

1 operations, and I began working on this problem almost the
2 day I arrived in the Senate.

3 I traveled to Iraq to do nothing but looking at
4 contracting oversight because I could not figure out how in
5 the world things have gotten so out of control in terms of
6 contracting in Iraq. I went over to Iraq and I realized why
7 they had gotten out of control. Contracting representatives
8 in each unit were just the low man on the totem pole that
9 had been handed a clipboard.

10 There was no training. There was not sufficient effort
11 made on sustainability. There were decisions made that,
12 frankly, were made with an almost myopic look at the mission
13 and not a realistic look at security and sustainability and
14 competency in terms of available personnel to continue
15 whatever money we were spending on reconstruction.

16 I always point out that LOGCAP contract is probably, if
17 you look up an example, the initial LOGCAP contract, if you
18 look up an example of everything wrong with contracting,
19 that would be the poster child. People may not remember
20 that the estimates for that contract for the first year were
21 supposed to be under a billion dollars. In the first year,
22 that contract cost our country \$20 billion. It is just one
23 example.

24 I want to try to focus today on reconstruction
25 contracting, and the sad thing about this hearing is, I had

1 been hopeful back in 2007 that by this year, we would have
2 done a lot to overcome some of the problems in
3 reconstruction contracting in theater. This hearing does
4 not make me feel good about the progress we have made.
5 There has been some progress, but the American people cannot
6 afford this anymore.

7 In next year's budget, the President has requested
8 \$17.3 billion for reconstruction contracting in Afghanistan.
9 Now, that is a big number if the United States of America
10 was humming along. That is a big number if our roads were
11 not crumbling because we do not have the money to fix them.
12 That is a big number if we are not looking at cutting many
13 programs that are essential to the health and welfare of
14 this nation.

15 But in light of the fact that we are facing the fiscal
16 problems we are in this country, that is an enormous number
17 that is going to go into the country of Afghanistan to build
18 roads, to build public structures, whether they are schools
19 or other public structures, and I think it has now become an
20 urgent matter for this Congress to look seriously at whether
21 or not that kind of reconstruction money is absolutely
22 essential to our mission in Afghanistan.

23 I think if you look at the lessons that we have learned
24 in the past in Afghanistan and Iraq, that the Government has
25 been very slow to apply those lessons, and I am not sure

1 that the implementation of Afghan First is leading to the
2 kind of outcomes that would make any American proud.

3 I am not sure that the Government and contractors have
4 taken the steps necessary to provide the transparency and
5 accountability that we have to demand in light of the
6 incredible difficult decisions that we are faced with in the
7 United States Congress in terms of our fiscal picture in
8 this country.

9 This is the tenth year and we have spent over \$61
10 billion total already on reconstruction, and the vast
11 majority of the spending has been through contractors.
12 Defense Department and USAID are primarily responsible for
13 this and part of our problem that we will talk about today
14 is that no one is totally responsible. There is no one that
15 I can really find that wants to say, I am responsible.

16 In fact, I will be surprised if I do not hear testimony
17 today from people that say, You know, I am not really
18 responsible. It is time that somebody is responsible for
19 money that is spent on roads that will not ever been
20 sustained and for buildings and electrical power facilities
21 that are built that no one there even knows how to use, must
22 less access the power that supposedly we are going to
23 provide.

24 It is time for someone to step forward and say, I am
25 responsible, I am the one that is planning these projects, I

1 am the one that is certifying sustainability. The
2 Department of Defense is not even certifying sustainability,
3 and we all know that the CERP funds which originally--I
4 remember at the beginning we talked about CERP and here is
5 what CERP was supposed to be.

6 It was supposed to be almost like walking around money.
7 It was supposed to be money that was used by various units
8 that were on the ground in Iraq to--the example I was given,
9 I will never forget, in one of my very first Armed Services
10 hearing was, Well, Senator, this is if one of our sergeants
11 is on the ground in a community and he knows there is a
12 really good guy who is stabilizing the neighborhood and the
13 window of his store is broken, and we need that sergeant to
14 be able to say to that store owner, You know, I have got the
15 money right here to fix your window.

16 That provides goodwill, it provides stability, it is
17 the kind of thing that wins the hearts and minds, it gives
18 people a sense a community. We have gone from broken store
19 windows to hundreds of millions of dollars of construction
20 projects in CERP.

21 And meanwhile, no one has really taken ownership of
22 what is the difference between the responsibilities of AID,
23 which traditionally has done big construction, and the
24 responsibilities of the Department of Defense that is now
25 engaged in seriously large projects for construction.

1 Sustainability is going to be the key issue that we are
2 going to talk about today, and it is going to be something
3 that I think is very important that we get our arms around.
4 Inadequate contracting and program management practices,
5 once again, we are going to cover that ground. Contractors
6 overseeing contractors, and obviously transparency, and
7 insufficient contract personnel, which is another key
8 problem that we have not yet dealt with.

9 Are the cores getting better training now, the
10 contracting representatives within the units? Yes, they
11 are, and I congratulate General Caldwell and others that
12 have worked on doing better training. But we are still not
13 where we need to be. Poor coordination of interagency
14 efforts. I do not think anybody in this room is going to
15 have a strong argument that the coordination has not been
16 what it should be.

17 Continual personnel turnover. We are getting a one-
18 year turnover on AID right now, and I know that that is
19 probably because it is very difficult to get folks that want
20 to go to Afghanistan for two to four years. But when we
21 embrace a constant turnover like we have in theater, we are
22 going to have bad things happen. We are going to have
23 problems that are going to occur because the beginning of
24 the project is not going to have any idea what the end of
25 the project looks like and vice versa.

1 Security challenges obviously remain a big problem.
2 And I think that we are going to have to try to dig through
3 all those problems today. And I will tell you that if we do
4 not get some strong substantive answers that every dime that
5 is being spent in Afghanistan on reconstruction is being
6 spent wisely and being spent with the kind of oversight that
7 we would expect if we were building a highway down the road
8 in the United States of America, then I think it is time
9 that we focus on the mission where we are training security
10 forces and we are working to provide stability against
11 Taliban and the kind of structure that we need to support
12 going after al Qaeda on the border of Pakistan and
13 Afghanistan.

14 Perhaps it is time to shut down \$17 billion worth of
15 money going for reconstruction projects when our track
16 record really stinks when it comes to reconstruction
17 projects.

18 Now, I hope that you all are going to convince me that
19 I have become cynical and angry and frustrated about the way
20 we are spending money in theater, and I want to tell you, I
21 am looking for good news and I hope we hear some today. But
22 I think it is really time for a gut check because I have got
23 too many people in Missouri saying, Why cannot we fix this
24 road?

25 And then I look at the projects that we are building in

1 Afghanistan and it is very hard to explain to them why we
2 cannot fix that road, because we cannot afford it. But yet,
3 we can throw money away in Afghanistan on projects that are
4 clearly not sustainable, and if anybody would have spent any
5 time thinking about it in the first place, they would have
6 realized that. And that kind of planning has to begin
7 happening and that kind of accountability has to be present.

8 I am pleased that we have a number of witnesses today
9 that are going to testify to contracting in theater. Let me
10 say that this is--oh, good, Senator Portman is here. I will
11 give him time to get settled. We will continue to do these
12 hearings and continue to provide oversight in this arena. I
13 think that it is a place we need to draw the country's
14 attention.

15 I think we need to draw Congress's attention. I think
16 we need to certainly bring the attention of the Department
17 of Defense and the Department of State to these problems and
18 we need to begin to do one of two things. Do it right or
19 stop doing it. I will turn it over to Senator Portman for
20 his opening statement.

21 OPENING STATEMENT OF SENATOR PORTMAN

22 Senator Portman. Thank you, Madam Chair. Appreciate
23 your holding the hearing today. It is an incredibly
24 important topic given the resources that we are devoting to
25 Afghanistan. I was there about a month or so ago and had

1 the opportunity to meet not just with some our brave
2 soldiers and Marines, but also with some of the Federal
3 Government agencies that are on site and some of the
4 contractors.

5 I know this Subcommittee, under your leadership, has
6 done some of the most diligent and searching oversight of
7 Afghan reconstruction and development over the last several
8 years, and again, it is critical work and I am pleased to
9 now join you as your Ranking Member.

10 The hearing is especially timely as it comes on the
11 heels of a major announcement last week concerning the U.S.
12 mission in Afghanistan. The President announced, as you all
13 know, his intention to withdraw the full complement of the
14 30,000 so-called surge troops by September 2012, with the
15 first 10,000 coming out by the end of this year.

16 I have noted my concerns about the lack of clarity
17 regarding some of the strategic objectives in Afghanistan,
18 but what is clear is that we are now in a critical planning
19 window with respect to our military and our civilian mission
20 in Afghanistan. Today we have over 154,000 private
21 contractors working for the Defense Department, State
22 Department, AID in Afghanistan. 154,000 contractors.

23 The issue of effective and efficient use of those
24 contractors assumes a new urgency as we near both the surge
25 drawdown that I have talked about, and also the planned 2014

1 transition to Afghan-led security. It is also, of course, a
2 timely discussion given our fiscal problems and the fiscal
3 crisis at our doorstep.

4 Over the past nine-and-a-half years, our military
5 service men and women have done everything they have been
6 asked to do and more in Afghanistan. They have performed
7 remarkably well, and again, with bravery and extraordinary
8 skill under some very tough conditions.

9 Given our reconstruction efforts in Afghanistan, which
10 are incredibly important to the sustainability of this
11 effort, we need to be sure that what we are doing is right,
12 be sure that we are consolidating some of the hard-earned
13 gains that we have achieved.

14 The counterinsurgency strategy that was outlined by
15 President Obama has been to clear, hold, and build, and
16 ultimately transfer. And as we have reached the transfer
17 stage in many areas of the country, the objective, I think,
18 has to be leave behind a more functioning society and
19 economy, more resilient local governing structure, and a
20 stable, more constitutional and stable government in
21 Afghanistan, one that is capable of withstanding the radical
22 Taliban and other elements.

23 So one of my questions, Madam Chair, in this hearing
24 today is going to be talking about that and the
25 sustainability of some of the efforts. We have invested

1 heavily, as Americans, to achieve this goal of building up
2 Afghan institutions and fostering economic development and
3 job creation since 2002.

4 Congress has appropriated over \$60 billion for relief
5 and reconstruction in Afghanistan, the great majority of
6 which has been channeled through private contractors. Now
7 we know from experience in Bosnia in the 1990s and more
8 recently in Iraq that a reduction in troop levels does not
9 mean a drop in contractor activity.

10 In fact, sometimes it has been an increase. In fact,
11 there has been an increased reliance on contractors to fill
12 some of the support and logistical roles once performed by
13 the military in those two instances.

14 Eventually, however, the contractor presence will also
15 decrease as we move our support from large scale off-budget
16 spending to more direct on-budget aid to the Afghan
17 government directly. And this is why, again, our
18 reconstruction strategy must focus now more than ever on
19 ensuring that Afghans are prepared to sustain what we have
20 helped to build.

21 This means we must consider not only, for example, how
22 many additional schools and health clinics we construct, but
23 also whether Afghanistan will have teachers and medical
24 professionals to sustain those institutions. It means we
25 have got to consider not only the megawatt output of a new

1 power plant, but whether Afghans have the resources and
2 expertise to manage the long-term operation and maintenance
3 of those power plants.

4 On a related note, as we encourage more contracting
5 with local Afghan firms under the Afghan First Policy, we
6 must consider seriously revamping the process for vetting
7 contractors to ensure that they do not pose security risks.
8 Reconstruction is a critical component of our
9 counterinsurgency strategy and reconstruction dollars must
10 never be diverted to support terrorists or insurgent
11 elements, and that is one of the concerns that I have as we
12 go through this Afghan First Policy.

13 We should have no illusions that Afghanistan will
14 immediately be prepared to stand alone, unsupported by
15 friends and allies when the large scale U.S. military does
16 conclude. According to a World Bank estimate, as much as 97
17 percent of Afghanistan's GDP is currently derived from
18 spending related to international military and donor
19 community presence.

20 Think about that. 97 percent of their GDP. That
21 reliance will not simply disappear with the drawdown of
22 troops. But our reconstruction efforts must be directed to
23 empowering Afghans to regain responsibility and control over
24 their own future. So we have plenty of challenges and I
25 look forward to the hearing today, and specifically, the

1 discussion, Madam Chair, about reconstruction contracts,
2 lessons we have learned and some ongoing problems. Thank
3 you.

4 Senator McCaskill. Thank you, Senator Portman.

5 Let me introduce--if we could have both of our
6 witnesses, Mr. Hakki--is it Mr. Hakki?

7 Mr. Hakki. Hakki.

8 Senator McCaskill. Hakki. Yes. Would you mind taking
9 a seat? We are ready to begin. Did I pronounce it
10 correctly? Is it Hakki?

