Special Inspector General for Afghanistan Reconstruction

March 15, 2012

On March 9, 2012, we provided a management alert letter to the U.S. Agency for International Development (USAID), detailing a number of concerns regarding the transition to the Afghan Public Protection Force (APPF) and providing three suggested action items for the agency to consider (see enclosure 1). The rushed approach we observed to establish agreements with the APPF and the Risk Management Companies compelled us to develop this alert letter to caution both USAID and policy makers of the risks. Our work was conducted in accordance with our professional standards and quality control procedures. Specifically, it was conducted by independent staff, objectively designed and planned, and supported by sufficient and appropriate evidence. We believe that the work performed provides a reasonable basis for the letter's observations.

On March 13, 2012, the USAID Mission Director in Kabul, Afghanistan provided a written response to this alert letter, which took exception to our findings, conclusions, and suggested action items (see enclosure 2). Unfortunately, as shown by its comments, USAID has interpreted this alert letter as an affront to its management of the transition, instead of as a constructive document that would aid it in assessing and responding to the risks we identified. Therefore, we are compelled to respond to these comments (see enclosure 3).

Steven J Trent
Acting Special Inspector General
For Afghanistan Reconstruction

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Enclosure 1

OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION

March 9, 2012

Dr. S. Ken Yamashita
USAID Mission Director to Afghanistan

The Special Inspector General for Afghanistan Reconstruction is conducting an audit of the costs associated with Private Security Contractors (PSCs) used by U.S. Agency for International Development (USAID) implementing partners in Afghanistan for fiscal years 2009-2011 and the extent to which implementing partners will transition security services to the Afghan Public Protection Force (APPF) (SIGAR-051A). USAID's implementing partners rely heavily on PSCs to provide security for people, projects, and work and residential areas. However, on March 15, 2011, the head of the Afghanistan Ministry of Interior (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, security for development projects will transfer to the APPF by March 20, 2012.

Although we are still conducting our audit, we are providing information on three issues that we believe warrant immediate consideration ahead of the March 20, 2012 deadline. First, the transition to the APPF could increase Afghan guard labor costs by as much as 46 percent and the number of expatriate personnel could rise by as much as 200 percent for implementing partners. This amounts to $55.2 million for 13 of USAID's largest projects for the first year after transition to the APPF. Second, if the APPF is not fully-functioning by the March 2012 deadline and no extension is granted, at least 10 ongoing USAID projects with a total award value of $899 million are at significant risk of termination. Third, we found that two PSCs that were not licensed by MOI had contracts with USAID implementers as of December 2011.

This enclosure provides information on each issue and proposes actions for consideration by USAID. If you have questions or need additional information regarding these proposals, please contact my Assistant Inspector General for Audits, Mr. Benjamin Piccolo, at 703-545-6051 or benjamin.j.piccolo.civ@mail.mil.

Steven J Trent
Acting Special Inspector General
for Afghanistan Reconstruction

Enclosure

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

General John R. Allen
Commander, U.S. Forces-Afghanistan, and Commander, International Security Assistance Force

Lieutenant General Daniel P. Bolger
Commanding General, NATO Training Mission-Afghanistan/Combined Security Transition Command-Afghanistan

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

Preliminary Observations and Suggested Actions before Transition of Security Services to Afghan Public Protection Force

The U.S. Agency for International Development (USAID) relies heavily on implementing partners to carry out its reconstruction and humanitarian aid programs in Afghanistan.[1] USAID's implementing partners are responsible for their own security needs and most contract with Private Security Contractors (PSC) 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 due to concerns raised by the government of Afghanistan. In March 2011, the government of Afghanistan issued *The Bridging Strategy for Implementation of Presidential Decree 62*, which provided for the eventual dissolution of most PSCs. Under this strategy, responsibility for security services for development programs and projects will transfer to a newly formed, state-run Afghan Public Protection Force (APPF) by March 20, 2012.

