses.

²¹Sixteen of the projects we examined were still active at the time of our information request—December 5, 2011. Fifteen of these projects used armored vehicles.

²²Funds spent for armored vehicles currently in use as of December 5, 2011.

²³Ministry of Interior Affairs, Deputy Office General Department, *Procedure of Import and Use of Secure Armored Vehicles, Items, Equipments and Temporary Technology Which Have Military and Security Usage*, April 24, 2011.

Six implementing partners reported administrative and bureaucratic delays ranging from 5 months to 2 years to get vehicles processed through customs and registered by GIRoA. For example:

- One implementer cited a time of 6 months on one project before vehicles were cleared for importation into Afghanistan and 24 months for another.
- The same implementing partner reported that registration only took 2 weeks after vehicles were held in customs for 6 months, while another implementing partner reported registration took up to 8 months for its project.
- One implementing partner cited a time of 2 years for customs clearance and vehicle registration on two projects.
- One implementing partner estimated that it took a total of 3 months to get new licenses once vehicles were transferred from other projects.²⁴

Implementing partners cited instances of collusion and corruption as a cause for the delays in getting vehicles through customs and registered. For example, according to one implementing partner, an Afghan ministry official attempted to charge an additional \$10,000 to register the company's vehicles; however, the implementing partner refused and leased vehicles instead. Some implementing partners also alleged collusion between ministry officials and owners of local vehicle leasing companies.

In December 2011, personnel in the Kabul Mission's PLSO informed us they were interviewing candidates to hire a local national familiar with the customs and registration processes to assist implementing partners in clearing these administrative barriers. As of June 2012, PLSO is awaiting final security clearance and expects the individual to begin work in July. PLSO added that it had sent letters urging MOI to complete outstanding registrations, but MOI's response was a request that these letters be sent from the U.S. Embassy.

SECURITY COSTS WILL LIKELY INCREASE DURING THE FIRST YEAR OF TRANSITION TO APPF FOR 13 USAID PROJECTS, BUT USAID AND IMPLEMENTING PARTNERS HAVE LIMITED EXPERIENCE WITH THE APPF

In our alert letter, we reported that security costs for 13 USAID projects that transitioned to the APPF could increase by as much as \$55 million during the first year after the transition. USAID did not agree and has since provided us information that it says shows that security costs had decreased since the transition to the APPF. However, we found this additional information incomplete and inconsistent. Overall, USAID's implementing partners experience with the APPF is limited, and costs remain uncertain.

Security Costs Could Increase by as Much as \$55 Million for 13 Projects

Assuming security requirements for armed Afghan guards do not change, the transition to the APPF will likely increase Afghan labor costs by up to 46 percent or \$3.1 million during the first year of transition for the 13 projects that transitioned to the APPF. In addition, some implementing partners indicated they may hire more expatriates through RMCs to facilitate the transition; by one estimate, expatriate labor costs could increase as much as 200 percent or \$52.1 million during the first year of transition for the 13 projects. Implementing partners identified other factors, such as increased security infrastructure, that may further increase costs. However, overall, USAID disagreed with our assessment and, based on its analysis, suggests that security costs under the APPF had decreased. We found USAID's data to be incomplete and inconsistent.

²⁴Re-registration of the vehicles was required because the vehicles were transferred from one project to another.

Afghan Armed Guards Could Increase Costs by \$3.1 Million

The APPF will charge a monthly fee for an APPF armed guard, which includes the guard's salary and other fees. According to rates on the APPF Advisory Group's website, MOI has set a base salary of a guard at \$100 a month. The APPF will add charges for firearms; ammunition; training; and administrative and overhead fees, among other charges, to the monthly fee. Furthermore, the APPF will apply a profit of 20 percent to all charges associated with a guard, except for uniform and pension charges.²⁵

According to the Overseas Security Advisory Council, the current average salary for an Afghan guard ranges from \$250 to \$350 per month, and our analysis found the average burdened rate²⁶ for an Afghan guard was \$566 per month in fiscal year 2011. Assuming that implementing partners pay their guards the same salary as before the transition, the burdened rate for a guard after the transition will be between \$710 and \$830 per month, an increase of between 25 and 46 percent.²⁷ Table 5 illustrates the charges that will be assessed per guard per month by the APPF, using the salary for an armed PSC guard in fiscal year 2011 of \$250 and \$350.

²⁵Several fees have increased or changed since we began our work in November 2011. For example, the yearly cost for a uniform increased almost \$100 to \$600 per year, and the pension charge increased from 11 percent to 16 percent and was then revised to a flat \$200 per year.

²⁶A burdened rate includes the salary of a guard, administrative and overhead costs, profit, and any related other direct costs. An unburdened rate includes only the salary of a guard.

²⁷Implementing partners may pay their guards the same pay that they received before the transition if it was more than the APPF base pay. This pay is considered hazard pay.

Table 5: Fees for an APPF Guard and Estimated Total Monthly Costs^a

APPF fee	Fee per guard	Total for guard with salary of \$250	Total for guard with salary of \$350
Base salary	\$100.00	\$100.00	\$100.00
Hazard pay	TBD by customer	150.00	250.00
Bank charges	2.00	2.00	2.00
Medicine	8.00	8.00	8.00
Martyr contribution	18.00	18.00	18.00
Burial contribution	12.50	12.50	12.50
Training	10.00	10.00	10.00
Food stipend	120.00	120.00	120.00
AK-47 rifle	25.00	25.00	25.00
9mm side arm	17.00	17.00	17.00
Ammunition	9.00	9.00	9.00
Administrative and overhead	65.00	65.00	65.00
Profit	20% of above total	107.00	127.00
Pension ^b	16.67	16.67	16.67
Uniform and equipment ^c	50.00	50.00	50.00
Total per guard		\$710.00	\$830.00

Source: SIGAR analysis of information provided by the APPF Advisory Group and MOI.

Notes:

^aThese rates are from the APPF Advisory Group website as of mid April 2012.

^bWe spread the \$200 annual charge over 12 months.

^cWe spread the \$600 annual charge over 12 months.

For the 13 USAID projects we examined that were active after the March 20, 2012, transition to the APPF, we found that these projects had 964 positions for armed Afghan guards as of September 30, 2011. If the security needs for these projects do not change, these guards will cost implementing partners an additional \$1.7 to \$3.1 million (or up to 46 percent) for the first year of the transition to the APPF.