11 Mr. Hakki. Hakki.

12 Senator McCaskill. Hakki. That will be easy for me to
13 remember. Hakki.

14 Let me introduce the two witnesses. Larry Walker is
15 the President of the Louis Berger Group, an international
16 consulting company which holds large contracts with USAID in
17 Afghanistan. In that capacity, Mr. Walker is responsible
18 for providing strategic direction for the firm and ensuring
19 the company has adequate resources and support for the
20 successful completion of its programs.

21 He also oversees the development of strategic operating
22 plans for each business unit, and oversees the
23 implementation of company-wide initiatives. Thank you very
24 much for being here, Mr. Walker.

25 Mr. Hakki is currently the Chief Executive Officer of

1 Contrack International, Inc., which holds millions of
2 dollars of contracts with the Defense Department in
3 Afghanistan. Since joining Contrack in 1994, Mr. Hakki has
4 been responsible for overseeing operations at the U.S.
5 headquarters office.

6 His responsibilities include oversight of U.S. materiel
7 procurement, engineering review and quality control,
8 shipping logistics and monitoring the staff of engineers and
9 administrative personnel. Mr. Hakki holds a Master's in
10 structural engineering from Penn State and has been in the
11 construction business for nearly 30 years.

12 I look forward to both of you coming today. I am glad
13 you are both here today and I look forward to your
14 testimony. It is the custom of the Subcommittee to swear in
15 all witnesses that appear before us, so if you do not mind,
16 I would like you to stand and raise your right hands.

17 Do you swear the testimony you will give before the
18 Subcommittee will be the truth, the whole truth, and nothing
19 but the truth, so help you God?

20 Mr. Walker. I do.

21 Mr. Hakki. I do.

22 Senator McCaskill. Thank you both. Mr. Walker.

1 TESTIMONY OF LARRY WALKER, PRESIDENT, THE LOUIS
2 BERGER GROUP, INC.

3 Mr. Walker. Chairman McCaskill, Senator Portman,
4 members of the Subcommittee, I am Larry Walker, President of
5 the Louis Berger Group. I appreciate the opportunity to
6 provide our firm's perspectives on the Gardez-Khost Highway
7 project and our observations regarding reconstruction
8 projects in Afghanistan.

9 The Louis Berger Group is an international consulting
10 firm of approximately 3,000 employees around the world. We
11 provide diverse, multi-disciplinary expertise including
12 engineering, program and construction management, and
13 economic development services. Many of our projects are
14 carried out in some of the most fragile and challenging
15 regions of the world.

16 LBG first began working in Afghanistan in the 1970s,
17 and in December 2001, the company was the first engineering
18 firm to enter Afghanistan after the September 11th attacks.
19 Our work in Afghanistan has consisted mainly of
20 reconstructing and rehabilitating Afghanistan's physical
21 infrastructure.

22 We have successfully reconstructed more than 2,000
23 kilometers of paved roads, provided nearly 40,000 jobs to
24 Afghans, and trained thousands more. LBG's USAID-funded
25 projects have irrigated more than 90,000 acres of land and

1 constructed more than 90 schools and clinics to seismic
2 force standards.

3 The improved road network has dramatically decreased
4 transit times, which has spurred economic development along
5 the road corridors and improved access to education and
6 health care. I have traveled these roads myself and I can
7 truly say that the work has improved the quality of life in
8 Afghanistan.

9 The Gardez-Khost Highway is a critical commercial link
10 between Pakistan and Afghanistan. The road provides a
11 reliable transportation route from the border province of
12 Khost to the capital city of Kabul providing improved access
13 to government, trade, health care, and education.

14 I want to say a few words about the circumstances
15 surrounding the reconstruction of this road. As the picture
16 accompanying my written statement shows, the topographical
17 and geological features of this area where our
18 reconstruction work has occurred is some of the most
19 challenging we have faced in Afghanistan.

20 The degraded security environment has made this the
21 most dangerous project our company has attempted. On this
22 project alone, we have suffered 21 killed, 51 injured, and 4
23 missing. Security, as a percentage of the overall project
24 cost, is around 30 percent. To compare in other parts of
25 Afghanistan, security costs average oftentimes 8 to 10

1 percent of overall project cost.

2 On the Gardez-Khost road alone, our project has
3 experienced 147 direct attacks, 108 IEDs, and 40 mine and
4 other ordnance explosions. My point is that the traditional
5 metrics by which the government measures the efficacy of
6 projects and contract performance do not paint the full
7 picture. The lack of existing infrastructure or technical
8 capacity, the inexperience of Afghan companies, the need for
9 capacity building, and the dual eligible facto war zone all
10 work against measuring success just against scope, schedule,
11 and budget.

12 Sustainability is critical to ensuring the long-term
13 benefits of construction projects for the Afghan people and
14 to protecting the significant investment made by the
15 American taxpayer and other donors. Even before the Afghan
16 First Policy existed, the Louis Berger Group made a
17 significant effort to hire locally and incorporate
18 sustainability concerns into the training we provide our
19 subcontractors and their employees and we continue to do so.

20 This approach has been at the heart of LBG's work in
21 the developing world for more than 40 years. In the long
22 run, the ultimate sustainability of many projects in
23 Afghanistan will turn on the ability of the Afghan economy
24 to generate enough revenue to provide the workers and
25 materials that will be needed in order to maintain and

1 sustain projects we and other companies have completed.

2 The security environment increases the importance of
3 communications between the contractor and the Government.
4 We at LBG have worked hard to communicate with the
5 contracting officers, technical staff, as well as the U.S.
6 military to properly address security-related issues as they
7 arise.

8 The Louis Berger Group is honored to support USAID and
9 other clients in the critical efforts to improve
10 Afghanistan's physical, social, and economic infrastructure.
11 We have met with the Commission on Wartime Contracting on
12 four occasions to discuss reconstruction, and most recently,
13 to discuss the recommendations found in their recent report.

14 We support several of the Commission's recommendations
15 including integrating contract support into operational
16 plans, expanding and improving the qualifications and
17 experience level of Government acquisition personnel,
18 expanding competition requirements, and requiring improved
19 contract administration and oversight of contingency
20 contracts.

21 LBG believes these would all be constructive
22 improvements in the contracting process. We applaud the
23 efforts of the Commission and the Subcommittee to improve
24 the manner in which the United States awards and oversees
25 its contracts in overseas conflict environments, and its

1 emphasis on sustainability of our reconstruction programs.

2 At the Louis Berger Group we strive to deliver quality
3 construction in a timely fashion and within the funding
4 parameters for each project. The company and our employees
5 do this work because we have seen the tangible improvements
6 in the lives of the Afghan people that result from our work.

7 Thank you.

8 [The prepared statement of Mr. Walker follows:]

1 Senator McCaskill. Thank you, Mr. Walker. Mr. Hakki.

1 TESTIMONY OF WAHID HAKKI, CHIEF EXECUTIVE OFFICER,
2 CONTRACK INTERNATIONAL, INC.

3 Mr. Hakki. Chairman McCaskill--

4 Senator McCaskill. You need to turn on your
5 microphone, if you would.

6 Mr. Hakki. I am sorry?

7 Senator McCaskill. There you go.

8 Mr. Hakki. Okay. Chairman McCaskill, Ranking Member
9 Portman, distinguished members of this Subcommittee, on
10 behalf of Contrack International, I thank the Subcommittee
11 for the invitation to share some of our experiences and
12 lessons learned as part of the reconstruction efforts in
13 Afghanistan over the past nine years.

14 We share your interest in examining how the Government
15 can bring greater efficiency, transparency, and
16 accountability to the construction contracting process. We
17 believe these goals can help everyone delivery projects that
18 are on schedule, within budget, and sustainable.

19 Since 1985, Contrack has operated as a privately-owned
20 U.S. corporation headquartered in McLean, Virginia. I
21 joined this company in 1994 as Executive Vice President and
22 was appointed CEO in December of 2010. Contrack has offices
23 in Egypt, Qatar, Bahrain, and Afghanistan.

24 We provide engineering, procurement, and construction
25 services as well as facilities operations and maintenance.

1 Our focus primarily is on military, institutional, and
2 infrastructure projects throughout Northern Africa, the
3 Middle East, and Central Asia.

4 Over the past nine years, Contrack has completed more
5 than \$1.5 billion worth of fast track design-built projects
6 in Afghanistan for the U.S. Army Corps of Engineers and the
7 Air Force, AFCEE. Working as a prime contractor, we have
8 constructed ANA Brigades and U.S.A. and coalition forces
9 brigades, airfields, entry control points, ammunition supply
10 points, bulk fuel storage and supply systems, forward
11 operating bases, and other facilities.

12 We were also awarded a contract for the permanent
13 operations and maintenance services required to perform O&M
14 work on numerous ANA and ANP sites throughout Afghanistan.
15 Contrack's business model in Afghanistan is somewhat
16 different than most contractors in that we self-perform the
17 majority of our work rather than acting purely as a
18 construction manager.

19 Contrack has been a vital partner with the Corps of
20 Engineers in accomplishing the AED's mission statement to
21 provide sustainable development projects for the Afghan
22 people that employ the populace, build skilled human
23 capital, and promote the future stability of Afghanistan.

24 In order to utilize the local labor force, the majority
25 of Afghans must be trained in a skill. To accomplish this

1 task order, Contrack set up a training center to train and
2 educate the Afghans on a variety of construction trades. To
3 date, we have graduated more than 3,000 students, most of
4 whom are still employed by Contrack.

5 As a prime contractor, we also try to foster
6 relationships with local firms so they can succeed. This
7 requires ongoing training and guidance concerning U.S.
8 technical and contractual requirements and obligations.
9 Under the challenges that we are still facing over there, we
10 have here the contracting with foreign contractors.

11 Afghan and international contractors often receive
12 contracts which are more than they can handle. Many of them
13 are also not familiar with U.S. contract requirements.
14 Unfortunately, we share the perception in the international
15 community that there is an uneven playing field and that
16 foreign contractors typically are not subject to the same
17 standards as U.S. contractors.

18 These include safety, ethics, bonding, cost accounting
19 requirements that are established both to protect workers
20 and interests of the U.S. Government. We believe that the
21 Corps of Engineers has begun recognizing the risks in
22 awarding projects to foreign firms based on low price only.

23 For example, the Government recently awarded a MATOC
24 contract to 14 firms, all of which are American firms.
25 Future task orders will be competed among these 14 firms

1 only. This promotes full and open competition with
2 qualified construction contractors to deliver the best value
3 for taxpayers' dollars invested in Afghanistan.

4 We appreciate the difficulties faced by the Government
5 and commend the professional manner in which so many
6 contracting personnel perform their work in a hostile
7 region. However, the frequent rotation of COE field staff
8 have created a cascade of challenges to the contractor and
9 the Government.

10 For example, delays in resolving contract modifications
11 due to Government contracting officers and related personnel
12 causes delays in payment to the contractors. Similarly,
13 high turnover of Government personnel in the field causes
14 delays in submission of the final CCASS evaluations.

15 Quality at the job site is overseen by the COE QA
16 representatives. QA representatives are experienced in
17 other trades, but lack sufficient training to understand and
18 enforce the technical requirements of the contract they are
19 assigned to. Lack of partnering between the contractor and
20 the Corps is another unfortunate result of the personnel
21 turnover.

22 Contrack has participated in numerous partnering
23 sessions with the Corps in other regions such as Qatar,
24 Bahrain, and Egypt. We believe these sessions vitally
25 contributed to the success of the projects in those regions.

1 However, in nine years in Afghanistan, and after completing
2 over 50 projects, we have had only one partnering session
3 with the Corps.

4 High turnover of Government personnel exacerbates lack
5 of coordination between different Government agencies in
6 charge of the projects and their respective end users. This
7 often causes delays to the project and cost overruns.
8 Sometimes the end users' requirements are not fully
9 understood by the Corps.

10 For example, on design-build projects, early partnering
11 sessions involving the contracting agency, the contractor,
12 and the facilities end user would really help parties to
13 achieve the end users' design goals.

14 Transportation and logistics. The high volume of cargo
15 creates delays at the base entry control points. Material
16 and equipment convoys are at the mercy of the transporter.
17 Meanwhile, border politics that can block or delay shipments
18 of material to the project sites make matters even worse.

19 Working with the Afghan ministries is a challenge. The
20 Afghan ministries change procedures on a regular basis.
21 Requirements for tax exemption documentation, approval of
22 visas, et cetera, lack of stability is further compounded by
23 a thin staff that lack the cross-training.