We are conducting an audit of the costs associated with PSCs used by USAID's implementing partners in Afghanistan during fiscal years 2009-2011 and the extent to which implementing partners will transition security services to the APPF (SIGAR-051A). Although we are still conducting our audit, we are providing information on three issues that we believe warrant immediate consideration ahead of the March 20, 2012, deadline. For this letter, we (1) assessed the costs of transitioning to the APPF, (2) examined the extent to which USAID's implementing partners are willing to continue development work with security services provided by the APPF, and (3) examined the licensing status of PSCs used on selected USAID projects during fiscal years 2009-2011.

To assess the costs of the transition, we analyzed invoices and data for 13 of these 29 projects that will be active as of the March 2012 deadline. To examine implementing partners' willingness to transition to the APPF, we obtained USAID's analysis of contingency plans submitted by its implementing partners for 97 projects. We also met with officials from USAID, the Departments of Defense (DOD) and State (State), and six USAID implementing partners to discuss the transition to the APPF. To examine PSCs' licensing status, we analyzed information provided by the implementing partners for 29 of USAID's largest projects active during fiscal years 2009-2011. We conducted this work in conjunction with our professional standards and quality control procedures. Specifically, the work was conducted by independent staff; objectively designed and planned; and supported by sufficient and appropriate evidence. We believe that the work performed provides a reasonable basis for the report's observations.

BACKGROUND

USAID's implementing partners are responsible for their own security in Afghanistan, which has become more difficult as insurgency attacks in areas where USAID's implementing partners operate have

[1] We use implementing partners to mean recipients of USAID contracts, cooperative agreements, and grants.

increased. By the end of November 2011, the average monthly number of reported security incidents—mostly armed clashes and improvised explosive devices—for 2011 was 1,995, an increase of 21 percent compared with the same period in 2010.[2] Implementing partners have a variety of ways to provide for security of their personnel and sites, but most hire 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.

Implementing partners are required to ensure that subcontracted PSCs in Afghanistan are approved for providing security services by the government of Afghanistan and USAID. Implementers may only legally hire PSC firms that are registered with the Afghanistan Ministry of Interior (MOI). As of the end of fiscal year 2011, 45 PSCs were approved and licensed with MOI. The vast majority of PSC personnel are Afghan citizens. Expatriates and third-country nationals are also hired by PSCs and most often provide management services or security escorts for implementing partner personnel. While no official definition of an expatriate exists, USAID and its implementing partners generally consider expatriates in Afghanistan 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.

Promulgated by Afghan concerns with the use of PSCs, on March 15, 2011, the head of MOI and the Senior Advisor to the President issued a Bridging Strategy for the dissolution of almost all PSCs providing security services.[3] Under this strategy, all PSC contracts for development and reconstruction projects and convoy security, including for the International Security Assistance Force (ISAF), will transfer to a newly formed state-run Afghan Public Protection Force (APPF) by March 20, 2012.[4] On March 15, 2011, the commander of ISAF and the U.S. Ambassador to Afghanistan issued a memorandum expressing 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.

Implementing partners and U.S. government officials have raised concerns about the ability of the APPF to assume responsibility for all security services for reconstruction and development activities in March 2012. The Bridging Strategy requires periodic assessments conducted jointly by the U.S. and Afghan governments to assess the capabilities of the APPF. The first assessment, released in September 2011, found that the APPF did not show adequate competency in six essential tasks and only met standards

[2] UN Security Council, *The situation in Afghanistan and its implications for international peace and security: report of the Secretary-General*, 13 December 2011, A/66/604-S/2011/772.

[3] MOI, *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. The Bridging Strategy contains exceptions for PSCs providing security services for diplomatic organizations.

[4] PSCs providing security services for ISAF at construction sites and bases will be allowed to operate until March 2013. Entities accredited with diplomatic status will be exempt and able to continue the use of PSCs for their security needs.

for 46 of the 166 transition-readiness areas. A second assessment was conducted in December 2011, but has not been released.

To assist with the buildup of the APPF and help ensure a smooth transition of security services, ISAF established the APPF Advisory Group, located under the NATO Training Mission-Afghanistan/Combined Security Transition Command-Afghanistan, to work with MOI to build and assess the capacity of the APPF. The working group includes agency 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 provide 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, 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, but they have the option of hiring an RMC to manage the APPF guards. In addition, RMCs are allowed to provide lightly armed personnel for the purposes of personal protection. Current PSCs are allowed to seek a license to become an RMC; however, a PSC may not hold both a PSC and an RMC license.