Expatriates Could Increase Costs by as Much as \$52.1 Million

Implementing partners cited the possible need for additional expatriate security personnel as a result of uncertainty of the quality of security services to be provided by the APPF. Implementing partners are particularly concerned about the innermost level of security for their personnel. According to the Chairman of the Overseas Security Advisory Council, implementing partners estimate that the number of expatriate personnel could increase up to 200 percent. The 13 projects that transitioned to the APPF had 79 positions for armed expatriate labor. Assuming an increase of expatriate labor of 200 percent, these 13 projects could cost as much as \$52.1 million in additional labor costs for the first year.²⁸

In its comments on a draft of this report, the USAID Mission Kabul questioned our assumption that expatriate labor costs could increase as much as 200 percent. As the Mission notes, the early experience with the APPF has not borne this out. Nevertheless, the final number of expatriates and APPF personnel remains to be determined. The APPF is a nascent, unproven entity and, according to one privately

²⁸This figure was calculated using the monthly average burdened rate for an expatriate in fiscal year 2011 of \$27,454.

employed security officer in Afghanistan, its leadership and administration have been questionable. Until the APPF demonstrates a sustainable capability in its administration of security, more expatriates will be needed.

Other Costs Could Increase

In addition, multiple implementing partners cited the need for additional security infrastructure, such as blast walls and reinforced doors, as a result of the transition. Further, USAID announced to implementing partners it will consider sole source requests to allow implementing partners to contract with RMCs that previously provided security for their projects as PSCs. Limiting competition could lead to higher costs.

USAID Reports Security Costs Had Decreased, but Its Data Was Inconsistent and Incomplete

In April 2012, the USAID Mission Kabul provided us a cost analysis that it had done based on data it obtained from implementing partners. USAID asked implementing partners to report the cost of security services provided by PSCs during the last full month before the transition to the APPF, and the costs of APPF services for the first month after the transition. In response, 15 implementing partners provided USAID information on 32 projects.

USAID concluded, from the data it received, that security costs had decreased over three percent as a result of the transition. We note that of the 13 largest USAID projects that continued after the March 20, 2012, transition, only 6 of these were included in USAID's analysis. We also found the data provided by the implementers was inconsistent and incomplete, which calls into question USAID's overall conclusion that security costs had decreased. For example, we noted the following:

- One implementing partner reported that it was performing some functions previously done by its PSC for two of its task orders, such as recruiting guards, distributing equipment, and paying guards until the APPF could do so. These costs were not included in USAID's totals.
- The implementing partners for two projects noted in their responses that the pre- and post-APPF costs were not accurate comparisons, due to a significant decrease in project personnel or changes in scope of work.
- For one project, the implementing partner had yet to sign a contract with the APPF for all of its security needs and, therefore, costs for the APPF were not included in its response.
- The security costs reported for four projects reportedly decreased significantly after the implementing partner signed with the APPF—31, 32, 32, and 51 percent, respectively. We asked the USAID Mission Kabul why these numbers declined so much, especially the 51 percent decrease, but the Mission did not know, telling us that we would have to contact the implementing partners for this information.

Finally, several of USAID's implementing partners that had previously used PSC services indicated that they would only be using an RMC and not the APPF. These reports raise questions about how RMCs will be used. To date, GIRA has not indicated whether using an RMC without the APPF will be allowed.

Experience with APPF Is Limited, and Costs Are Uncertain

Although, the APPF has entered into contracts to provide security services for a number of USAID's implementing partners, signed contracts are only the first step in the APPF providing security services. USAID's implementing partners have limited experience with the APPF, and costs are still uncertain. While the transition to the APPF is underway, the eventual costs of security for USAID's ongoing and future programs and projects remain to be determined.

In January 2012, USAID's assessment of contingency plans submitted by its implementing partners found that, if the APPF is not prepared to provide adequate security services and an extension is not granted by GIRoA, 10 projects with a total award value of \$899 million were at significant risk of termination. The assessment also found that an additional 19 projects valued at \$451 million may require either a partial termination or modification of operations if the APPF is unable to provide security services. The interim licenses granted for some projects allow implementing partners additional time to transition. Nevertheless, although no implementing partners have terminated their projects because of concerns with APPF, the projects USAID identified at risk of termination or modification are still at risk until the implementing partners determine that the APPF can provide adequate security services.

Also, before the transition to the APPF occurred, implementing partners expressed concern that the Federal Acquisition Regulation and USAID directives require that certain clauses be inserted into contracts or cooperative agreements, some specifically addressing security matters, and these clauses are further required to be inserted into subcontracts. However, the APPF contract template does not contain all of these required clauses. In its comments on a draft of this report, the USAID Mission Kabul reported that its implementing partners have been able to add the required clauses to the APPF contract template on a case-by-case basis, though USAID did not provide us with any examples of these contracts, as we requested.

Also of some concern, according to the APPF Advisory Group website as of June 19, 2012, we note that 19 RMCs had been licensed by the MOI. This is significantly less than the 45 PSCs previously licensed to provide security services.

Further, as of June 2012, most of USAID's implementing partners had less than 3 months experience with the APPF. In following up with some of USAID's implementing partners about their experiences with the APPF, they expressed concern about the initial transition and operations. For example,

- Implementing partners expressed concern about lines of command and control over the APPF guards. For example, even though its contract with the APPF allows it to reject unsuitable personnel and propose replacements, one USAID implementing partner reported that it has been unsuccessful in doing so.
- In one instance, APPF personnel reported for duty in Afghan National Police uniforms; the implementing partner turned the personnel away and asked them to report in APPF uniforms.
- At one site served by APPF, the implementing partner reported that the provision of weapons and uniforms had been held up for almost 2 months awaiting approval of the APPF's "tashkil" or its personnel and equipment authorization. As noted by the implementing partner, the delay could have been disastrous if any serious security incident had occurred.
- An implementing partner reported that some APPF officers were assigned to sites that were not near their homes. These officers "demanded" services that were not anticipated, such as trips back to Kabul to visit their family, a car and fuel, and other forms of life support that were not originally agreed to in the contract.
- One implementing partner also reported that the APPF was submitting invoices for guard services for projected hours worked, rather than actual hours. The partner noted that it had not seen that the APPF had a system to adjust the projected costs to actual.

Not all experiences with the APPF have been negative. One implementing partner reported that all its APPF guards transitioned from its PSCs, and its RMC has "continuously" advised the APPF regarding the security operation.

IMPLEMENTING PARTNERS USED UNLICENSED PSCS FOR SIX PROJECTS

GIRoA requires PSCs to hold a current operating license from MOI to provide security services. To obtain an operating license, a PSC must comply with certain MOI procedural and legal requirements and pay a yearly fee. Implementing partners must seek consent or approval from USAID before entering into

any subcontracts.²⁹ A May 2010 report by the USAID Office of Inspector General found that USAID had not ensured that all PSCs used by implementing partners were licensed by the MOI and recommended USAID notify the implementing partners not using licensed PSCs of this requirement.³⁰ USAID concurred with this recommendation.