24 New and constantly changing Presidential decrees
25 further increase the uncertain risk environment. For

1 example, the latest ban on private security firms will cause
2 disruptions, delays, and safety problems.

3 We believe that the foundation of a good project is a
4 well-coordinated design. Such design must meet the general
5 guidelines by the Corps and addresses the end users' needs.
6 On a project in Bagram Air Base, we were tasked to design
7 and build the main entry control points.

8 We had our designers on site meeting with the Corps and
9 the Force Protection staff to agree on a design that
10 satisfied everyone's requirements. This eliminated a
11 lengthy review process and clarified the objectives of the
12 project. All of these partnering efforts resulted in a
13 successful project completed on time and on budget.

14 I appreciate this opportunity to share our experience
15 in Afghanistan and would be pleased to answer any of your
16 questions.

17 [The prepared statement of Mr. Hakki follows:]

1 Senator McCaskill. Thank you both very much.

2 Mr. Walker, I want to talk a little bit about the road.
3 I understand where the road is located. I understand the
4 strategic planning that went into this particular road, but
5 I am trying to figure out whether or not someone along the
6 way should have pulled the plug. Let us talk about the
7 initial price tag of the road, and we are talking about now
8 the highway, the Gardez-Khost Highway that goes down through
9 rough territory and significant elevations and covered in
10 snow in the winter and, frankly, a very challenging highway
11 project under the best of circumstances.

12 Clearly, very difficult under the circumstances,
13 especially considering you are going through some
14 significant Taliban real estate. The initial price was \$69
15 million. We are now up to \$176 million for 64 miles of
16 highway. What went wrong in terms of the initial price tag
17 for this highway? Why are we barreling towards three times
18 as expensive as it originally was intended, and of that
19 price tag, \$43.5 million of that is security.

20 So what we are seeing is that a third of the cost of
21 building this are, in fact, security. Did no one have any
22 idea that that was going to be the case before it began?

23 Mr. Walker. When we started with the project, the
24 incidents of violence were not nearly as high as they were
25 as we got into the project. The original estimate of

1 security cost as a percent of the contract was around the 12
2 percent level, as I recall.

3 The challenge was, as we got into it and probably a
4 year into it, the attacks really began to increase and the
5 security situation really began to significantly
6 deteriorate. At the time--and we have worked on roads
7 throughout Afghanistan for many years.

8 At the time that the project was initiated, there was
9 no reason to assume that the security conditions would
10 deteriorate the way they did, recognizing that the
11 possibility always existed, we have all been working over
12 there and it is a very fluid and volatile situation. But no
13 one anticipated the level of violence and the level of
14 attacks that the project was going to sustain.

15 Senator McCaskill. And who made the decision as to
16 what the level of attacks would be? I mean, was that the
17 military that decided the attacks--because it would be hard
18 not to guess that this is going to be significantly
19 different than many of the other highway projects just by
20 sheer--the fact of where it is located.

21 Everyone knows. Frankly, the reason they wanted the
22 road in the first place is they wanted to clear out the
23 hornet's nest of Taliban in the area. So I am trying to
24 figure out who I can talk to that misjudged the security
25 environment by so much.

1 Mr. Walker. I am not sure it is a question of
2 misjudgment. I can appreciate that perspective that it
3 certainly might appear that way. The security in the
4 country in general really began to deteriorate. At the same
5 time, when looking at security in Afghanistan, it is not one
6 single footprint. Clearly, the north and the west is a
7 different security profile than what we have in the east and
8 the south.

9 When we began work on one road in the south, for
10 example, working in the same type of conditions, other roads
11 that we have worked in that area--as a matter of fact, the
12 Kabul-Gardez road, which is the other extension of Gardez-
13 Khost, we did that road. We did not have nearly the
14 security situation that developed later into the program.

15 So our historic experience was at certainly a serious
16 level of security, but not to the extent of what we are
17 experiencing now.

18 Senator McCaskill. Is it typical that you would have
19 as many subcontractors as you have on this project? Is this
20 typical?

21 Mr. Walker. Yes.

22 Senator McCaskill. So you would typically have 24
23 first tier subs and 147 second tier subs on projects that
24 you would work?

25 Mr. Walker. The 24 first tier subs, most of those subs

1 would be very small subcontracts.

2 Senator McCaskill. Give me an example. I am trying to
3 figure out, for 64 miles, you have got 167 different
4 subcontractors for 64 miles. What in the world are all
5 those subcontractors for?

6 Mr. Walker. You could have a small Afghan
7 subcontractor whose job would be clearing ditches of debris.
8 Another Afghan subcontractor who would build--makes new
9 walls on the approach to a bridge. You would have another
10 subcontractor who could work on the culverts with the
11 primary and first tier construction firm.

12 There are many small aspects to a construction project.
13 One of the things that we wanted to encourage was the use of
14 Afghans as much as possible, the use of Afghan firms.

15 Senator McCaskill. How many of these subcontractors
16 are Afghan companies?

17 Mr. Walker. Without looking at the list I cannot say,
18 but I would--and this is a guess--I would guess it is the
19 majority of them.

20 Senator McCaskill. Well, we would love to get the
21 exact number.

22 Mr. Walker. We can get you that for the record.

23 Senator McCaskill. That would be very helpful. I am
24 most concerned about the money that was paid on security to
25 folks that there is every indication that they are the bad

1 guys. Is this a reality that America has to accept, that in
2 order for us to do things for the Afghanistan people, that
3 we have to pay the people that are killing us?

4 Mr. Walker. I do not believe that is the case.
5 Certainly on this road, with the security firm that we have
6 providing security on the firm, all of the local Afghan
7 security providers are placed into the military's biometric
8 data system to check against the bad guy list.

9 If someone were to turn up, the military, through
10 USAID, would get back to us and say, We have a problem here.

11 Senator McCaskill. Have there been any you have had to
12 remove because of that?

13 Mr. Walker. I am not aware of any.

14 Senator McCaskill. Mr. Arafat?

15 Mr. Walker. Mr. Arafat, his information, as I have
16 been informed, was put into the biometric database and there
17 was no indication that he was a person of interest. As a
18 matter of fact, Task Force 2010 specifically told us that he
19 was not on their list.

20 Senator McCaskill. But he was fired?

21 Mr. Walker. Pardon me?

22 Senator McCaskill. He was fired?

23 Mr. Walker. We were--consent to use him on the project
24 was withdrawn, so his employment was terminated.

25 Senator McCaskill. And he was getting a million a

1 year?

2 Mr. Walker. No, ma'am. He was responsible for
3 providing drivers and vehicles. He did not provide
4 security, as I understand it. His responsibility was to
5 provide drivers and vehicles, which he did. The cost of
6 those vehicles and drivers and fuel was \$40 a day per
7 vehicle. We compared that against similar charges for
8 running vehicles and that was consistent. The charge of
9 those vehicles was, I believe, a little bit over a million
10 dollars.

11 Senator McCaskill. Okay. I have additional questions
12 that I will ask in the next round, but I will now turn it
13 over to Senator Portman.

14 Senator Portman. Thank you, Madam Chair, and again, I
15 thank the witnesses for being here today.

16 Mr. Walker, I think this hearing should be forward
17 looking, but I think there are some questions that should be
18 asked and some assurances, I hope, can be given with regard
19 to steps you have taken, not so much with regard to the
20 road--I do have some questions about that following on the
21 Chair's questions, but with regard to some of the over-
22 billing practices and what kind of internal audits or other
23 controls have been put in place.

24 In November of last year, my understanding is that your
25 firm received the largest fine ever imposed on a contractor

1 working in a war zone of \$18.7 million in criminal penalties
2 and \$50.6 million in civil penalties for over-billing.

3 And as part of that deferred prosecution agreement,
4 your company admitted that from '99 to 2007, former
5 executives submitted false, fictitious, and fraudulent
6 overhead rates for indirect costs and correspondingly
7 resulted in overpayments by the Government in excess of \$10
8 million. Federal prosecutors, as you know, charged that it
9 is in addition to that, that they think it is between 15 and
10 20.

11 But what I want to ask today, and give you a chance to
12 respond to is, what assurances can you give the Committee
13 that these kinds of abuses will not occur in the future with
14 taxpayer dollars? Have you improved internal audit
15 controls? How frequently do you plan to have your billing
16 practices reviewed by outside accounting firms? What
17 safeguards have you put in place?

18 Mr. Walker. In 2006, we noticed a problem in our
19 overhead and we initiated an internal review, and in June of
20 2007, we initiated a refund to the U.S. Government of \$4.3
21 million. In August of 2007, the Justice Department let us
22 know that we were under investigation and intervened with us
23 at that point.

24 Being that we had already seen that there were some
25 problems in the overhead structure, we, of course,

1 immediately pledged our full cooperation. The result of the
2 investigation--well, let me even take half a step back. We
3 brought in an outside accounting firm to do a forensic
4 analysis of what was going on in the overhead structure. We
5 shared that completely with the Department of Justice.

6 And what was determined was costs that were associated
7 with one overhead pool were inappropriately moved to another
8 overhead pool. That overhead pool was the overhead pool for
9 U.S. Government overseas work. That was wrong. That was
10 absolutely wrong.

11 In looking at that situation and recognizing that we
12 had that problem, we worked with the Department of Justice
13 to, again, identify what the damages were to the United
14 States Government and certainly volunteered our cooperation
15 to initiate the refunds.

16 The individuals who were associated with that improper
17 practice are no longer with the firm. We initiated a
18 complete restructuring. I took over the presidency of the
19 firm about two-and-a-half years ago and initiated a complete
20 restructuring of the controls and policies and procedures in
21 the company.

22 I created a much more robust Compliance and Ethics
23 Department in the company. We put the entire company
24 through training, the Accounting Department, through many,
25 many types of training. We put in place scores of new

1 controls. We brought in yet another outside accounting firm
2 to test those controls.

3 It is one thing to have policies and procedures; it is
4 another thing to make sure that they work. So I brought in
5 another independent accounting firm to test us to see how we
6 are doing because we need to make sure that not only does
7 the policy and the control exist on paper, but that it
8 exists in the culture of the company. And so, we have been
9 in that process.

10 As part of the DPA, as you are aware, we are under a
11 monitor and we share everything, of course, with that
12 monitor, all the training programs, all the testing to
13 provide assurance that the controls that we put in place
14 protect the U.S. taxpayer.

15 We have shared this from day one with Justice
16 Department, with USAID, many presentations, and we have just
17 laid everything open bare to make sure that we are as
18 transparent as we can possibly be in this situation.

19 Senator Portman. Well, thank you. I am glad to have
20 given you the opportunity to respond. Obviously what this
21 Committee is concerned about is that there are ongoing
22 efforts to have both internal and external reviews, and
23 through the monitor and other safeguards, we want to be sure
24 that, as I said earlier, this incredible expenditure of
25 taxpayer funds is being properly spent. Given where we are

1 in Afghanistan, it is all the more important.

2 Let us go to the specific project, if we could, that
3 you discussed with the Chair and that is the 64-mile highway
4 that has now cost about \$121 million. Final price tag, I am
5 told, is expected to reach \$176 million, or about \$2.8
6 million per mile. Cost overruns, as I look at this, have
7 now exceeded 100 percent. I do not know if that is accurate
8 or not, but that is the way I read the numbers.

9 In your testimony, you attribute this to the security
10 environment. You have responded to the Chair's questions
11 about the security environment. I guess I would ask you a
12 question, in addition to the security issue, can you tell us
13 what is the cost overrun excluding, security costs?

14 Mr. Walker. When Senator McCaskill, when you had
15 mentioned \$69 million, I would like to clarify it a little
16 bit. That was our estimate of what we thought the time it
17 would cost to build that road, the construction cost. The
18 bids that came in and the firm that won the contract, who
19 was the low bidder, came in at, I believe it was \$85 or \$86
20 million.

21 That was really the starting point for us for the
22 construction of the road, not counting security or the
23 construction management over the contractor. So from our
24 perspective, the construction starting point is about \$85 or
25 \$86 million. And the total cost at that starting point,

1 when you include security and the construction management,
2 was about \$107 million.

3 The \$85 or \$86 million that was bid by the construction
4 firm, the job will come in basically at that price. The
5 construction costs are not experiencing large overruns. The
6 primary driver of these costs are security. It has exceeded
7 30 percent. It has grown throughout the process. And it
8 grew to such a point that--we are not in the security
9 business and we saw that the security costs continued to
10 grow as a result of the security situation.

11 So last year in one of the modifications to the
12 contract, without prodding by USAID, but on our own
13 volition, we told USAID that we were going to forego profit
14 on security moving forward from last year. And so, we were
15 entitled to it, but we voluntarily chose to forego \$1.4
16 million in profit on security because we are not interested
17 in making profit because of that type of a situation, so we
18 voluntarily decided not to.