SECURITY COSTS MAY INCREASE BY $55 MILLION DURING THE FIRST YEAR OF TRANSITION TO APPF FOR 13 USAID PROJECTS

The transition to the APPF may increase Afghan labor costs up to 46 percent and expatriate labor costs could increase up to 200 percent. As a result, Afghan guards for the 13 USAID projects we examined may cost as much as an additional $3.1 million and expatriate labor could increase $52.1 million during the first year of transition to APPF, for a total of more than $55 million. Implementing partners have identified other factors, such as increased security infrastructure, that may increase costs further.

All PSC services for development projects must transfer to the APPF by March 2012. APPF will charge a monthly fee for an APPF guard, which includes the guard's salary and other fees. MOI has set a base salary of a guard at $100 a month. APPF will add charges for firearms; ammunition; training; administrative and overhead fees; and a profit, among other charges, to the monthly fee. Furthermore, an annual charge of $600 (or $50 per month) per guard will be assessed for uniforms and personal equipment. In addition, although APPF is a state-owned enterprise, a profit of 20 percent will be applied to all charges associated with a guard, except for uniform and pension charges.[5]

According to the Overseas Security Advisory Council, the current average salary for an Afghan guard ranges from $250 to $350 per month, and SIGAR analysis found the average burdened rate[6] 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

[5]Several 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.

[6]A 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.

between $710 and $830 per month, an increase of between 25 and 46 percent.[7] Table 1 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.

Table 1: Fees for an APPF Guard and Estimated Total Monthly Costs as of February 20, 2012

APPF fee	Fee per guard	Total for guard with a salary of $250	Total for guard with a salary of $350
Base salary	$100	$100	$100
Hazard pay	TBD by customer	150	250
Bank charges	2	2	2
Medicine	8	8	8
Martyr contribution	18	18	18
Burial contribution	12.50	12.50	12.50
Training	10	10	10
Food stipend	120	120	120
AK-47 rifle	25	25	25
9mm side arm	17	17	17
Ammunition	9	9	9
Administrative and overhead	65	65	65
Profit	20% of above total	107	127
Pension[a]	16.67	16.67	16.67
Uniform and equipment[b]	50	50	50
Total estimated per guard[c]		**$710**	**$830**

Source: SIGAR analysis of information provided by the APPF Advisory Group and MOI.
Notes: [a]We spread the $200 annual charge over 12 months.
[b]We spread the $600 annual charge over 12 months.
[c]Numbers affected by rounding.

For the 13 USAID projects we examined that will be required to transition security to the APPF, we found 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.

Other costs may be incurred as a result of the transition to the APPF. Implementing partners cited the possible need for additional expatriate security personnel initially 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 its personnel. 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. The 13 projects we examined that will transition to the APPF

[7]Implementing 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 will be considered hazard pay.

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.[8] 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 PSCs previously provided for their projects. Limiting competition may lead to higher costs.

Suggested action: USAID's Mission Director, Kabul, should analyze security costs for projects that will continue after the March 20, 2012 transition and determine if funding will be available to cover the anticipated additional security costs and the effect the additional costs will have on overall project implementation. Further, as new or follow-on reconstruction and development projects are planned and implemented, the Mission Director should address the increased cost of security before a decision is made to award a contract, cooperative agreement, or grant.

TEN PROJECTS FACE LIKELY TERMINATION IF THE APPF IS UNABLE TO PROVIDE ADEQUATE SECURITY

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 the government of Afghanistan, 10 projects with a total award value of $899 million are at significant risk of termination. 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.

Less than one month before the transition of security services to the APPF, implementing partners have expressed to us several unresolved concerns about the transition.

- As of early March 2012, eight RMCs had been licensed by the MOI. This is significantly less than the 45 PSCs previously licensed to provide security services.

- According to USAID, as of mid-February 2012, no contracts have been signed between the APPF and implementing partners, which is required before the APPF can provide security services.

- 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 any 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.