Nevertheless, we determined that implementing partners used unlicensed PSCs for six projects. Three of these projects were among the 29 projects we reviewed.³¹ As of December 5, 2011, unlicensed PSCs were still providing security services for two of these projects. After we issued our March 8, 2012, alert letter citing the use of unlicensed PSCs, USAID provided additional documentation regarding the transition to the APPF. Based on this documentation, we found three additional projects where implementing partners used unlicensed PSCs for security services.

Implementing partners' failure to contract with licensed PSCs is illegal in Afghanistan and puts both USAID projects and reconstruction funding at risk. Despite the USAID Inspector General's prior report, USAID did not have a process requiring implementing partners to submit MOI licenses for their PSCs or an established process for reviewing these licenses before providing consent or approval for subcontracts.

CONCLUSION

During fiscal years 2009 through 2011, USAID provided its implementing partners over \$4.2 billion for reconstruction and development assistance programs in Afghanistan. Without adequate security for USAID's implementing partners, many of these programs and projects could be scaled back or terminated, putting USAID reconstruction funding at risk.

The March 2012 transition to the APPF has increased the uncertainty over security, though USAID reports that its implementing partners are working with the APPF, as required, and no programs or projects have been terminated. Nevertheless, the transition is in its early stages and USAID and its partners have limited experience with the costs and adequacy of APPF's security services. USAID's analysis of transition costs was limited, and we found its data was incomplete and inconsistent among the implementing partners that provided data. Based on our analysis, security costs are likely to increase and could be substantial, and some initial reports are that the transition to the APPF has encountered some issues that need to be addressed. These costs should be monitored for ongoing projects, as well as specifically addressed on future USAID programs and projects, especially as the implementing partners gain experience with the APPF.

In addition, USAID did not have a system in place to ensure that all PSCs used by its implementing partners were licensed to operate in Afghanistan. While PSCs are being phased out, USAID must ensure that any RMCs implementing partners contract with are properly licensed by GIROA.

²⁹Consent is required for contracts and approval is required for cooperative agreements.

³⁰USAID Office of Inspector General Audit Report No. 5-306-10-009-P, Audit of USAID/Afghanistan's Oversight of Private Security Contractors in Afghanistan, May 21, 2010.

³¹One project used two unlicensed PSCs.

RECOMMENDATIONS

Given the likely increase in security costs under the APPF, we recommend that the USAID Mission Director, Kabul:

1. Perform a comprehensive analysis of security costs for all ongoing projects that are using or plan to use APPF security services and determine a) if funding will be available to cover any additional security costs and b) the effect the additional costs will have on overall project implementation.
2. Before deciding whether to award new or follow-on contracts, cooperative agreements, or grants for reconstruction and development projects, conduct a cost-benefit analysis for each award that methodically assesses whether U.S. funds should be spent on other projects if the costs of security exceed any benefits that USAID expects to derive from these projects.

To ensure implementing partners only use RMCs licensed by MOI, we recommend the USAID Mission Director, Kabul:

3. Institute a formal process that requires implementing partners to submit MOI licenses to OAA and requires OAA to ensure they are still valid and to document these reviews prior to approving or consenting to the subcontract award.

COMMENTS

We provided a draft of this report to USAID and the U.S. Central Command for comment. The USAID Mission Kabul provided detailed comments, which are reproduced in appendix III. We also met with USAID Mission Kabul officials on April 17 and 30, 2012, to discuss the status of the transition to the APPF and the alert letter. The U.S. Central Command did not provide formal comments. Both USAID and the U.S. Central Command noted some technical changes and clarifications, which we have incorporated into this final report, as appropriate.

Overall, the USAID Mission said the report provided some useful insights, but disputed much of our analysis supporting likely increases in security costs during the first year of transition for the 13 projects we examined. USAID's principal disagreement with our cost analysis was that security needs will not change; in particular, USAID contends that the increase in expatriate labor that some experts reported could increase as much as 200 percent is not likely. We clearly noted in the report that this was an upper limit, but should be considered as a possibility. Nevertheless, early indications from some of USAID's implementing partners are that more expatriates are being hired, but not at double or triple the rates from before the transition. While we would welcome the lower (or no) increase in expatriate labor costs that USAID is expecting, the eventual number of and use of expatriates remains to be determined.

USAID Mission Kabul also did not concur with the first two recommendations, saying (1) its analysis shows security costs declining for ongoing projects as of April 2012 and further analysis was not necessary and (2) for future projects, its standard policies and procedures for entering into contracts, cooperative agreements, or grants already require the consideration of all costs associated with the project, including security services.

- Concerning recommendation number one, the data USAID used in its analysis was collected just weeks after the transition. Although USAID's data showed security costs were decreasing, we found the data incomplete and inconsistent among the implementing partners that responded to USAID's data request, which calls into question USAID's conclusions. While decreased security costs would be a good outcome, the transition to the APPF is in its early stages and USAID and its implementing partners do not have much experience with it. We continue to believe that a systematic monitoring of security costs for ongoing projects would be useful to document

implementing partners' experiences with the APPF, and to provide a longer-term analysis of the costs involved.

- Concerning recommendation number two, the APPF is a new Afghan entity that is untested. A September 2011 assessment found the APPF was not ready to provide security. The results of planned assessments from December 2011 and March 2012 have not been released. This lack of transparency raises doubts about the capability and capacity of the APPF to provide the security necessary for USAID's implementing partners. If it cannot, USAID's investment in Afghanistan's development could be at risk if implementers withdraw or projects are cut short. We continue to urge USAID to specifically consider the security needs and costs with its implementing partners as new programs and projects are initiated. The costs of security should be weighed against the benefits of the project *before* contracts, cooperative agreements, or grants are entered into.

Overall, we continue to urge the USAID Mission to systematically track the security costs of the APPF as implementing partners gain more experience with it. Specifically, USAID should monitor security costs over time, ensure implementing partners report data using common definitions and time periods, and explain variances as they occur.

In regards to recommendation number three, the USAID Mission concurred and noted actions planned to ensure RMCs are properly licensed with the GIROA before contracts can be entered into.

APPENDIX I: SCOPE AND METHODOLOGY

This report provides the results of the Office of the Special Inspector General for Afghanistan Reconstruction's audit of the costs of private security contractors (PSCs) associated with the U.S. Agency for International Development's (USAID) reconstruction and development assistance programs in Afghanistan. We initiated this audit to assess (1) the costs and the numbers of personnel and vehicles associated with PSCs for selected USAID projects during fiscal years 2009 through 2011 and (2) the potential costs related to the transition of security services from PSCs to the Afghan Public Protection Force (APPF) and the plans of implementing partners after the transition. We also determined whether USAID's implementing partners for selected projects were using PSCs licensed by the Government of the Islamic Republic of Afghanistan (GIROA) to operate in Afghanistan. In conducting this audit, we reviewed documents covering the period September 2007 to June 2012.