19 Senator Portman. My time is running out here.

20 Mr. Walker. Yes.

21 Senator Portman. We will have a chance for further
22 questions in a moment, but if you could provide the
23 Subcommittee with the cost overrun data, that would be
24 helpful. You just said the primary driver of these costs
25 are security-related. What we would be interested in

1 knowing is which of those costs are not security-related,
2 understanding what you said about security and the fact that
3 there is a change in the security environment in the country
4 as a whole. But if you could give us the data on cost
5 overruns that are not security-related? If there are none,
6 we want to hear that. If there are some, we want to hear
7 what they are and why.

8 Mr. Walker. Be happy to, Senator.

9 Senator Portman. And there is, as I understand it,
10 because of the basis of the contract being on a cost-plus
11 basis, I assume there would be a profit involved. So we
12 want to hear what those cost overruns are. Thank you, sir.

13 Senator McCaskill. Let us just get an overview here.
14 Approximately how many different contracts does your company
15 have in Afghanistan, Mr. Walker?

16 Mr. Walker. The largest one is the IRP IQC contract
17 that we hold in joint venture with Black & Vetch.

18 Senator McCaskill. Which is for all the highways, all
19 the roads?

20 Mr. Walker. Not all the roads. I mean, the roads are
21 being executed under different contract mechanisms, but our
22 responsibility has been roads. So under the IRP contract,
23 road task orders, I believe we have done four roads, if I am
24 not mistaken.

25 Senator McCaskill. Okay. And are there other types of

1 projects that your companies are doing besides roads in
2 Afghanistan?

3 Mr. Walker. We have some small contracts where we are
4 a subcontractor to some other firms on non-infrastructure.
5 We also have some--we have had a couple of small projects
6 under the Africap contract, but they are--I do not think we
7 have any current and we have had just a handful of those.

8 Senator McCaskill. Mr. Hakki, you indicated most of
9 the work you have done has been under the aegis of work with
10 the Army Corps for the military as it relates to structures
11 either supporting the Afghan police, the Afghan national
12 army, or the United States military.

13 Mr. Hakki. Correct, ma'am.

14 Senator McCaskill. Have you done any projects that
15 would be considered civilian infrastructure projects,
16 electrical plants, health centers, schools, anything of that
17 nature?

18 Mr. Hakki. No, we have not, ma'am.

19 Senator McCaskill. Okay. Let us talk about oversight.
20 I was shocked in your testimony, Mr. Hakki, when you said in
21 nine years you had had one meeting with the Corps of
22 Engineers. For both of you, how often do you see USAID
23 officials, Mr. Walker, at the Gardez-Khost project? How
24 often are they there?

25 Mr. Hakki. I am sorry, Senator. The meeting I was

1 talking about was a partnering meeting, not normal regular
2 meetings. We have regular meetings with the Corps in
3 country on--

4 Senator McCaskill. Partnering like the planning
5 meeting?

6 Mr. Hakki. Partnering planning meeting where we have
7 like top executives from both agencies, along with the end
8 user, and they meet like for a whole day or perhaps two days
9 in a remote location and they discuss the strategy and the
10 partnering for the whole project.

11 Senator McCaskill. And sustainability, I assume?

12 Mr. Hakki. And sustainability.

13 Senator McCaskill. Which is--

14 Mr. Hakki. For that, we have only had really one in
15 Afghanistan, but as far as regular meetings with the
16 clients, we have had those on a regular basis.

17 Senator McCaskill. I understand. What about oversight
18 on your end, Mr. Walker? How often does USAID show up on
19 site?

20 Mr. Walker. In the projects that we have around the
21 country, they definitely come in. One of the restrictions
22 that USAID works under is the restriction for being able to
23 move in the country. And I have known quite a number of
24 USAID personnel who want to get out more than they are
25 allowed to do.

1 They do come to the--in the case of Gardez-Khost, USAID
2 does come out to the road. They are forced to travel under
3 very restrictive security restrictions such as movements in
4 MRAPs, for example, but they do get out. They do get out to
5 the road.

6 Senator McCaskill. What about the contracting
7 officers, the CORs? Do you all have very much contact with
8 CORs, either one of you?

9 Mr. Hakki. Yes, we do.

10 Senator McCaskill. You do?

11 Mr. Hakki. We do, but I have to emphasize that our
12 projects are a lot different than--

13 Senator McCaskill. Obviously.

14 Mr. Hakki. --the Louis Berger projects because our
15 projects are all inside the wire.

16 Senator McCaskill. Right.

17 Mr. Hakki. They are all inside the perimeter of the
18 base where most of the times, the COR's officers are there.

19 Senator McCaskill. Right.

20 Mr. Hakki. So it would be a lot easier for us to meet
21 and they do.

22 Senator McCaskill. Do you think the CORs are doing a
23 better job in terms of contract oversight than--

24 Mr. Hakki. Definitely.

25 Senator McCaskill. --four or five years ago?

1 Mr. Hakki. They have definitely improved over the past
2 nine years. We have definitely seen a lot of improvement in
3 all aspects--

4 Senator McCaskill. That is good.

5 Mr. Hakki. --including the Government turnover of
6 personnel that you just mentioned. Most of them are now on
7 one year rotations, when initially in 2003, we used to see
8 people on 60 days, 90 days rotations. Now they are getting
9 into one year. I think there is still room for improvement
10 there. I think they can still increase that, but there is
11 definitely an improvement.

12 Senator McCaskill. And let us talk about bribes. I
13 mean, I spent some time in Afghanistan and I am hopeful that
14 neither one of you will test us here and not acknowledge
15 that bribes have been an essential part of us doing business
16 in Afghanistan, regardless of what we are doing.

17 What can you tell the Committee about bribes and the
18 bribes that have been paid at various places and levels,
19 whether it is under the aegis of security or other services,
20 quote-unquote--that are needed by local folks that are used
21 to getting their piece of the pie?

22 Mr. Hakki. No, I can tell you, ma'am, we do not have
23 any part of that whatsoever. We have a very strict company
24 policy against bribes and we just do not participate in
25 that. And on several occasions, it cost us delays and it

1 cost us--you know, we had to suffer because we did not agree
2 to play that game. But we do not, we really do not.

3 Senator McCaskill. Mr. Walker?

4 Mr. Walker. We have seen no evidence of our security
5 personnel providing bribes. I mean, I think the casualties
6 that we are taking would indicate that that is not something
7 that we sponsor or that our security provider sponsors.

8 Senator McCaskill. Well, I assume when the security
9 costs went way up, the casualties began to go down.

10 Mr. Walker. No, ma'am.

11 Senator McCaskill. The casualties have remained at the
12 same level even though security has increased by a dramatic
13 fashion?

14 Mr. Walker. We have had, for example, two weeks ago,
15 two of our security personnel were kidnapped and taken to a
16 local village. They brought the villagers out and they
17 executed them. Whether that happened two weeks ago or
18 whether it might happen 30 days from now we still have to
19 maintain a level of security.

20 In ramping up the security, it is one of those
21 unknowns. We do not know what we may have prevented by
22 having more security, better security. But what we do with
23 our security profile is to create a security bubble and to
24 make that as airtight as possible so that the work can
25 occur.

1 But when you move on from that bubble, you still have
2 infiltration to plant IEDs, to plant mines. When workers go
3 home, in the case of the gentlemen two weeks who were
4 kidnapped, they were on their way home after they had left
5 duty when they were kidnapped and then executed. We have to
6 maintain a level to allow us to get our work done.

7 Around three to four weeks ago, you all are probably
8 aware of the attack that occurred north of the road in which
9 36 construction workers were killed. I believe it was a
10 PARTICULAR road. They were trying to use a lower level of
11 security, as I understand it, and the result was they could
12 not withstand a serious assault.

13 So how much is our security footprint a deterrent from
14 a serious assault like that? I do not know if we can answer
15 that question.

16 Senator McCaskill. Right. You cannot prove what you
17 can prevent.

18 Mr. Walker. Yes.

19 Senator McCaskill. Well, I do not think either one of
20 you would say that bribing is not a serious issue in
21 Afghanistan, right? I mean, you are not going to tell me
22 that?

23 Mr. Hakki. No, it is definitely a serious issue.

24 Senator McCaskill. Okay.

25 Mr. Hakki. And it happens on a daily basis.

1 Senator McCaskill. Right, everywhere.

2 Mr. Hakki. We get threatened and we get, you know, we
3 get calls to give the bribe and if we do not, we face the
4 consequences. Like I said, we have been forced to suck it
5 up and delay material delivery, delay in normal procedures
6 with the government simply because we are not playing the
7 game. We are refusing to succumb to that.

8 Senator McCaskill. Right. Do you think we should have
9 built this road, Mr. Walker?

10 Mr. Walker. A couple of years ago, a reporter for the
11 Wall Street Journal asked me if we should have built the
12 Kabul-Kandahar Highway, which we had constructed. It has
13 been under attack. All the bridges have been damaged. And
14 he said, It is under such attack, was it worth building the
15 Kabul-Kandahar Highway in the first place?

16 And I said to him that they are attacking it because it
17 is important and if it is important, it is worth building.
18 I think the question is not should we have built it or not
19 built it, but is there a different way of building it that
20 would get it done quicker or lower the casualty count or
21 lower the security profile.

22 Again, when we started the road, we were at one level
23 and then it advanced. We built a road a few years back up
24 to Tarin Kowt, which is in Uruzgan Province, under the RESC
25 [physician] contract which was the first contract that we

1 had, and we knew that was going to be bad from day one. And
2 so, we got together with the military, I think it was the
3 864th Combat Engineer Battalion, and we embedded ourselves
4 with them.

5 So we had a battalion around us. They actually did the
6 groundwork--did the earthwork. They had their 'dozers out
7 there and they blazed it, and we came behind doing the
8 asphalt work. And we were surrounded by a battalion. There
9 were no casualties on that road, and Uruzgan Province was
10 Taliban territory from day one that the U.S. came into
11 Afghanistan. That was never--

12 Senator McCaskill. So why did you not do the same on
13 this road?

14 Mr. Walker. Because when we started, we saw--no one
15 recognized that it was equivalent to a Tarin-Kowt, and our
16 experience--again, our experience working on roads in the
17 area indicated that it was not like a Tarin-Kowt.

18 Senator McCaskill. But once you figured out it was,
19 why did you not go back to the drawing board and do what you
20 had done in the previous incident?

21 Mr. Walker. Senator, I think that is a great question
22 and my understanding with this hearing is getting to the
23 lessons learned, and going back to my opening statement
24 where I said we cannot just look at the typical metrics of
25 scope, schedule, budget, there comes a time when we probably

1 should have stepped back and said, We have to change the
2 scope because we need to get the road done, but maybe there
3 is a different way of getting that road done.

4 What ended up happening is we all--we went into a
5 reactive mode. So we have a security situation, we have to
6 increase the security footprint to prevent that particular
7 situation from happening again where we have another
8 incident.

9 So I think from the lessons learned, that we have to
10 recognize how the security environment can change relatively
11 quickly in a contingency environment like Afghanistan.

12 Senator McCaskill. Well, it is sad to me that we are
13 just now talking about that lesson learned because that
14 lesson was learned many times in Iraq where the security
15 environment changes and billions of dollars worth of
16 investment was blown to smithereens because the security
17 environment changed.

18 And I guess what I would say is that it seems this is a
19 long, long time that we have had lessons learned, and it is
20 so frustrating that--let me ask this last question because
21 my time is up. Who is the person that you would see, Mr.
22 Walker, that could have, in this whole enterprise of
23 building this highway, who is the person that should be held
24 accountable for not changing the way the highway was being
25 built in light of the security environment changing?

1 Not within your company, but within the Government part
2 of this, the military or the State Department. Who is the
3 person that should have said, You know, we have got to go
4 back and do this differently?

5 Mr. Walker. I do not know if there is any one person,
6 but I do know that it is really important that we make sure
7 that our communication between the military, between our
8 client, with ourselves, is always at its best.

9 Senator McCaskill. Who can I blame?

10 Mr. Walker. Who can you blame?

11 Senator McCaskill. Yes. Who can I blame that we did
12 not change the way we were doing it sooner? Who could the
13 American people look to to hold accountable that we have
14 poured tens upon tens upon millions of dollars into security
15 not really sure where all that money has ended up? Who is
16 it that I should ask to come in front of this Committee to
17 talk to about it?

18 Mr. Walker. I am reasonably confident that we have
19 maintained controls over the money that is going to
20 security.