In November 2011, USAID sent a letter to the implementing partners for 96 USAID projects to assess the potential effect of the transition to the APPF on these projects.[9] The letter called for a contingency plan of operations if the APPF is unable to provide adequate security services by the March 2012 deadline,

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

[9] After USAID's initial request for information, it made an additional award that USAID included in its assessment, bringing the total number assessed to 97.

and if the government of Afghanistan does not grant a further extension of this deadline. USAID staff in Afghanistan reviewed the contingency plans and placed each into one of three categories:

- Significant: probable termination of the project
- Moderate: partial termination or modification to the project
- Minimal: no changes to the project

USAID's assessment determined that 10 ongoing projects, with a total award value of $899 million, would face probable termination if the APPF is unable to provide adequate security services by the March 2012 deadline. USAID has disbursed approximately $484 million to date for these 10 projects. The effect of termination of these projects will vary. According to USAID, the effect on infrastructure projects likely will be significant, resulting in a loss of U.S. investment and impediments to USAID's contribution to stabilization and counterinsurgency efforts in Afghanistan. In addition, USAID's assessment also indicated that 19 additional projects valued at $451 million would require either a partial termination or modification of operations to compensate for an inadequate APPF. [10]

Suggested action: USAID's Mission Director, Kabul, should plan for the probable or partial termination of as many as 29 projects if the APPF is unable to provide adequate security services.

FOUR PSCS USED BY USAID IMPLEMENTING PARTNERS WERE NOT LICENSED

The government of Afghanistan requires PSCs to hold a current operating license from MOI to provide PSC services. To obtain an operating license, a PSC must comply with certain MOI procedural and legal requirements and pay a yearly fee. 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.[11] USAID concurred with this recommendation.

Nevertheless, for 3 of the 29 projects we reviewed, we found three implementing partners had contracted with 4 PSCs that were not licensed by MOI to provide security services during fiscal years 2009-2011. In March 2011, the government of Afghanistan revoked the licenses of seven PSCs due to their connections to the government. We found three implementing partners had contracts with two of these PSCs after their licenses had been revoked, but the contracts with these PSCs were terminated by June 2011. However, as of December 5, 2011, two implementing partners still had contracts with two PSCs that were not licensed. Implementing partners' failure to contract with licensed PSCs is illegal in Afghanistan, and puts both USAID projects and reconstruction funding at risk.

Suggested action: USAID's Mission Director, Kabul, should ensure that as USAID's implementing partners make the transition from PSCs to RMCs, unlicensed PSCs will not provide RMC services without obtaining MOI licenses, and the Mission Director should further ensure that only licensed RMCs are used by all implementing partners.

[10]Fourteen projects expect minimal impact and anticipate no changes to operations as a result of a failure of the APPF to provide security services. Fifty-four projects will experience no impact or will be expiring ahead of the March deadline.
[11]USAID 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.

Enclosure 2

USAID | AFGHANISTAN
FROM THE AMERICAN PEOPLE

March 13, 2012

MEMORANDUM

TO: Steven Trent, Acting Special Inspector General for Afghanistan Reconstruction (SIGAR)

FROM: S. Ken Yamashita, Mission Director

SUBJECT: SIGAR Management Letter: Preliminary Observations and Suggested Actions before Transition of Security Services to Afghan Public Protection Force (SIGAR Alert-12-1)

REF: SIGAR Transmittal email dated 03/10/2012

Thank you for providing USAID with the opportunity to review and comment on the SIGAR Management Letter. Presented below are USAID's general comments on the preliminary observations as well as our comments on the suggested actions.

I. USAID'S GENERAL COMMENTS

USAID acknowledges the issues identified in the observations but rejects the SIGAR Management Letter in its entirety due to the inadequate comparisons, speculative assumptions, and inaccurate statements within the document. Because of the time constraint given by SIGAR in responding to the Management Letter, USAID will highlight only a few of the issues noted within the document.

See SIGAR Comment 1.

In the section on page three regarding security costs, the costs are not adequately compared between Private Security Contractor (PSC) and Afghan Public Protection Force (APPF) anticipated costs. For instance, we know from our own cost analyses that cost categories are presented differently in APPF pricing and current PSC contracts, and that many of these cost categories overlap. SIGAR does not appear to have accounted for this difference in its examination, resulting in gross overstatements of costs. For example, one implementing partner provided a cost analysis with a difference of $15 between the average PSC rate and the average APPF rate in contrast to the $144 to $264 difference quoted by SIGAR.