To address our objectives, we selected 35 of USAID's largest projects representing almost \$3.27 billion, or more than 75 percent of the total expenditures during fiscal years 2009 through 2011.³² These projects represented 17 implementers. To select the projects, the USAID Office of Financial Management (OFM) provided a list of all 162 USAID contracts, cooperative agreements, and grants over \$100,000 that had expenditures during fiscal years 2008, 2009, 2010, and 2011. We compared the accrued expenditures for all 162 awards in the OFM report to computer-processed data previously provided to us from USAID's financial information system. We reconciled the total disbursements in the OFM report to USAID's financial system to within 97.7 percent accuracy. We also identified some additional discrepancies in the computer-processed data report, such as expenditures for one financial instrument was listed under different line items, which USAID corrected. Therefore, we concluded that the data were sufficiently reliable for the purposes of our objectives. Once we were satisfied the data met our needs, we excluded any inter-governmental transfers, GIROA grants, or grants to multilateral organizations. We then stratified the projects by total expenditures to select USAID's 35 largest projects. Finally, we assessed the adequacy of internal controls over USAID's financial data, including its assessment of implementing partners' security costs after the transition to the APPF, through interviews with cognizant officials and reviews of relevant documents. The results of our assessment are included in the body of this report.

To determine the PSC costs and the numbers of personnel and vehicles used for the 35 largest projects, we requested information from the associated implementing partners on any PSC used, personnel they employed, and vehicles used during fiscal years 2009 through 2011. We met with six implementers to discuss our objectives and to vet our questions and the format of our information request prior to sending to all 17 implementing partners. In coordination with USAID, we sent our request for information to the implementing partners and received responses from 13, representing 29 projects.³³ We also requested that the implementing partners provide PSC invoices for any PSC costs incurred during fiscal years 2009 through 2011. The format and detail of the invoices we received varied greatly from one project and implementing partner to the next. We recorded the total for each month and identified certain cost elements, where possible; specifically, (1) labor costs for expatriates, third country nationals, and local nationals and (2) the costs for both armored and unarmored vehicles. We also documented by year the number of PSC personnel positions and internal armed security personnel positions and the number and type of vehicles used. We also analyzed the narratives provided by implementing partners specific to questions we asked on challenges getting armored vehicles through customs and registered by the GIROA, and other significant costs associated with security services to identify trends and common responses.

However, for one implementing partner, Louis Berger Inc./Black & Veatch Joint Venture, we could not identify with certainty the PSC costs for the six projects in our selection because the invoices also

³²Projects included may have had expenditures before and after the period examined. Further, not all projects were active all 3 fiscal years.

³³Twenty-one of these projects were contracts, representing almost \$1.7 billion or 58 percent of expenditures during the period, and 8 were cooperative agreements representing \$1.2 billion or 42 percent spent during the period. No grants were in the largest 35 projects.

included costs for projects not in our selection. Instead, we asked the Joint Venture to provide its security costs for the six projects for all 3 years, which means the personnel and vehicle costs we report by year do not include these six projects. However, the numbers of personnel and vehicles we report do include these projects.

To estimate the labor costs associated with the transition to the APPF, we calculated an average burdened labor rate for Afghan guards and expatriate security managers before the transition by analyzing the labor rates charged on invoices for 10 projects in fiscal year 2011. For each project, we took the burdened labor rates from three invoices—one from early in the year, one from mid-year, and one from late in the year—for a total of 30 invoices and averaged them together. For Afghan guards, the rate was \$566 per month; for expatriate staff, the rate was \$27,454 per month.

- To estimate the costs for an Afghan guard after the transition to the APPF, we obtained an unburdened labor rate for an Afghan guard from the Overseas Security Advisory Council (\$250 to \$350 per guard) and added the APPF fees published on the AFFP Advisory Group's website as of mid-April 2012 to determine the fully burdened rate of an APPF guard. To calculate the additional estimated cost for Afghan guards, we subtracted the burdened rate we calculated of \$566 per month from these new figures.
- To estimate the costs for expatriate security managers after the transition to the APPF, we multiplied the calculated burdened rate (\$27,454 per month) by the increase (up to 200 percent) projected by the Overseas Security Advisory Council based on meetings with implementing partners.

To estimate the additional costs of security services for the first year after the transition to the APPF for the 13 projects we examined that transitioned to the APPF as of March 20, 2012, we (1) applied the calculated increase in the burdened labor rate for the number of Afghan guards they had been using and (2) added the projected increase in the number of expatriate managers they had been using.

In addition, we reviewed numerous documents, reports, studies, memoranda, and guidance related to PSCs and the transition to the APPF. We reviewed guidance and regulations by the Afghan Ministry of Interior on PSCs and risk management companies, the GIRoA/International Security Assistance Force/U.S. Embassy 6-month assessment of the APPF, Partner Liaison and Security Office (PLSO) reviews of three implementing partners' security plans or security proposals, and USAID's analyses of the pre- and post-transition costs from April 2012. We discussed the costs of PSCs and USAID's plans for transitioning to the APPF with officials from the USAID Mission's Office for Acquisition and Assistance and PLSO; USAID's Office of Financial Management; and contracting officers, contracting officers' technical representatives, and program managers from various program. In addition, we discussed the build-up and capacity of the APPF with the APPF Advisory Group under the NATO Training Mission-Afghanistan/Combined Security Transition Command-Afghanistan, and we attended two Industry Days hosted jointly by the Afghan Ministry of Interior and the APPF Advisory Group to update the development community on the capacity and transition to the APPF. We also attended a meeting of the Overseas Security Advisory Council and met with officials from the Professional Services Council, Inc., and six implementing partners to obtain information on plans to transition to the APPF.

We conducted work in Washington, D.C., and in Kabul, Afghanistan, from September 2011 to June 2012, in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit was conducted under the authority of Public Law No. 110 181, as amended; the Inspector General act of 1987; and the Inspector General Reform Act of 2008.

APPENDIX II: PSC EXPENDITURES FOR 29 OF USAID'S LARGEST PROJECTS FOR FISCAL YEARS 2009 THROUGH 2011

The following table lists 29 of the 35 U.S. Agency for International Development (USAID) projects that USAID reported having the largest value of expenditures during fiscal years 2009 through 2011. Implementing partners for six of the projects did not respond to our request for information. We analyzed invoices for each of these projects to determine how much was spent for private security contractors (PSCs). Projects may have multiple tiers of subcontractors. While we attempted to identify PSC costs at all tiers, we could not verify whether we captured all PSC costs beyond a first-tier subcontractor reported by the implementing partner for any project. In addition, some implementing partners provided their own security services during this period, which we did not attempt to quantify for this report. In one case, USAID's implementing partner did not use a PSC. For the 29 projects we examined, PSCs expenditures totaled at least \$299 million or about 10.4 percent of total expenditures during fiscal years 2009 through 2011.