21 Senator McCaskill. Okay. I should not have added
22 that. I am wanting to know, who is the person--and if there
23 is not a person, that is the problem. Who is the person
24 that I should ask to come in front of this Committee and
25 explain that they were monitoring this expenditure of

1 American tax dollars, that they saw it getting out of
2 control, and they said, Stop, we need to have a meeting, we
3 need to figure out a different way to do this, we are going
4 to put way too much money into this project? Who is that
5 person?

6 Mr. Walker. And I guess I would have to say there is
7 not one person who could be held to that standard. I think
8 it is incumbent on all of us to sit down and look, is there
9 a different way?

10 Senator McCaskill. You know what happens with all of
11 us? That means none of us because we do not know who we can
12 hold accountable and we have got to figure that part out.
13 Somebody has to be held accountable. There has to be
14 somebody in the whole organization that has primary
15 responsibility and accountability for these projects if they
16 are not sustained and they ended up costing way more than
17 they should have cost and not achieving the objectives of
18 the original project. Thank you very much.

19 Senator Portman.

20 Senator Portman. Thank you, Madam Chair. Three quick
21 questions and I would appreciate it if we could try to go
22 through these quickly because there is another panel right
23 behind you, I know, that is already here with us.

24 Again to Mr. Walker, giving you chance to respond, you
25 talked about the highway that is under discussion here

1 today, the Gardez-Khost Highway, and we have talked about
2 the security situation and the cost overruns.

3 But let me give you a chance to respond to a report.
4 This comes from the New York Times back in May. It is a
5 quote, Despite the expense, a stretch of the highway
6 completed just six months ago is already falling apart and
7 remains treacherous, end quote.

8 One, do you agree that parts of the highway that you
9 have already constructed is deteriorating, and if so, is
10 your firm paying for the repairs to that stretch of road, or
11 is USAID and the taxpayer picking up the tab?

12 Mr. Walker. First, I would absolutely disagree with
13 that reporter's assessment. The reporter was referring to
14 one particular crack that was on the road. If you have the
15 photograph that I included with the opening statement--and
16 if you do not have it with you, you could look at it later--
17 on the right-hand side of that photograph, you will see
18 where that crack is.

19 You will also see a fault line that runs down the
20 mountain and the crack was a result not of workmanship. It
21 was the result of a fault. It is there, the road goes over
22 that fault, and whether it is Colorado where I used to live,
23 whether it is West Virginia, whether it is Afghanistan,
24 mountains move.

25 It was not a quality issue. It was not an issue of

1 workmanship. It was an issue of that fault moving. I have
2 spoken--we have had a senior geotechnical engineer who has
3 been out there taking a look at it. It goes over a fault.

4 Senator Portman. Who is going to pay for the repair?

5 Mr. Walker. In the case of it going over a fault, that
6 is a maintenance repair. Where there have been issues of
7 quality, as there is also some issue of quality, we have had
8 the contractor pay for that when it is their responsibility.
9 But when a mountain moves, it is not the responsibility of
10 the contractor. It is a maintenance function.

11 Senator Portman. To both Mr. Walker--and Mr. Hakki, we
12 are not going to leave you out totally here. After all, you
13 got your engineering degree from Ohio University.

14 Mr. Hakki. Yes. I was hoping you would mention that,
15 Senator.

16 Senator Portman. Yes. We are proud of that. Let us
17 talk briefly about Afghan First. As I said in my opening
18 statement, this is a policy now of the Administration I
19 supported. Hire Afghans first, buy Afghan products, build
20 Afghan capacity. You addressed this a little bit in your
21 opening statement with regard to the 3,000 students you say
22 have graduated from a training course, and you said you have
23 local firms engaged in some retraining efforts.

24 I would ask you both, how do we get Afghans engaged in
25 the sustainability I talked about in my opening statement?

1 You know, this road, the next time there is a crack and you
2 all are gone and we begin our withdrawal, who is going to
3 fix it? Can they afford it? Do they have the technological
4 capacity to do it?

5 I just would like to hear from, first, Mr. Hakki
6 quickly. What are you doing exactly to ensure that there
7 will be this ongoing support by retraining, by developing
8 this expertise? What are the challenges you see by this
9 stated policy, the Afghan First Policy, and do you see any
10 unintended consequences of it? And I think Mr. Walker
11 alluded to some of those earlier. But if you could respond
12 to that, Mr. Hakki?

13 Mr. Hakki. Yes, Senator Portman. The Afghan First
14 program is really not something that we are very familiar
15 with. That is very limited to Afghan companies. We know it
16 is there, we know it has been fairly successful, but I
17 really cannot--I really cannot comment on that because we
18 have not really participated in that. That does not mean--

19 Senator Portman. But the policy is to have contractors
20 like you hire Afghans.

21 Mr. Hakki. Afghan companies, I believe, not us. I
22 think the Afghan First program is limited to Afghan
23 companies, if I am not mistaken. But that does not mean
24 that we are excluding the Afghans, you know, from our
25 projects. Like I said, we hire a lot of Afghans on our

1 projects, we train them. We also engage with the local
2 Afghan--

3 Senator Portman. But you do it just because you think
4 it is a good idea, not because there is any direction in
5 terms of a policy--

6 Mr. Hakki. Correct.

7 Senator Portman. --related to your contracts?

8 Mr. Hakki. There is a requirement in our contract that
9 encourages the engagement, you know, of the local labor and
10 local companies, but it is really not a requirement. We
11 have taken that way over and we have--

12 Senator Portman. You would not have to do any hiring
13 of Afghan subs or--

14 Mr. Hakki. Contractually speaking, no.

15 Senator Portman. Interesting.

16 Mr. Hakki. But we do that.

17 Senator Portman. In terms of policy--

18 Mr. Hakki. But we do that and it has been very
19 successful, and the training center that we established
20 really was completely out of pocket. There was no
21 Government funding associated with the training center that
22 we developed. It was completely out of pocket and we
23 thought it was a great idea because it really addresses
24 Senator McCaskill's concern with sustainability. The best
25 way to sustain these projects after we all leave Afghanistan

1 would be the training and the education.

2 The way we really did it is very simple. We hired
3 these students, believe it or not. We had to pay them like
4 a daily allowance. We had to transport them and we had to
5 give them actually like food while they are there.

6 But it is really peanuts. I mean, the cost of all that
7 was very little compared to the overall reconstruction
8 process. And in two to three weeks, we would graduate them
9 with a simple--maybe I can introduce this as part of the
10 record if it is possible.

11 But it is a simple certificate, really, that states
12 that this individual has been trained for about two to three
13 weeks on a specific skill, and it really does not cost much,
14 but it means the world to this individual because it
15 provides him with the security and a skill and with a job
16 that he can use long after we leave. So that is why it has
17 been really successful, this whole program for us.

18 [The information follows:]

19 / SUBCOMMITTEE INSERT

1 Senator Portman. I look forward to talking to the
2 Government panel afterwards. There must be some disconnect
3 here between the work you have done, which it sounds like
4 successful in terms of moving toward not just using Afghan
5 subcontractors and labor, but also training them for the
6 future, and what my understanding was, which is that that
7 should not be something that is discretionary, but rather,
8 part of a policy. So we will talk more to the Government
9 panel about that.

10 Mr. Walker, other thoughts?

11 Mr. Walker. Yes. Under USAID's auspices, we have a
12 major and significant program of sustainability underway for
13 roads. Currently, we have basically an Afghan-led program
14 where 1,500 kilometers of road under active maintenance, we
15 have been developing the capability of the Afghan firms, the
16 Afghan employees for a number of years now. And again, it
17 is 1,500 kilometers under maintenance.

18 Our employees, our Afghan employees, we have moved up
19 the ranks so that the deputy task force manager is a local
20 Afghan engineer, Engineer Wali. He could take that program
21 over probably in another six months, maybe a year.

22 The important point about that is sustainability also
23 means funding, and we have worked with the Afghan
24 Government, with the Ministry of Public Works and the
25 Ministry of Finance, to establish the framework for a road

1 authority, as well as a road fund. The Minister of Finance
2 has indicated that he feels it is very important in that
3 roads can be funded, maintenance of roads can be funded
4 through a fuel tax or something along those lines.

5 This initiative is now on President Karzai's desk on
6 the decision on whether or not the authority goes under
7 Public Works or whether it is an independent authority. But
8 I think it is an example of planning for things, as we have
9 discussed here earlier, having some foresight into, will
10 these roads be able to be maintained? And I believe the
11 answer is yes.

12 The crack that we talked about from the fault is being
13 repaired by Afghans under that task order, under that
14 maintenance task order. So I think it is a real example of
15 success in looking at sustainability and protecting the
16 investment that the U.S. has made for roads.

17 Senator Portman. Okay. Madam Chair, if I could ask
18 one more quick question?

19 Senator McCaskill. Sure.

20 Senator Portman. And this is one that I think is
21 important to get on the record. It has to do with, in a
22 sense, what the Chair asked earlier about which was these
23 multiple subcontractors, and GAO has raised concerns about
24 this, what they call the excessive use of multiple tiers of
25 subcontractors. They talk about concerns over project

1 management, over vetting, over cost control.

2 I am going to focus on one area and that is what kind
3 of contract. It seems to me we are creating the wrong
4 economic incentives when some of these multi-million dollar
5 contracts are structured as cost-plus contracts. And in
6 that case, prime contractors actually earn more when their
7 subcontractors spend more. So you all would be earning more
8 as they spend more, rather than creating an incentive for
9 efficiency.

10 Rather than encouraging subcontractors who, for
11 example, economize on the material cost or delivery cost,
12 prime contractors would actually profit from that waste at
13 any level. So my question to you is, do you think we ought
14 to change it? Do you think we ought to use fixed-cost
15 contracts more widely, and why would that not be feasible in
16 some of these reconstruction efforts? And if so, what kind
17 of projects would those work best on? And if you think that
18 we should not move to fixed-cost contracts, why not?

19 Mr. Hakki. Senator Portman, 99 percent of our
20 contracts are fixed price and we really have little
21 subcontractors on them, because like I said, we always tend
22 to self-perform the majority of the work. And I think out
23 of 50 projects we have done in Afghanistan, only one has
24 been cost-plus. All the others have been fixed price
25 competitively bid with very little amount of subcontractors.

1 Senator Portman. Fixed price for your subcontracts--

2 Mr. Hakki. No, fixed price for us.

3 Senator Portman. --or for your contracts?

4 Mr. Hakki. It is a fixed price for us.

5 Senator Portman. And outside the wire, is that true,
6 outside the compounds?

7 Mr. Walker. Working outside the wires, it is
8 extraordinarily difficult to do a fixed-price contract.
9 There are just so many unknowns when you are dealing with
10 mine fields on either side of a road that you are working
11 on.

12 What we have done is we have tried to blend pieces of
13 fixed-price in with cost-plus, and to that end what we have
14 done is we have created a contract modality where we have
15 fixed unit prices so that the only thing that would vary
16 would be the quantities. An example would be on the Gardez-
17 Khost road, it cost \$4.40 a cubic meter of dirt for
18 excavation. That holds, and if it costs more than that,
19 that unit price does not change.

20 What changes are the quantities and the quantities are
21 monitored every day, every dump truck to make sure that
22 however many cubic meters are pulled out of a particular
23 section are, in fact, accounted for. So we have tried as
24 best we can to blend both aspects of fixed-price as well as
25 cost-plus.

1 Senator Portman. So is there more opportunity for
2 fixed-price contracting at the subcontractor level?

3 Mr. Walker. If it is a smaller contract that is
4 defined--and that is really the key--if you can define what
5 the work is, then it is certainly possible.

6 Senator Portman. Thank you, Madam Chair. One final
7 thing I want to say and that is, just as we are concerned
8 about the safety and security of our troops, we are for your
9 employees and your subcontractors and we wish them well.

10 Mr. Walker. Thank you.

11 Senator Portman. Thank you.

12 Mr. Hakki. Thank you.

13 Senator McCaskill. Thank you both for being here. We
14 really appreciate it and we will follow up if we have any
15 additional questions.

16 Mr. Walker. Thank you.

17 Mr. Hakki. Thank you, Senator.

18 Senator McCaskill. And I want to second Senator
19 Portman. While our job is to oversee the way money has been
20 spent on all of these various contracting initiatives in
21 Afghanistan and Iraq, make no mistake about it. The people
22 who have worked on many of these projects are in as much
23 danger as many of our military, and we certainly wish them
24 well and certainly mourn the loss of people who work on
25 reconstruction projects for our Government, as much as we

1 mourn the loss of our soldiers who lose life and limb in
2 theater. So we wanted to pass that long to both of you.
3 Thank you for being here.