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See SIGAR Comment 2.

In addition, it is unclear how SIGAR determined that expatriate labor costs could increase by as much as 200 percent. SIGAR reported that the information came from the Chairman of the Overseas Security Advisory Council (OSAC), yet there is no evidence of this 200 percent increase in the contingency plans submitted to USAID by the implementing partners. There is also no support or justification for this inappropriate assumption, nor does the methodology followed by SIGAR appear to meet the Reasonable Assurance Requirements of Generally Accepted Government Auditing Standards. Given that the data readily are available from the partners' contingency plans and the partners' own APPF contract-cost analyses and that this information is in the possession of USAID, it seems inappropriate that SIGAR would draw a conclusion from a discussion with one individual.

See SIGAR Comment 3.

In the section labeled "Ten Projects Face Likely Termination if the APPF Is Unable to Provide Adequate Security" on page five, SIGAR inaccurately classifies USAID's assessment of projects facing probable termination if the APPF is unable to provide adequate security services. Each implementing partner did a self-classification; USAID did not classify the implementing partners.

See SIGAR Comment 4.

Even within the self-classification, it should be noted that three implementing partners that classified themselves as "significant" will not be using APPF, and five of the "moderate" classified partners will not be using APPF; these partners will continue to operate in Afghanistan. In addition, of the 19 "moderate" classifications, 15 stated that they do not expect any type of programmatic changes should APPF be unable to provide security.

See SIGAR Comment 5.

In addition, based on further discussions with the implementing partners, not one partner stated that it would terminate its project completely if APPF were unable to provide adequate security services.

See SIGAR Comment 6.

On page six, regarding the PSCs used that were not licensed, it is unclear if the PSCs identified as not having licenses were the same ones that the Office of Inspector General (OIG) identified in its report given that the report partially covers the same time period. This section appears duplicative of the already completed audit.

While the facts and assumptions in the SIGAR Management Letter are inaccurate as shown above, USAID already had been analyzing and preparing for the transition for multiple years. In doing so, USAID already had taken action to review costs associated with the transition, possible program effects, and licensing issues. USAID actions are discussed in more detail below.

II. USAID'S RESPONSE TO THE SUGGESTED ACTIONS

Suggested Action 1:

USAID's Mission Director, Kabul, should analyze security costs for projects that will continue after the March 20, 2012 transition and determine if funding will be available to cover the anticipated additional security costs and the effect the additional costs will have on overall project implementation. Further, as new or follow-on reconstruction and development projects are planned and implemented, the Mission Director should address the increased cost of security before a decision is made to award a contract, cooperative agreement, or grant.

See SIGAR Comment 7.

USAID Response: USAID/Afghanistan has been analyzing the costs of the transition from PSCs to APPF since 2010. USAID has been in constant contact with its implementing partners throughout the lead-up to the transition. For example, on February 17, 2012, USAID/Afghanistan requested that all implementing partners provide cost comparison information between APPF and a Private Security Company. In addition, USAID/Afghanistan follows Federal Acquisition Regulation (FAR) 15.403-5 for certified cost and pricing data, and FAR 15.404-3 for subcontracting pricing. All material costs, including security costs, are considered when awarding any instrument as a matter of standard federal procurement procedures.

Given that the Mission already has been taking the suggested action, we recommend SIGAR consider deleting the suggested action.

Suggested Action 2:

USAID's Mission Director, Kabul, should plan for the probable or partial termination of as many as 29 projects if the APPF is unable to provide adequate security services.

See SIGAR Comment 8.

USAID Response: USAID/Afghanistan already has planned for the possible or partial termination of projects. As mentioned above, USAID has been in constant contact with its implementing partners throughout the lead-up to the transition from PSCs to APPF since the fall of 2010. We have conducted three Industry Days with implementing partners in Kabul plus we have attended each weekly OSAC meeting to disseminate information and address partner concerns. In recent weeks, as we have identified and resolved issues together, not one partner has stated that the organization would withdraw from Afghanistan because of the transition to APPF.