Table I: Total Expenditures and PSC Expenditures for 29 of USAID's Largest Projects, Fiscal Years 2009-2011

Agreement number	Implementing partner	Agreement type	Project expenditures for fiscal years 2009-2011	PSC expenditures for fiscal years 2009-2011	PSC expenditures as percent of total	Active as of March 20, 2012
306-DFD-A-00-08-00304-00	International Relief and Development, Inc.	Cooperative Agreement	\$470.7	\$37.9	8.1	No
DFD-I-00-05-00250-00	Development Alternatives, Inc.	Contract	261.6	33.1	12.7	No
306-A-00-08-00509-00	International Relief and Development, Inc.	Cooperative Agreement	258.6	21.3	8.2	No
306-A-00-09-00511-00	Central Asia Development Group, Inc.	Cooperative Agreement	195.9	-	0.0	Yes
306-C-00-07-00508-00	Deloitte Consulting, LLP	Contract	169.6	8.7	5.1	No
306-I-09-06-00517-00	The Louis Berger Group Inc./Black & Veatch Joint Venture	Contract	138.9	9.5	6.9	No
306-I-08-06-00517-00	The Louis Berger Group Inc./Black & Veatch Joint Venture	Contract	129.5	47.7	36.9	No
306-I-01-06-00517-00	The Louis Berger Group Inc./Black & Veatch Joint Venture	Contract	88.2	13.9	15.8	No
306-DOT-I-01-08-00033-00	Chemonics International, Inc	Contract	87.8	17.6	20.1	Yes
306-C-00-07-00501-00	Chemonics International, Inc	Contract	87.6	6.8	7.7	No

Agreement number	Implementing partner	Agreement type	Project expenditures for fiscal years 2009-2011	PSC expenditures for fiscal years 2009-2011	PSC expenditures as percent of total	Active as of March 20, 2012
306-I-04-06-00517-00	The Louis Berger Group Inc./Black & Veatch Joint Venture	Contract	87.0	8.4	9.6	No
306-A-00-09-00508-00	Development Alternatives, Inc.	Cooperative Agreement	84.5	3.1	3.7	Yes
306-M-00-06-00508-00	Creative Associates International, Inc.	Contract	70.7	2.2	3.1	No
306-C-00-07-00503-00	Development Alternatives Inc.	Contract	67.4	8.3	12.4	Yes
306-A-00-08-00529-00	Consortium for Elections and Political Process Strengthening	Cooperative Agreement	66.4	14.3	21.5	Yes
306-DFD-I-06-05-00225-00	International Foundation For Election Systems	Contract	61.4	13.7	22.4	Yes
306-A-00-09-00510-00	CARE International	Cooperative Agreement	59.3	0.8	1.3	No
306-M-00-06-00505-00	International Relief and Development, Inc.	Contract	54.9	7.5	13.7	No
306-EEM-I-04-07-00005-00	Deloitte Consulting, LLP	Contract	53.9	6.9	12.9	Yes
306-DOT-I-02-08-00035-00	Development Alternatives, Inc.	Contract	49.8	5.8	11.7	Yes
306-I-14-06-00517-00	The Louis Berger Group Inc./Black & Veatch Joint Venture	Contract	44.9	4.0	8.9	No
306-M-00-05-00516-00	Chemonics International, Inc	Contract	44.5	5.0	11.2	No
306-C-00-10-00527-00	Chemonics International, Inc	Contract	41.2	2.6	6.3	Yes
306-C-00-09-00529-00	Chemonics International, Inc	Contract	38.3	6.9	18.1	Yes
306-A-00-06-00523-00	JHPIEGO Corporation	Cooperative Agreement	37.2	1.0	2.7	Yes
306-A-00-06-00520-00	Academy for Educational Development	Cooperative Agreement	34.3	0.7	2.1	No

Agreement number	Implementing partner	Agreement type	Project expenditures for fiscal years 2009-2011	PSC expenditures for fiscal years 2009-2011	PSC expenditures as percent of total	Active as of March 20, 2012
306-I-02-06-00517-00	The Louis Berger Group Inc./Black & Veatch Joint Venture	Contract	31.5	6.9	21.9	No
306-C-00-11-00506-00	Black & Veatch Special Projects Corporation	Contract	30.8	2.3	7.4	Yes
306-C-00-10-00526-00	Development Alternatives, Inc.	Contract	30.6	2.9	9.6	Yes
Total			\$2,876.7	\$299.9	10.4	

Source: SIGAR analysis of USAID financial data and implementing partners' PSC invoices.

APPENDIX III: COMMENTS FROM THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



USAID | AFGHANISTAN

MEMORANDUM

June 12, 2012

TO: Jenniffer F. Wilson, Deputy Assistant IG for Audits
Special Inspector General for Afghanistan Reconstruction
(SIGAR)

FROM: S. Ken Yamashita, Mission Director

SUBJECT: Draft SIGAR Report entitled "Likely Increase in Security Costs under the Afghan Public Protection Force and Continued Use of Unlicensed Security Providers Place USAID Projects at Risk", (SIGAR 12-10)

REF: SIGAR Transmittal email dated 5/16/2012

Thank you for providing USAID/Afghanistan with the opportunity to review the subject draft audit report. Set forth below are our comments on the draft report, including our response to the recommendations contained therein.

PART I: USAID'S General Comments on the Draft Report

USAID/Afghanistan welcomes SIGAR's audit into possible changes in costs resulting from security transitions to the Afghan Public Protection Force (APPF). The draft report contained helpful insights in some areas; however, in other areas, data and information referenced in the draft report appear outdated and, in some cases, inconsistent with more recent data received directly from our implementing partners (IPs). For example, page eight of the draft report states that security costs may increase by \$55 million, and page 11 of the draft report emphasizes the number of projects that would be risk at if APPF were unsuccessful. USAID requests that the final report include updated information and data that reflect the actual post-March 20, 2012, experience as of the date of issuance of the report. These additions would include information we previously provided to SIGAR that no USAID project has terminated and no USAID IP has demobilized during the almost three months following the March 20, 2012, transition to APPF. In addition, the data received from IPs do not support the reported increase in security costs.

See SIGAR
comment 1.