4 Mr. Walker. Thank you.

5 Mr. Hakki. Thank you, Senator.

6 Senator McCaskill. I will go ahead and introduce our
7 next panel. Our first witness will be William Solis who is
8 the Director, Defense Capabilities and Management Team at
9 GAO. In that capacity, Mr. Solis is responsible for a wide
10 range of program audits and evaluations, focusing on Army,
11 Navy, Air Force, Marine Corps, and Defense Logistic Agency
12 programs.

13 His portfolio of work covers issues including
14 operational contract support, operational energy, urgent
15 needs, force protection for ground forces, in-theater supply
16 chain management, maintenance, transportation, sustainment,
17 and equipment reset. I understand that the schedule change
18 for this hearing was very difficult for you and I want to
19 thank you especially for joining us today.

20 David Sedney has served as Deputy Assistant Secretary
21 of Defense for Afghanistan, Pakistan, and Central Asia since
22 2009. From 2007 to 2009, Mr. Sedney was the Deputy
23 Assistant Secretary of Defense for East Asia.

24 Prior to joining the Defense Department, Mr. Sedney was
25 a career diplomat with the State Department where he held a

1 position on the National Security Council and was the Deputy
2 Chief of Mission in Afghanistan as well as several other
3 countries. Mr. Sedney previously testified before the
4 Subcommittee at the April 2010 hearing on the Afghan
5 National Police Training.

6 Kim Denver is the newly-appointed Deputy Assistant
7 Secretary of the Army for procurement. In that capacity,
8 Mr. Denver manages the Army's procurement mission, including
9 the development and dissemination of policies, processes,
10 and contracting business systems. He directs the evaluation
11 measurement and continuous improvement actions for over 270
12 Army contracting offices worldwide.

13 As the functional career representative for
14 contracting, Mr. Denver oversees the recruitment, training,
15 certification, and professional development of the Army's
16 contracting workforce. He was previously the Director of
17 Contracting for the U.S. Army Corps of Engineers National
18 Contracting Organization.

19 J. Alexander Thier has been the Assistant of the
20 Administrator and Director of the Office of Afghanistan and
21 Pakistan Affairs for the U.S. Agency for International
22 Development since June 2010. Prior to joining USAID, Mr.
23 Thier served as Director for Afghanistan and Pakistan at the
24 U.S. Institute of Peace, and Chair of the Institute's
25 Afghanistan and Pakistan working groups.

1 Once again, as is the custom of the Committee, if you
2 would stand so I can administer an oath?

3 Do you swear that the testimony you will give before
4 the Subcommittee will be the truth, the whole truth, and
5 nothing but the truth, so help you God?

6 Mr. Solis. I do.

7 Mr. Sedney. I do.

8 Mr. Denver. I do.

9 Mr. Thier. I do.

10 Senator McCaskill. Thank you all for being here and we
11 will begin with Mr. Solis.

1 TESTIMONY OF WILLIAM SOLIS, DIRECTOR, DEFENSE
2 CAPABILITIES AND MANAGEMENT, U.S. GOVERNMENT
3 ACCOUNTABILITY OFFICE

4 Mr. Solis. Good morning, Madam Chair, Ranking Member
5 Portman. Appreciate the opportunity to be here to discuss
6 DoD contract oversight in Afghanistan and the vetting of
7 non-U.S. vendors by DoD, AID, and State. Collectively, DoD,
8 AID, and State have obligated billions of dollars for
9 contractor-provided services and goods in Afghanistan.

10 Given the magnitude of these obligations, the
11 importance of contract oversight cannot be overstated. To
12 this end, we have made numerous recommendations aimed at
13 improving contract management and oversight. My statement
14 today will focus on two areas. First, the extent that DoD's
15 contracting officer representatives are prepared to conduct
16 their oversight and management responsibilities in
17 Afghanistan, and the extent that DoD, AID, and State vet
18 non-U.S. vendors in Afghanistan for ties to terrorist or
19 criminal activities.

20 With regard to contractor officer representatives, or
21 CORs, they act as the eyes and ears of the contractor
22 officer and thus serve as a critical role in providing
23 contract oversight. To its credit, DoD has taken actions to
24 better prepare CORs to conduct contract oversight and
25 management in Afghanistan. However, CORs are not fully

1 prepared for their roles to provide adequate oversight
2 there.

3 To improve the capability of CORs to provide contract
4 management and oversight contingencies, DoD has developed a
5 new contingency focus COR training course, issued new
6 guidance, and developed a COR certification program.
7 Nonetheless, gaps in training and technical capabilities
8 exist.

9 For example, according to the DoD personnel in
10 Afghanistan, the required training does not provide CORs
11 with enough specificity about contracting in Afghanistan
12 such as information about Afghan First program, which
13 encourages the increase in local goods and services or
14 working with private security contractors.

15 Also, whether a COR has relevant technical expertise is
16 not always considered prior to assigning an individual to
17 oversee a contract, even though CORs have a significant role
18 in determining if products or services provided by the
19 contractor fulfill the contract's technical requirements.

20 According to officials, some CORs appointed to oversee
21 construction contracts have lacked the necessary engineering
22 or construction experience, in some cases resulting in newly
23 constructed buildings that were to be used by U.S. or Afghan
24 troops having to be repaired or rebuilt.

25 According to CORs and commanders in Afghanistan, poor

1 performance on construction contracts has resulted in money
2 being wasted, substandard facilities, and an increased risk
3 to bases. For example, contracting officials from a
4 regional contracting center stated that construction of
5 guard towers at a particular forward operating base was so
6 poor that they were unsafe to occupy.

7 In addition to oversight concerns related to CORs, we
8 recently reported on the extent that DoD, State, and AID
9 have processes in place for vetting non-U.S. firms in
10 Afghanistan for ties to terrorists or criminal activity. We
11 reported that while DoD began to vet non-U.S. firms in
12 August 2010, there are several gaps in its process.

13 For example, vendors with contracts below \$100,000 are
14 not routinely vetted. In fiscal year 2010, around three-
15 quarters of those contracts with non-U.S. vendors were below
16 the \$100,000 level. Subcontractors are also not routinely
17 vetted. Command officials stated that CENTCOM uses other
18 risk factors to prioritize vendors to vet such as contracts
19 performed in Taliban strongholds, but these factors have not
20 been documented.

21 While officials stated that the vetting cell was
22 created to vet vendors prior to award, CENTCOM is largely
23 vetting vendors with existing contracts, which means it is
24 likely there are a large number of new vendors that have not
25 been vetted prior to award and may not be vetted in the

1 future.

2 Also, the vetting effort now includes some Army Corps
3 of Engineer vendors. However, the vetting cell has not been
4 staffed to accommodate this workload. So it is uncertain
5 how existing resources will be able to vet vendors in a
6 timely manner.

7 In January 2011, AID created a process intended to vet
8 non-U.S. implementing partners or--yes, vet non-U.S.
9 implementing partners in Afghanistan. However, this process
10 may face similar limitations as CENTCOM's. According to AID
11 officials, this decision was based on urgent need to
12 mitigate the risk of AID funding being diverted to insurgent
13 groups.

14 While AID's process is in the early stages, it proposes
15 to vet non-U.S. implementing partners in at least the first
16 tier subcontractors with contracts valued at \$150,000 or
17 more. AID officials said they are considering changing the
18 dollar threshold or vetting of other potential assistance
19 recipients based on risk. However, the available
20 documentation does not include other risk factors.

21 As of March 2011, State had not developed a process to
22 vet contractor firms in Afghanistan. Since 2008, State has
23 required a terrorist financing risk assessment to be
24 completed of any new program or activity prior to a request
25 or obligation of funding. However, it does not use the same

1 information that CENTCOM or AID use in their vetting cells.
2 Additionally, its use of Afghan vendors may increase under
3 Afghan First Policy.

4 In closing, the Secretary of Defense has recently
5 called for a change in the Department's culture related to
6 operational contract support and directed the Joint Staff to
7 identify resources and changes in doctrine and policy
8 necessary to improve it.

9 We echo his call and believe that these changes should
10 include an examination of how DoD manages and provides
11 oversight of contracts and contractors in deployed
12 locations. This concludes my statement. I will be happy to
13 answer any questions.

14 [The prepared statement of Mr. Solis follows:]

1 Senator McCaskill. Thank you, Mr. Solis. Mr. Sedney.

1 TESTIMONY OF DAVID SEDNEY, DEPUTY ASSISTANT
2 SECRETARY OF DEFENSE FOR AFGHANISTAN, PAKISTAN,
3 AND CENTRAL ASIA, U.S. DEPARTMENT OF DEFENSE

4 Mr. Sedney. Thank you, Senator. Thank you for
5 inviting me here to testify today. My office falls under
6 the Under Secretary of Defense for Policy so I would like to
7 comment on the overall larger strategy background for the
8 contracting activity that is being executed in Afghanistan.

9 I will begin by reiterating the U.S. objectives in
10 Afghanistan: To deny safe haven to Al Qaeda, to deny the
11 Taliban the ability to overthrow the Afghan Government.
12 To support these objectives, U.S. and Coalition forces are
13 working to continue to degrade the Taliban-led insurgency in
14 order to provide time and space to increase the capacity of
15 the Afghan National Security Forces and the Afghan
16 Government, so that they can assume the lead for
17 Afghanistan's security by the end of 2014.

18 As you know, based on the success of our strategy,
19 President Obama recently announced that United States would
20 begin a deliberate responsible drawdown of our surge forces.
21 An initial drawdown of 10,000 troops will occur over the
22 course of this year, with a further drawdown of the
23 remainder of the surge by the end of the summer of 2012.

24 Our strategy in Afghanistan is working. The momentum
25 has shifted to the Coalition and the Afghan security forces,

1 and together we have degraded the Taliban's capability and
2 achieved significant security gains, especially in the
3 Taliban's heartland areas of Helmand and Kandahar Provinces.

4 As we look ahead, the key to our success is the
5 presence and the capability of the Afghan National Security
6 Forces and those forces are making progress in both size and
7 capability. By the end of the summer of 2012 when the last
8 of our surge forces are out, there will actually be more
9 Afghan and Coalition forces in the fight than there are
10 today.

11 That is because we will have increased Afghan security
12 forces to 352,000 by October of 2012, in addition to the
13 68,000 forces that we will have and an--and that is also
14 augmented with forces by a number of our partner allies in
15 NATO and elsewhere.

16 These security gains are enabling key political
17 initiatives to make progress. We have begun a transition
18 process that will ultimately put Afghans in the lead for
19 security nationwide by the end of 2014. We are beginning to
20 see reintegration and reconciliation processes gain traction
21 and are discussing a strategic partnership with the Afghans
22 to signal our enduring commitment to regional peace and
23 stability.

24 I want to emphasize that while our progress in
25 Afghanistan is substantial and our strategy is on track,

1 significant challenges remain. The Taliban will make some
2 strong and sometimes spectacular efforts, as they did the
3 other day in Kabul on the attack on the InterContinental
4 Hotel, in order to try and regain the momentum. However,
5 just as that attack was defeated, those attempts will also
6 be countered.

7 At the same time, we find that the enemy is
8 increasingly facing an Afghan population that, through
9 experiencing the benefits of stability and self-governance
10 and seeing those become clear to them, they are becoming
11 part of the transition process. Afghan communities are
12 providing useful lessons in security and governance, as well
13 as a potential model for other parts of the country as we
14 move forward in our strategy.

15 I want to emphasize how important the role of our
16 Coalition partners is in Afghanistan, 48 countries with over
17 47,000 troops today. These partner nations have made
18 significant contributions and significant sacrifices.

19 Madam Chairman, Senator Portman, I want to close by
20 thanking you and your colleagues in the U.S. Senate for your
21 support for our men and women in uniform. Thank you again
22 for allowing me to appear before you today.

23 [The prepared statement of Mr. Sedney follows:]

1 Senator McCaskill. Mr. Denver.

1 TESTIMONY OF KIM DENVER, DEPUTY ASSISTANT
2 SECRETARY OF THE ARMY FOR PROCUREMENT, U.S. ARMY

3 Mr. Denver. Madam Chairman, Senator Portman, and
4 distinguished members of the Subcommittee on Contracting
5 Oversight, thank you for the invitation to appear today to
6 discuss the lessons the U.S. Army has learned and the
7 ongoing challenges in management and oversight of
8 contracting in Afghanistan. I will provide brief opening
9 remarks and request that my full written statement be
10 submitted for the record.

11 The U.S. Army has had boots on the ground in
12 Afghanistan for nearly a decade. As we know from past
13 military engagements, when our Army deploys, they depend on
14 civilian support from contractors. Currently, more than
15 90,000 contractors are supporting our troops in Afghanistan,
16 a ratio of just under one contractor for each soldier.