Given that the Mission already has taken the suggested action, we recommend SIGAR consider deleting the suggested action.

Suggested Action 3:

USAID's Mission Director, Kabul, should ensure that as USAID's implementing partners make the transition from PSCs to RMCs, unlicensed PSCs will not provide RMC services without obtaining MOI licenses, and the Mission Director should further ensure that only licensed RMCs are used by all implementing partners.

See SIGAR Comment 9.

USAID Response: USAID/Afghanistan already has taken action to ensure that implementing partners contract only with licensed RMCs. On February 21, 2012, USAID requested all implementing partners provide USAID with a copy of any RMC subcontract, the AISA and Ministry of Interior licenses as part of the consent-to-subcontract package.

Given that the Mission has already taken the suggested action, we recommend SIGAR consider deleting the suggested action. Currently eight RMC's are licensed, and six contracts have been signed with the APPF, but this number is increasing on a daily basis. USAID is currently processing six more consents to subcontract with the APPF.

cc: Ambassador Cunningham
CDDEA
OAPA

SIGAR strongly disagrees with the U.S. Agency for International Development's (USAID's) characterizations of our management alert letter. The following details SIGAR's comments on USAID's response letter, dated March 13, 2012.

1. Our methodology for calculating the increase in fees and total monthly costs for an APPF Afghan guard is sound. A burdened rate includes the salary of a guard, administrative and overhead costs, profit, and any related other direct costs. PSCs use a burdened rate when submitting invoices to implementing partners for payment. We calculated the average burdened rate for a guard by analyzing 30 total invoices for 10 projects in our sample for fiscal year 2011. Of note, the rate we calculated ($566 per month) fell in the middle of the estimated range that the Overseas Security Advisory Council gave us when we requested its information on PSC guard costs. In order to compute the average rate for the same guard under the APPF, we determined the average salary for an Afghan guard from fiscal year 2011 and computed a burdened rate using charges and fees that the APPF has published. Without identification from USAID of the 'cost categories' that may overlap, we are unable to evaluate criticisms of the method we used to identify the cost of an APPF guard. Because we determined average rates for both a PSC and an APPF guard, we would expect that some implementing partners would experience a smaller increase and some implementing partners would experience a larger increase. Therefore, it is not surprising that USAID identified one implementing partner that cited a $15 dollar difference between PSC guards and APPF guards. The average rates we report provide a clearer and more comprehensive picture of increased costs than one example could possibly give.

2. USAID's assertion that our estimate of expatriate labor increases was based on a discussion with one individual is not accurate. We have information from multiple sources, including the Overseas Security Advisory Council and the Professional Services Council,[1] that they anticipate costs for expatriate labor and infrastructure to increase as a result of uncertainty with security services provided by the APPF. Both entities' membership include multiple implementing partners requiring security services in Afghanistan; statements that expatriate labor costs will increase represent these partners' estimates, not the sole opinion of the councils' heads. In representing this analysis, we carefully identify both our sources and our methodology, consistent with the requirements set forth in the Generally Accepted Government Auditing Standards. Although USAID states that data are readily available from the partners' contingency plans, USAID did not provide them to us when we requested them. Furthermore, if the

[1] The Professional Services Council is the national trade association of the government professional and technical services industry and includes members performing work in Afghanistan.

partners' own APPF contract-cost analyses referred to here are the implementing partners' responses to USAID's February 17, 2012 request for cost comparison data, this information could not have been provided in a timely enough manner for us to consider them.

3. We disagree. USAID's statement that each implementing partner did a self-classification and that USAID did not classify the implementing partners conflicts with USAID's prior documentation of the process. Specifically, in a letter from the USAID Mission Director to Ambassador Ryan Crocker dated January 7, 2012, USAID states that, "*USAID staff were responsible for assessing contingency plans provided by the implementing partners and assigning the level of impact in three categories:*
   - *Significant: probable termination of project*
   - *Moderate: partial termination or modification to project*
   - *Minimal: no changes to project*"

   USAID officials also confirmed in interviews with us that implementing partners were not responsible for classifying themselves.