Page 2 of the draft report states that USAID IPs face "[challenges] due to an increase in attacks in Afghanistan since 2009." The footnote to the draft report attributes this statement to Defense Intelligence Agency (DIA) data from April

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2012. USAID does not question the DIA data, but specifically with respect to our IPs and the security situation for IPs, the data submitted by them to USAID and compiled by USAID indicate a decrease in the average number of IP-related monthly casualties from 26 in 2010 to three in 2012, as well as a decrease in the average number of monthly incidents from 57 in 2010 to 10 in 2012.¹

See SIGAR
comment 2.

The draft report's characterization of the USAID/Afghanistan's Partner Liaison Security Office (PLSO) needs to be clarified for accuracy. Specifically, pages two to three of the draft report states:

Further, USAID established [PLSO] at its Kabul Mission to provide a link between implementing partners and USAID for the safety and security of implementing partner personnel. PLSO personnel are available to assist OAA contracting and assistance officers by reviewing implementing partner security plans and vetting proposed security contract modifications.

See SIGAR
comment 3.

We are very concerned about the safety and security of our IPs and their staff, but for accuracy it is important to clarify that USAID, including the PLSO, does not provide advice and counsel to IPs on their security posture and does not review or comment on their security plans. PLSO serves as a vehicle for the exchange of security-related information between USAID and IPs. As noted elsewhere in the draft report, our IPs are responsible for their security. We ask that SIGAR revise its statements in the draft report related to the actual role and responsibility of PLSO.

Page three of the draft report states "... implementing partners requiring security services must contract with the APPF" It is important to make clear in the report that IPs are not required to contract with APPF. If they determine, at their sole election, a need for commercial security services as of March 20, 2012, then they must contract with APPF.

See SIGAR
comment 3.

Pages seven to eight of the draft report state:

Implementing partners and PSCs are allowed to import armored vehicles to provide for the secure transportation of their personnel, but they must be properly licensed by GIRoA. ...

¹IPs report and USAID tracks incidents that fall into three broad categories: 1) criminal incidents including theft, harassment, kidnapping, etc.; 2) kinetic incidents such as small-arms fire, indirect fire, and complex attacks; and 3) incidents involving explosive attacks such as improvised explosive devices. IP reporting includes information about casualties – broadly defined as incidents that result in an injury to, or the death of any person.

According to the AAG, any vehicles that are currently registered to PSCs will also have to be transferred if the PSCs obtain RMC licenses.

Although the Afghan government has a single registration process for armored vehicles, armored vehicles procured by USAID IPs are titled to USAID, and title for these vehicles is not transferred to APPF. Additionally, the meaning and intent of the sentence which reads “[a]ccording to the AAG, any vehicles that are currently registered to PSCs will also have to be transferred if the PSCs obtain RMC licenses” needs to be clarified as to whom the PSC-owned armored vehicles will be transferred and how that process is related to the armored-vehicle registration process.

See SIGAR
comment 3.

Pages eight to 11 of the draft report discuss SIGAR’s methodology in calculating the estimated change in security costs. SIGAR makes several assumptions in the draft report that we question. This includes the following:

See SIGAR
comment 4.

1. Page eight of the draft report states:

Assuming security requirements do not change, the transition to the APPF may increase Afghan labor costs by up to 46 percent and expatriate labor costs could increase as much as 200 percent during the first year of transition for 13 projects we examined.

Any assumption that security requirements will not change does not reflect how USAID’s IPs typically operate. As an example, we understand that some USAID IPs maintain as low a profile as possible and view minimizing their security footprint as the best means to ensuring the safety and security of their staff and facilities. Transitioning to a state-run uniformed security services runs contradictory to this strategy and as such several projects have elected to not use the services of APPF.

2. Page 10 of the draft report states:

According to the Chairman of the Overseas Security Advisory Council, implementing partners estimate that the number of expatriate personnel could increase from 100 to 200 percent.... Assuming an increase of expatriate labor of 200 percent, these 13 projects could cost as much as \$52.1 million in additional labor costs for the first year.

The report seems to base the majority of its estimated cost increases on anecdotal evidence supplied by one individual who surmised a worst case scenario of a 200 percent cost increase. In addition, nowhere in the report are the calculations behind the 100 to 200 percent increase analyzed.

Of the nine projects that SIGAR looked at that did use APPF/RMC services, data supplied by the projects to USAID indicate that to date there has been a two percent decrease in total security costs as opposed to the dramatic increases that SIGAR claimed would occur.

Page 10 of the draft report states, "Further, USAID announced to implementing partners it will consider sole source requests to allow implementing partners to contract with RMCs that previously provided security for their projects as PSCs. Limiting competition may lead to higher costs."

See SIGAR
comment 3.

This characterization does not accurately reflect USAID's position toward sole-source requests and appears to imply USAID is limiting competition. USAID does not actually consider or approve sole-source requests, and for both acquisition (FAR 52.244-5) and assistance (22 CFR 226.43) awards, USAID promotes competition to the maximum extent practicable.

Nonetheless, nothing in any contract prohibits a contractor from using sole-source. Consequently, there is nothing to approve or waive. The only requirement, as detailed in FAR 44.202-2(a)(5), is that Contracting Officers consider if adequate price competition was obtained or its absence properly justified.

For assistance awards, 22 CFR 226.44(e) requires IPs only to "make available, upon request, the pre-award documents" when the award is without competition, but does not give the Agreement Officer authority to approve or reject the award. The approval that an Agreement Officer gives for an IP's subcontract actually is an approval to subaward, transfer or contract out work under the program that was not described or budgeted (22 CFR 226.25(c)(8)). Agreement Officers do not actually approve the instrument, but rather a change to the program.

Page 11 of the draft report states:

The Federal Acquisition Regulation and USAID directives require that certain clauses be inserted into contracts or cooperative agreements, some specifically addressing security matters, and these clauses are further required to be inserted into subcontracts. However, the APPF contract

template does not contain all of these required clauses. Without the required clauses in the template, implementing partners will not be in compliance with federal and USAID procurement regulations and directives.

The APPF contract template referred to by SIGAR is a model for use by any potential APPF client. APPF has made it clear a potential APPF client may modify the template to address its requirements and negotiate specific terms and conditions with APPF. With respect to USAID's IPs specifically, APPF has agreed to the inclusion of the substance of mandatory flow-down clauses in its contracts with our IPs.

See SIGAR
comment 1.

Page 11 of the draft report challenged the methodology used by USAID in its calculations of security costs under APPF, citing "faulty methodology, invalid assumptions, and incomplete data" based on the following arguments:

See SIGAR
comment 5.

1. Page 11 of the draft report states:

One implementing partner cited that it is absorbing some functions previously performed by the PSC for two of its task orders, such as recruitment of guards, equipment distribution, and paying guards until the APPF can do so. The totals provided do not account for these costs absorbed by the implementing partner after the transition, and therefore post transition total costs are understated.