17 The contracting force supporting our troops in
18 Afghanistan is the largest contract oversight mission the
19 United States has ever managed. We still face challenges,
20 but the Army has made significant progress in improving
21 contract management and contract oversight.

22 I would like to share with you what the Army has done
23 to change the contingency contracting environment, how we
24 award and manage contracts, our oversight, and the training
25 our non-acquisition personnel receive before deployment and

1 when they arrive in theater.

2 Most of the contracts issued by the CENTCOM Contracting
3 Command are awarded competitively ensuring the best possible
4 price for the U.S. Government. We accomplish this by
5 transitioning from cost contracts to fixed-price contracts.
6 In a fixed-price contract, the contractor is paid only the
7 amount that was agreed upon at the time of award.

8 Contracting officers must ensure the U.S. Government
9 obtains the best value. An important element is the use of
10 past performance information. The availability of data has
11 been especially problematic with host nation companies as we
12 strive to give preference and make awards to Afghan firms
13 under the terms of the Afghan First program.

14 The Contractor Performance Assessment Reporting System
15 is effective with U.S. vendors, but we have learned it has
16 limitations in theater. In Afghanistan, we also use the
17 Joint Contingency Contracting System to alleviate a number
18 of problems in resident and theater contracting from
19 solicitation postings to currency conversions and tracking
20 performance. It has proven to be an invaluable tool for
21 contracting in Iraq and Afghanistan.

22 Oversight of contractors has been a significant concern
23 of Congress, audit agencies, and the contracting community.
24 The Federal Funding Accountability and Transparency Act of
25 2006 requires prime contractors to provide extensive insight

1 into subcontractor information. The CENTCOM Contracting
2 Command has implemented 11 clauses dealing with
3 subcontractor information to capture not just the data
4 required by law, but additional information that will aid in
5 vetting in contractors and subcontractors.

6 Vetting host nation contractors is a key element in
7 ensuring the security of the workplace for U.S. war
8 fighters, civilians, and contractors, as well as the
9 security of our efforts in Afghanistan.

10 In August 2010, a vetting cell was established at
11 CENTCOM headquarters in Tampa, Florida, to vet prospective
12 non-U.S. contractor firms in Afghanistan. Non-U.S. vendor
13 information on contract awards and options is tracked in the
14 Joint Contingency Contracting System, along with past
15 performance.

16 After contract award, the key to our contract oversight
17 resides with the contracting officer's representatives, or
18 CORs, who are the front lines as responsible stewards of
19 American taxpayer dollars. The Army strengthened our COR
20 management and training in December 2009 with the issuance
21 of an Army order mandating that deploying brigades have as
22 many as 80 soldiers designated as trained CORs.

23 As a result, in the past two years, the Army Logistics
24 University trained more than 8,500 CORs, and since October
25 2010, the Expeditionary Contracting Command provided

1 augmentation training to more than 2,300 soldiers as CORs.

2 The Army recognizes that success in contingency
3 contracting results when deployed CORs are trained and
4 technically qualified for their assignments. To ensure that
5 technically qualified personnel are involved in the
6 oversight of construction contracts in Afghanistan, the
7 senior contracting official in Afghanistan recently provided
8 guidance on the appointment of construction inspectors to
9 assist the technical expertise for our construction CORs.

10 Endemic corruption in Afghanistan remains a challenge
11 to our contracting personnel. The U.S. Government has stood
12 up several anti-corruption task forces in Afghanistan which
13 have played a significant role in improving the contracting
14 environment by reducing the impact of corruption on
15 government contracting.

16 Madam Chairman, Army Contracting continues to identify
17 more effective ways to ensure excellence in all contracting
18 activities, to provide the most value of our contracting
19 dollars, and the most effective support to our war fighters.
20 Thank you for your continued support and I look forward to
21 answering your questions.

22 [The prepared statement of Mr. Denver follows:]

1 Senator McCaskill. Thank you, Mr. Denver. Mr. Thier.

1 TESTIMONY OF J. ALEXANDER THIER, ASSISTANT TO THE
2 ADMINISTRATOR AND DIRECTOR, OFFICE OF AFGHANISTAN
3 AND PAKISTAN AFFAIRS, U.S. AGENCY FOR
4 INTERNATIONAL DEVELOPMENT

5 Mr. Thier. Chairman McCaskill and Ranking Member
6 Portman, my name is Alex Thier. I am the Assistant
7 Administrator for Afghanistan and Pakistan at USAID. I
8 began working in Afghanistan in 1993 and since the fall of
9 the Taliban, I have been intensively engaged in implementing
10 and assessing the U.S. effort to stabilize Afghanistan.

11 I have repeatedly raised concerns about the corrosive
12 effects of corruption and waste in Afghanistan post-2001.
13 Indeed, these are not only issues of fiscal importance, but
14 of national security itself. One of the reasons I took this
15 job, in fact, was to improve our performance and our
16 accountability. We owe this both to the American and to the
17 Afghan people.

18 If the stable transition in Afghanistan will be
19 achieved, we must ensure that our efforts are sustainable,
20 durable, and realistic. With the support of the American
21 people and strong bipartisan support in Congress, we have
22 made some dramatic development achievements in Afghanistan
23 over the last decade.

24 For example, we have worked with the Health Ministry to
25 significantly expand access to health services from 9 to 64

1 percent of the population, literally saving tens of
2 thousands of lives. Our efforts to build schools and train
3 teachers have allowed more than 7 million children to enroll
4 in school, 35 percent of whom are girls, up from no girls in
5 2001 and fewer than 1 million boys under the Taliban.

6 Economic growth has exceeded 10 percent growth per year
7 on average, and GDP per capita has doubled since 2002, with
8 5 million people lifted from a state of dire poverty.
9 Together, we are proud of our contribution to helping
10 reverse Taliban momentum and achieving development progress
11 under the toughest conditions.

12 As we embark on the path of transition, the process by
13 which our Afghan partners will truly stand on their own
14 feet, sustainability is of paramount concern to us. We have
15 worked with Afghan and international partners to identify a
16 set of core foundational investments that will develop
17 Afghan capacity, promote economic growth, and increase
18 government revenue generation to support a sustainable and
19 durable transition in Afghanistan.

20 Those investments include things such as agriculture,
21 extractive industries, human capacity development, and
22 energy. For example, in energy, analysis shows that power
23 availability and consumption are directly correlated with
24 economic viability. Because sustainability of our
25 investments is essential, a key component of our work is

1 building Afghan capacity in the power sector and supporting
2 power sector reform.

3 In 2009, the United States helped to launch DABS, a new
4 commercialized Afghan electric utility. Collections have
5 increased 30 percent in the last year alone, boosting
6 revenues of that utility to \$175 million. Kabul has gone
7 from averaging two hours of electricity in 2002 to 24-hour
8 availability today paid for by a commercial viable system.

9 Yet, I cannot over-emphasize the challenges involved in
10 undertaking these efforts as the Afghans, the U.S., and
11 other international partners combat a vicious insurgency and
12 terrorist threat. Security concerns on our projects are
13 paramount. In 2010, attacks on civilian efforts rose
14 sevenfold.

15 To succeed in this environment, we have made oversight
16 and accountability a top priority in Afghanistan. Just
17 weeks into this job, Administrator Shaw and I concluded that
18 we needed to do more to safeguard our investments. To
19 ensure that proper procedures are in place, to help protect
20 assistance dollars from waste, fraud, or otherwise being
21 diverted from their development purpose, we developed the
22 Accountable Assistant for Afghanistan Initiative, or A
23 Cubed.

24 As a result, we are enhancing the safeguards on our
25 development assistance by improving our award mechanisms,

1 increasing vetting, increasing financial controls, and
2 project oversight, and these efforts are already yielding
3 concrete results.

4 In addition, over the last two years, we have tripled
5 our staffing in Afghanistan, 60 percent of whom are located
6 outside of Kabul, allowing us more USAID eyes on the ground.
7 I am also proud to say that we have gone from three
8 oversight staff in country in 2009 to 71 today. Many of
9 them are staying now for multiple year tours.

10 We are under no illusions about the challenges we face
11 in Afghanistan. Every day our staff and partners are under
12 threat. Insecurity increases our costs and other threats
13 require us to expend significant effort to safeguard
14 taxpayer funds. When I left Kabul in 1996 after four years
15 working during the civil war there, watching the country
16 enveloped in chaos, the capital was a heavily mined rubble
17 heap, the Taliban were taking over, and Bin Laden was moving
18 in.

19 Despite the turmoil today, our efforts have resulted in
20 critical gains. These results will enable the President to
21 carefully draw down U.S. resources in Afghanistan. USAID's
22 entire budget in Afghanistan since 2002 is equivalent to the
23 cost of just six weeks of our war effort. This progress
24 that we helped to contribute to the effort in Afghanistan
25 will help bring American troops home more quickly and ensure

1 that they do not have to return.

2 Civilian assistance has been central to these gains and
3 will only increase in importance as Afghans take the lead in
4 forging their own future. Thank you.

5 [The prepared statement of Mr. Thier follows:]

1 Senator McCaskill. Thank you all very much for being
2 here.

3 Let us start, Mr. Sedney, with you. I was confused by
4 your opening statement because it did not have anything to
5 do with contracting and we are here on contracting.
6 Obviously, you came to discuss contracting as it related to
7 the Afghan National Police. And so, I guess my first
8 question to you is, who is in charge at the Defense
9 Department in terms of making the contracting decisions as
10 it relates to infrastructure that is being built under the
11 authority of the Defense Department and money coming from
12 the Defense Department?

13 Mr. Sedney. In terms of contracting, I would defer to-
14 -

15 Senator McCaskill. I need you to turn your microphone
16 on. We cannot hear you.

17 Mr. Sedney. I am sorry. In terms of actual
18 responsibility for contracting processes within the
19 Department of Defense, I may have to call on Mr. Denver who
20 is more expert in the contracting area than I am. In terms
21 of our contracting in Afghanistan, that contracting is done
22 by C-STCA [physician], which is the U.S. element that is in
23 Afghanistan that does contracting for U.S. forces. They
24 report to CENTCOM, which is then overseen eventually by the
25 Under Secretary of Defense for Acquisition Technology and

1 Logistics.

2 Senator McCaskill. I am looking for who is in charge
3 of planning. Is that the Commander of CENTCOM? So when you
4 all decide that we are going to spend \$500 million on \$400
5 million--I guess that is a related question. How much of
6 the \$17 billion in the FY12 request, how much of that is
7 going to come through Defense and how much of it is going to
8 come through State?

9 Mr. Thier. I can speak for USAID. We will get you the
10 exact number, but I believe the request for USAID civilian
11 assistance is around the \$3 billion level.

12 Senator McCaskill. Well, the President has asked for
13 \$17 billion in FY12 for reconstruction projects and
14 infrastructure projects in Afghanistan. Does anybody here
15 know how much of that is going to be under the control of
16 the Defense Department, how much is going to be under the
17 control of the State Department?

18 Mr. Thier. Again, I can say that about \$3 billion of
19 that--

20 Senator McCaskill. \$3 billion.

21 Mr. Thier. --for USAID and possibly an additional
22 billion under the State Department for operations, civilian
23 operations that are not under USAID, but I cannot speak to
24 the rest.

25 Senator McCaskill. So is the rest of that Defense

1 Department, Mr. Sedney?

2 Mr. Sedney. I am not familiar with the \$17 billion
3 figure that you mentioned, Senator, in terms of
4 reconstruction projects. The Department of Defense budget,
5 as I am familiar with it, has funding for operations in
6 Afghanistan which include funding for the Afghan Security
7 Forces fund which we are asking for about, I believe, \$12.4
8 billion--I can get you the exact figure--for Afghan Security
9 Forces funding.

10 But in terms of funding for reconstruction, I am not
11 familiar with the \$17 billion figure you mentioned.

12 Senator McCaskill. What do you think it is? What do
13 you think we are going to spend next year on building
14 projects for the Afghan people?

15 Mr. Sedney. In terms of building projects for the
16 Afghan people, that would be the realm of the AID and the
17 Department of State.

18 Senator McCaskill. What about CERP? How much is CERP
19 going to spend building projects for the Afghan people?

20 Mr. Sedney. CERP funding for this year will be--CERP
21 funding for this year will be somewhere in the neighborhood
22 of \$300 to \$400 million. The appropriations for the last
23 several years have not been fully spent. CERP, however, is
24 not reconstruction money.

25 CERP funding is Commander Emergency Response Programs.

1 These are programs designed to assist commanders in the
2 field build the foundations for stability. It is not meant
3 to replace--to be in the place of the long-term
4 reconstruction funding, which is done by the State
5 Department and USAID.