4. The data that we report on the number of implementing partners classified in the "significant" and "moderate" categories comes directly from USAID's analysis, submitted to Ambassador Crocker in January 2012. As noted above, USAID's statement that partners classified themselves is inconsistent with both documentary and testimonial evidence provided by USAID.

5. USAID does not provide information in this letter regarding when these discussions took place or, more importantly, with which implementing partners. One of the six implementing partners we interviewed openly stated that it would discontinue its projects if the APPF were unable to provide adequate security services. In addition, the Professional Services Council, whose membership includes private sector implementing partners supporting USAID development assistance missions worldwide, including Afghanistan, has stated that two of its members have indicated they will cease activity if the APPF cannot meet security requirements.

6. USAID's assertion that our finding duplicates the USAID Office of Inspector General's (OIG) earlier report is incorrect. We independently identified four PSCs that were not licensed in fiscal years 2009-2011, two of which were still being used as of December 5, 2011. Only one of the four PSCs we identified overlapped with those reported earlier by USAID OIG. We referred to USAID OIG's May 2010 report because we believe it is

significant that, almost 2 years after USAID accepted the OIG's recommendation, it has still not corrected the problem.

7. USAID's statement that it has been analyzing the costs of the transition from PSCs to the APPF since 2010 is not borne out by the facts as we know them. We found that USAID has not and does not track the costs of subcontracted security, information necessary to accurately determine the cost of transition. USAID officials told us that they do not track security costs and that we would have to contact the prime implementing partners for that information. In connection with our overall audit of USAID's use of PSCs, we contacted implementing partners for 35 of USAID's largest reconstruction projects[2] and documented, among other things, PSC subcontract costs and the number of guards and expatriates providing the security services. To our knowledge, this is the first time this has been done. USAID's request to implementing partners for information on the cost of transition on February 17, 2012, only 1 month before the transition date, also points to USAID's lack of data on transition costs. Furthermore, USAID's statement that it follows Federal Acquisition Regulation clauses 15.403-5 and 15.404-3 misses the point of our suggested action item to consider the increased costs of security before awarding new contracts, grants, or cooperative agreements. These FAR clauses are designed to ensure that the awarding agency obtains a fair and reasonable price for the contract, not to guide the awarding agency in assessing how an overall increase in costs (such as security costs) affects the decision of whether to make an award. A robust implementation of our suggested action item could entail USAID conducting cost-benefit analyses of its projects, taking into account the increased costs of security and considering whether U.S. tax dollars might be spent on other projects when the costs of security exceed any benefits that USAID expects to derive from these projects.

8. USAID has not provided us with any documentation showing that it has developed plans for the possible or partial termination of projects. The 29 projects we reported as at risk of significant or partial termination come directly from USAID's analysis, disseminated in January 2012. Furthermore, although USAID states that it has been in constant contact with implementing partners through the lead-up to the transition, we have found that its communications with partners have often left important questions unanswered. For example, we attended two of the three Industry Days cited in USAID's response letter. During these meetings, we observed multiple instances in which implementing partners asked fundamental questions about the transition to the APPF to which USAID representatives could not or would not respond. For instance, during the last Industry

[2] We received responses from implementing partners for 29 of these projects.

Day, held on January 18, 2012, implementers asked whether workmen's compensation or death benefits would have to be paid for the APPF. This is a standard requirement for all contractors working for the United States in overseas locations. A USAID official present at the meeting stated that he did not know the answer to this, and that the partners should seek legal advice for themselves. Furthermore, when we met with USAID contracting and agreement officers, they informed us that they refrain from discussing the transition or security with their implementing partners because (1) they had also not received guidance from USAID management that would allow them to answer the questions or (2) they understood that guidance should come from the highest levels of management at USAID or the U.S. Embassy in Kabul, but not from them. This reluctance on the part of contracting and agreement officers to engage directly with implementing partners on questions related to the transition is notable because USAID has instructed implementing partners to work with these officers on questions related to the transition.

9. The February 21, 2012 request to implementing partners that USAID cites in its response letter reiterates a requirement that was in place at the time the unlicensed PSCs we identified were operating. Because we found that the use of unlicensed PSCs is a continuing problem, USAID's reminder to implementing partners of an existing requirement is not sufficient for ensuring that unlicensed PSCs are not used.