APPF, in some cases, may not be able to provide as complete a service as a PSC did in the past. Yet, much of the gap, including helping to identify personnel suitable for APPF recruitment, is designed to be filled by the RMC and has been captured in RMC costs. Equipment distribution and the payment of guards are included costs within the APPF subcontracts and any additional burden placed on the IPs is expected to be minimal.

In addition, several IPs indicated they intended only to use RMC on an interim basis to help with the transition and address any potential APPF gaps in service. As RMCs for several IPs are expected to be phased out, this change will result in overstatement of the average monthly cost of the post transition period.

2. Page 11 of the draft report states:

In addition, implementing partners for two projects noted in their responses that the pre- and post-APPF costs are not accurate

comparisons, due to a significant decrease in project personnel or change in scope of work. Not accounting for a significant decrease in work, as highlighted by several implementing partners, skewed the results.

Comparing pre- and post-APPF costs may not be an accurate comparison when viewed on an individual project basis, as some projects did indicate an increase or decrease in project personnel or change in the scope of work, which may skew the results on an individual basis.² Using data supplied by all projects to find an average increase or decrease becomes the most accurate possible comparison. For this reason, all data submitted by the IPs were used in calculating the 3.23 percent decrease in cost (representing the weighted average), including when anecdotal evidence was supplied that the data may be skewed due to an increase or decrease in work following the transition. This precaution was taken to avoid the possibility that using only anecdotal qualitative evidence to determine which data to exclude would be detrimental to overall results. However, to address SIGAR's concern that data may be skewed, USAID did a statistical analysis excluding outlying data points, and the following was found:

- a. The sample size, 34, of the total population, 40, allows USAID to calculate the weighted average to a 90 percent confidence level with a 5.50 percent confidence interval. What this means is that there is a 90 percent certitude that the weighted average of the decrease or increase of security costs will fall within -8.73 to 2.27 percent. In contrast, SIGAR's analysis is based on looking at only 13 projects due to continue after the transition. Of these, only nine ultimately utilized APPF/RMC services. Thus, the SIGAR sample size was nine while the total population is the same at 40 which equates at the 90 percent confidence level to a confidence interval of 24.5 percent. As a result, the data supplied by USAID showing a decrease in security costs would appear to be more accurate than those supplied in the draft report.
- b. When the inner-quartile range is calculated and all outlying data points below and above the 25 and 75 percent threshold respectively are excluded, the result shows a weighted average decrease in security costs of 7.45 percent.
- c. When all data points outside of two standard deviations of the un-weighted average (-4.99 percent representing the average of the percentage increase or decrease of costs of the 34 projects

See SIGAR
comment 6.

² The report fails to note that other IPs noted an increase in work after the transition, which skews the costs results upward.

reporting data), the resulting decrease in security costs is found to be 1.81 percent.

These data illustrate that even excepting possibly skewed data as the draft report recommends, initial indications are that security costs will decrease slightly. USAID notes that SIGAR did not provide statistical analysis to support its assertions.

3. The draft report on page 11 states:

In at least one project the implementing partner had yet to sign a contract with the APPF for all of its security needs, and therefore totals for the APPF were not included in its response, again representing an underreported post-APPF total.

In addition to the one IP that the draft report indicated, another IP subsequently provided a data submission to USAID that indicated APPF costs were not yet included. While this information may contribute to additional costs, the security costs of both of these projects combined represented only 2.7 percent of pre-APPF transition costs of the 34 projects analyzed and any resulting change in the total trend that security costs are slightly decreased following the APPF transition is likely to be minimal.

Furthermore, several IPs indicated intent to use RMCs only for short periods, to help with the transition to APPF, which will decrease costs in the long run, a fact not noted in the report. Thus, it is unlikely including these two APPF subcontract costs would greatly influence the trend that security costs have decreased slightly following the APPF transition.

4. The draft report on page 11 states:

We found that several implementing partners that had previously used PSC services indicated that they would only be using an RMC and not the APPF. These reports raise questions about how RMCs will [be] used, as GIRA has not yet indicated whether using an RMC without the APPF will be allowed.

This is a valid concern in that of the 34 projects that had RMC subcontracts, only 23 also had APPF subcontracts. To date, no information has been received that this is not allowed as long as RMCs are not providing security services, a

message which has been conveyed to all IPs. In fact, there are many services that RMCs may provide that APPF is not capable of doing, which include providing intelligence reports on the security situation, preparing emergency preparedness procedures, health services and otherwise helping to mitigate risk in addition to maintaining a low profile. Several other IPs also noted that they do not need APPF services, as they live in secured compounds or hotels where security already is provided by APPF or ANSF, and they pay for this protection through their lease agreements. To be forced to have APPF subcontracts would be redundant.

Page 12 of the draft report includes the following header “Six USAID Projects Used PSCs That Were Not Licensed.” This header is misleading. We recommend SIGAR revise the header to state the number of USAID IPs, as opposed to USAID projects, which it determined contracted with or used unlicensed PSCs.

See SIGAR
comment 1.

PART II: USAID’S RESPONSE TO RECOMMENDATIONS IN THE DRAFT REPORT

USAID’s response to the draft report’s three recommendations is set forth below.

Recommendation 1:

Given the likely increase in security costs under the APPF, we recommend that the USAID Mission Director, Kabul:

Perform a comprehensive analysis of security costs for all ongoing projects that are using or plan to use APPF security services and determine a) if funding will be available to cover any additional security costs and b) the effect the additional costs will have on overall project implementation.

USAID Response:

USAID does not agree with the recommendation, as the analysis already has been performed.

In a USAID data call on April 7, 2012, we asked our IPs to submit cost data on all projects for which the IPs used PSCs prior to the APPF transition and then used either APPF services or RMC services after the transition. The data requested were the total cost of the last month of the project’s PSC cost and

then the average monthly cost of new APPF, RMC and logistic sub-contracts.³ The results of this data call showed a 3.23 percent decrease in security and related costs after the transition to the APPF/RMC model.⁴ Further explanation of the process used to arrive at this calculation is provided above in the general comments section. To date, no modification has been made to any award to increase funding or realign budgets as a result of increased security costs.

Based on the above, USAID requests the deletion of this recommendation. If SIGAR determines to maintain the recommendation as is, USAID requests closure of the recommendation upon issuance of the final report.

See SIGAR
comment 7.

Recommendation 2:

Given the likely increase in security costs under the APPF, we recommend that the USAID Mission Director, Kabul:

Before deciding whether to award new or follow-on contracts, cooperative agreements, or grants for reconstruction and development projects, conduct a cost-benefit analysis for each award that methodically assesses whether U.S. funds should be spent on other projects if the costs of security exceed any benefits that USAID expects to derive from these projects.

USAID does not agree with this recommendation because USAID already performs such an analysis when analyzing the total cost of the program. Security is only one individual line item within the program, and it is the total cost of the program that is important when comparing costs to potential benefits to determine if U.S. funds should be spent on other projects. Beyond this consideration, USAID ensures that proposed security costs are reasonable, allowable and allocable. USAID reviewed its contracting process and determined that USAID already has adequate policies and procedures in place for determining cost reasonableness, a core component of all federal contracting.

For acquisition of contracts at the preaward stage, in accordance with FAR 15.404-3, the Contracting Officer must determine that subcontract pricing is fair and reasonable for all subcontracts (including security) before awarding any contract. The techniques used to determine price reasonableness vary

³ The reason the average monthly cost was requested for APPF, RMC and logistic sub-contracts versus the costs for only the first month of service was to ensure that first month charges such as APPF uniforms are spread evenly and do not inflate one month's cost.

⁴ Data was submitted from 34 projects out of the 40 projects that used a PSC prior to the transition and submitted intent to use APPF and/or RMC after the transition.

depending on the type of contract or subcontract, duration, value, risk and other factors summarized in FAR 15.404-1. In accordance with FAR 1.602-2 (c), Contracting Officers must request and consider the advice of specialists as appropriate. In accordance with FAR 4.803(a) (17), Contracting Officers must document their determination of price reasonableness, as well as the supporting data, in the contract's official file.

For assistance awards, a less-extensive but parallel requirement exists at 22 CFR 226.44. Agreement Officers have the right to require IPs to submit subcontracts for review when they meet conditions at 22 CFR 226(e), and may approve or reject these subcontracts based on 22 CFR 226.25(b) and (c)(8). USAID/Afghanistan's Mission Order 201.03 requires Agreement Officers to exercise this right and sets forth the specific procedures they must follow.

In the area of a cost reasonableness determination specific to security subcontracts, USAID/Afghanistan Contracting Officers and Agreement Officers meet these requirements by ensuring prime implementing partners submit cost and pricing data for proposed security subcontracts.

Following are the steps undertaken by cognizant staff in determining cost reasonableness for security subcontracts:

1. Acquisition and Assistance Specialists review subcontract cost and prices, then consult with the technical specialists at the USAID/Afghanistan PLSO. The PLSO has years of accumulated experience with security issues generally faced by implementing partners, the variances in security profiles among the implementing partner community, and the range of cost associated with these various security profiles. Using this expertise and the "prudent person" principle, the PLSO is able to advise the Acquisition and Assistance Specialist of any issues or concerns with the cost and pricing data submitted by the prime implementing partner.
2. The Acquisition and Assistance Specialist validates any issues raised by the PLSO within the context of federal regulatory guidance and resolves any resulting issues with the implementing partner. The implementing partner corrects any issues with their Negotiations Memoranda and resubmits revised or additional information, if necessary.
3. The Acquisition and Assistance Specialist completes his or her analysis, then drafts the Contracting Officers determination (either in the Award Determination Memorandum, in the case of pre-award, or in the Contracting Officer's Consent to Subcontract, in the case of post-award). In the case of

Assistance Instruments, the Acquisition and Assistance Specialist drafts an Approval document.

4. The Contracting Officer/Agreement Officer reviews the draft and supporting documentation and determines if prices are fair and reasonable. In the case of consents to subcontract under Acquisition, the Contracting Officer's consent indicates the prime implementing partner has provided adequate documentation of price reasonableness. In the case of approvals to subcontract under Assistance, the Agreement Officer's approval indicates the Implementing Partner's budget for the subcontract meets the requirements of ADS 303.3.12.a, which includes a review for cost reasonableness. The documentation becomes part of the official contract file and is available for examination.

Based on the above, we request that SIGAR delete this recommendation. If SIGAR determines to maintain the recommendation as is, USAID then requests closure of the recommendation upon issuance of the final report.

See SIGAR
comment 8.

Recommendation 3:

To ensure implementing partners only use RMCs licensed by MOI, we recommend the USAID Mission Director, Kabul:

Institute a formal process that requires implementing partners to submit MOI licenses to OAA and requires OAA to ensure they are still valid and to document these reviews prior to approving or consenting to the subcontract award.

USAID Response:

USAID concurs with the recommendation. Contracting/Agreement Officers will be required to ensure IPs submit MOI licenses, that the licenses are reviewed for validity and then to document these reviews prior to approving or consenting the subcontract award.

In addition, USAID vets non-US RMCs, among others, as part of the review of RMC subcontracts for USAID Contracting/Agreement Officers' consent.

cc: OAPA
CDDEA

The following are SIGAR comments on USAID's letter dated June 12, 2012:

1. We updated the report, accordingly.
2. We clarified the sentence to reflect that DIA's incident data also has declined in recent months.
3. We do not agree that any change is necessary.
4. We clarified and elaborated on our methodology throughout the report. In particular, see appendix I, pages 16-17. We clearly noted in the report that this was an upper limit, and should be considered as a possibility. We also note that the transition to the APPF is still in its early stages and USAID's implementing partners' experience with it and their ultimate use of expatriate labor remains to be determined.
5. We added additional information regarding our analysis of USAID's cost calculations. See page 11.
6. USAID mischaracterizes our cost analysis. The likely increase in security costs that we report is for the 13 projects we examined that transitioned to the APPF. The projects were selected based on total expenditures during fiscal years 2009 through 2011 and was not a random sample. A confidence level cannot be applied to it. See appendix I, pages 16-17.
7. The data USAID used in its analysis was collected just weeks after the transition to the APPF. Although USAID's data showed security costs were decreasing, we found the data incomplete and inconsistent among the implementing partners that responded to USAID's data request, which calls into question USAID's conclusions. While decreased security costs would be a good outcome, the transition to the APPF is in its early stages and USAID and its implementing partners do not have much experience with it. We continue to believe that a systematic monitoring of security costs for ongoing projects would be useful to document implementing partners' experiences with the APPF, and to provide a longer-term analysis of the costs involved.
8. The APPF is a new Afghan entity that is untested. A September 2011 assessment found the APPF was not ready to provide security. The results of planned assessments from December 2011 and March 2012 have not been released. This lack of transparency raises doubts about the capability and capacity of the APPF to provide the security necessary for USAID's implementing partners. If it cannot, USAID's investment in Afghanistan's development could be at risk if implementers withdraw or projects are cut short. We continue to urge USAID to specifically consider the security needs and costs with its implementing partners as new programs and projects are initiated. The costs of security should be weighed against the benefits of the project *before* contracts, cooperative agreements, or grants are entered into.

(This report was conducted under the audit project code SIGAR-051A).

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