6 Senator McCaskill. But it is true that CERP has
7 morphed into a program where we are now doing projects like
8 building roads and building buildings and doing things other
9 than small-scale projects which was the original use of CERP
10 funds, especially in Iraq, were for small-scale projects and
11 now in Afghanistan, we have the Defense Department actually
12 managing projects that are construction projects with CERP
13 fund, correct?

14 Mr. Sedney. We do have, over a number of years,
15 particularly in the area of roads, CERP began to be build
16 [sic] for roads. In the most recent appropriations bill,
17 the Congress gave us authority to establish the Afghan
18 Infrastructure Fund. The purpose for that is to divide out
19 those projects which would be looked at as infrastructure
20 projects and then enable CERP to maintain its original focus
21 on those small-scale projects.

22 We are in the process of putting together guidance for
23 the implementation of the Afghan Infrastructure Fund and the
24 division of the CERP funds and oversight for that. I
25 participated yesterday in a first meeting of a Department of

1 Defense oversight panel which will be giving guidance in
2 those areas.

3 Senator McCaskill. Does the Defense Department have a
4 certification process for sustainability before we spend any
5 American money in Afghanistan?

6 Mr. Sedney. Senator, I am not familiar with the
7 details of contracting processes or certifications, but I
8 will pass that question on to my colleagues who do that
9 responsibility in that area.

10 Senator McCaskill. Who would you pass it to?

11 Mr. Sedney. I would first send it to the Under
12 Secretary of Defense for Acquisition Technology and
13 Logistics, AT&L, which supervises policy regarding
14 contracting--

15 Senator McCaskill. Is this Ash Carter? Ultimately, is
16 this Ash Carter?

17 Mr. Sedney. That would be his office I would be
18 passing your request to.

19 Senator McCaskill. Okay.

20 Mr. Sedney. But any request that you have regarding
21 contracting, I will pass to them.

22 Senator McCaskill. Okay. I am trying to figure out
23 who is in charge. I am trying to figure out how much money we
24 are spending and who is in charge. It is ironically
25 difficult to figure out how much we are spending and who is

1 in charge. I particularly need to figure out who is in
2 charge in terms of who is making the decision to go forward
3 with projects when they turn out not to be sustainable. And
4 that has been more difficult than it should be.

5 Let us get to where the money is going, and I will try
6 to do this very briefly, and then turn it over to Senator
7 Portman. The Special Inspector General for Afghan
8 Reconstruction, the previous Special Inspector General--I
9 want to caution that this is not the current Special
10 Inspector General.

11 The previous issued a report that indicated that four
12 contractors, Contrack, Kabuljan, United Infrastructure
13 Projects, and Red Sea Construction Company received over
14 \$1.8 billion in contracts in a two-year period between 2007
15 and 2009. That report, which SIGAR stated was based on a
16 review of information provided by the Defense Department,
17 has since been identified by both SIGAR and the Defense
18 Department as containing inaccurate information.

19 In fact, that report was so inaccurate it was off by
20 hundreds of millions of dollars. Okay? Then USA Spending,
21 another database that reports information from Federal
22 Procurement Data Systems, FPDS, the Government's main
23 database for tracking contract information, lists \$454
24 million in spending over the same period of time.

25 So one report says we have spent \$1.8 million on just

1 contractors in two years. Another report says we spent \$454
2 million over the same period for just two of these
3 companies. Does not even have information on the other
4 companies. I know, Mr. Denver, that your office--and I know
5 that you are new and I am sorry that you are the one that
6 has to sit there today.

7 Your office is the executive agent for contracting in
8 Afghanistan, which gives you oversight and authority for
9 contracting which is now called Triple C, CENTCOM Triple C,
10 which is the contracting command.

11 That office provided the inaccurate information to
12 SIGAR and in preparation for this hearing, your office
13 provided the Subcommittee with information that shows that
14 one of those contractors listed by SIGAR as having \$691
15 million in contracts actually only had \$5 million in
16 contracts.

17 CCC was provided an original copy of the SIGAR report,
18 but yet said nothing about these wild inaccuracies that were
19 contained. I think you all can see where I am going. I do
20 not think the public can have any confidence that we are
21 accurately reporting what we are spending where on
22 contracting in Afghanistan. And I would like to know how
23 you can explain this wildly inaccurate information that was
24 provided to the Special Inspector General for Afghanistan.

25 Mr. Denver. Thank you, Madam Chairman. We are

1 currently coordinating with SIGAR to determine where those
2 issues arose. It is true that inaccurate information was
3 provided. What we are working with them on is a process in
4 the future where this information was gathered directly from
5 the CENTCOM Contracting Command to work with my office so
6 that we can also, in addition, pull reports to validate what
7 the information was.

8 What we are seeing is that we do not want to impact
9 their ability to connect directly with the CENTCOM
10 Contracting Command, but we want to make sure that what we
11 do in the future, that we are able to double-check the
12 information that is being provided. But right now, even
13 SIGAR has indicated that they may need to audit to determine
14 why--what was the source of the inaccurate information.

15 Senator McCaskill. Senator Portman.

16 Senator Portman. Thank you, Madam Chair. I think it
17 might be helpful just to put what we are talking about in
18 perspective.

19 If you could correct me if I am wrong, Mr. Sedney, but
20 current troop levels in Afghanistan is just over 100,000?

21 Mr. Sedney. Yes, Senator.

22 Senator Portman. And number of contractors, DoD,
23 State, USAID contractors in Afghanistan about 154,000?

24 Mr. Sedney. I am not--I cannot certify the total, but
25 I would say for the Department of Defense, the average

1 figure is about .85 contractors for each deployed troop. I
2 think that is the ratio that we are operating under. So
3 with 100,000 troops, we would expect about 85,000.

4 Senator Portman. Earlier in testimony someone said it
5 is more than one contractor per troop. Mr. Solis, what are
6 your numbers?

7 Mr. Solis. I do not have the exact number, but it is
8 about one to one or a little over one to one.

9 Senator Portman. So let us say roughly 100,000 troops,
10 150,000 contractors. So this hearing is about the
11 contractors. As I said earlier, the experience in Bosnia
12 and Iraq is that as we begin a drawdown of troops, we do not
13 begin a drawdown of contractors initially. Is that
14 accurate, Mr. Solis?

15 Mr. Solis. That is what we saw in some of our prior,
16 you know, reviews, I think.

17 Senator Portman. So this is incredibly important that
18 we get this contracting right, and one of the big concerns,
19 obviously, that has been raised today is about
20 sustainability. So as we continue to spend more and more
21 taxpayer money, even relative to the military commitment,
22 going forward on contracting, we are really creating
23 something of value that is going to last and be able to be
24 successful in moving Afghanistan to a stable government that
25 meets the objectives that Mr. Sedney laid out earlier.

1 So unsustainability. Let us talk about it for a
2 second. There is a June report by the Commission on Wartime
3 Contracting that was pretty pessimistic. It said, There is
4 no indication that DoD, the Department of State, or AID are
5 making adequate plans to ensure that host nations would be
6 able to operate and maintain U.S.-funded projects on their
7 own, nor are they effectively taking sustainability risks
8 into account when devising new projects or programs.

9 That is particularly concerning if that is accurate
10 because having learned the lessons, you would think that we,
11 on the new projects, would be looking at sustainability.
12 The report goes on to say, In Afghanistan, U.S. has
13 contracted for schools and clinics that lack adequate
14 personnel, supplies, and security; a large power plant that
15 the host country cannot maintain or operate; roads that will
16 need substantial continuing maintenance; security force
17 training and support whose costs exceed Afghan funding
18 capabilities.

19 So I guess I would ask first, and maybe, Mr. Thier, you
20 are the right person to talk about this from an AID
21 perspective, but I would also like to hear from Mr. Sedney
22 and Mr. Denver from a DoD perspective. What are your
23 agencies' approaches to evaluating at least these ongoing
24 development and reconstruction projects to ensure that they
25 are sustainable?

1 Are you redesigning or terminating programs that are
2 not viewed as sustainable? Are you ensuring that any new
3 commitment of U.S. taxpayer dollars is for an undertaking
4 that the Afghans can carry on after we are gone? And how
5 has that process been formalized?

6 Mr. Thier. Thank you, Senator. USAID is intensively
7 focused on this question of sustainability and it really
8 goes in two different directions. One is, are the actual
9 investments that we are making sustainable? In other words,
10 will power projects that are being built, will they be
11 maintained? Will schools be used? That is one aspect of
12 sustainability.

13 The second aspect of sustainability is the broader
14 question of how does Afghanistan itself manage to sustain
15 these investments over the longer term in terms of
16 developing their economic growth?

17 On the first part, we certify that any program that we
18 are doing that has a capital investment must have a
19 sustainability plan. In fact, we have intensified this just
20 in the last few months by creating what we call a
21 sustainability guidance, where we are assessing every single
22 program that USAID is implementing to determine if it is
23 going to be sustainable in both of these senses.

24 Will the actual physical investment be maintained? And
25 more broadly, is this contributing to the Afghans' ability

1 to sustain these investments in the long term? So it is
2 something that we take very seriously.

3 Senator Portman. Let us focus in for a second on AID
4 and projects. Let us talk about the Kabul power plant. I
5 know you are familiar with it. The American taxpayers have
6 paid \$300 million for this power plant. It is a dual fuel
7 plant. It is now rarely used, is my understanding, and the
8 cost to operate it is prohibitively expensive for the Afghan
9 government.

10 There is an audit by your Inspector General recently at
11 AID who found that the project is not sustainable because
12 the Afghans cannot afford to purchase the diesel fuel
13 necessary to power the plant and they cannot sustain the
14 complex maintenance and technical expertise required to
15 operate it. Instead, actually, the Afghans are negotiating
16 with neighbors, including Uzbekistan, to get their power for
17 a fraction of the cost that they would from your dual
18 source, dual fuel source plant that cost 300 million bucks.

19 So how did AID get that wrong, is one question that I
20 want to hear from you on, but then let us talk about the
21 next one. There is a 2011 AID contract to build a diesel-
22 fueled power plant in Kandahar. And so, you say that you
23 now certify that any program we are doing has a
24 sustainability plan.

25 The Commission has stated there, and you may disagree

1 with the Commission, but this plant faces similar
2 sustainability challenges. The financing plans have not
3 been made for the transmission or distribution grid that
4 would make this plant a useful source of energy. Are we
5 doing it again? And so, one, how did AID get the first one
6 wrong, and second, are we once again stepping into a
7 situation where we are putting hard-earned taxpayer dollars
8 against a project that is simply not sustainable?

9 Mr. Thier. Let me address the second one first. The
10 decision to invest in power in Kandahar was a decision that
11 the U.S. Government, the military, the State Department,
12 USAID made collectively in the summer given the critical
13 nature of our campaign in Kandahar and our desire to shift
14 the momentum away from the Taliban.

15 So we made two decisions as regard to the investment
16 into Kandahar power. The first decision was that a long-
17 term source of power for Kandahar was not going to come
18 online quickly enough in order to achieve that objective.
19 So there was a joint decision with ISAF and USAID to invest
20 in some short-term power generation, diesel fuel, which you
21 are absolutely right is not a long-term sustainable effort,
22 to turn the lights on in Kandahar.

23 And we are adding 50,000 connections in Kandahar so
24 that the people of Kandahar, as well as the people of
25 Helmand, are going to see the positive results of this

1 effort.

2 There is, however, important sustainability components
3 in that program. The first is that we are working to
4 increase the power supply to that region in sustainable
5 fashion, both by building line down from the north of
6 Afghanistan that will provide long-term sustainable power,
7 as well as increasing the power supply from the Kajaki Dam
8 into that area.

9 So those two things together are a longer-term
10 sustainability plan, together with the fact that the Afghan
11 utility, DABS, that I mentioned before, is collecting money
12 for the power it distributes now, and that means that over
13 the long term, they will be responsible for actually
14 sustaining the investment.

15 That is also related to the question about Tarakhil.
16 Today that plant is being run as a peaking power plant.
17 Kabul, the capital of Afghanistan, was known until recently
18 as the dark capital of Asia. It had the least amount of
19 power of any capital in the world.

20 Twenty percent of the Afghan population lives in Kabul.
21 When the decision to build that plant was made, there was no
22 assurance that this line coming down from Uzbekistan would,
23 in fact, be available. And even once the plant was built, a
24 landslide, for example, cut out that power line allowing the
25 only reliable source of power, which is the Tarakhil plant,

1 to function and to--

2 Senator Portman. So was that plant constructed as a
3 back-up power plant? That is what you are saying it is?

4 Mr. Thier. It was constructed as a peaking power
5 plant.

6 Senator Portman. It was originally intended for 300
7 million bucks to be a peaking back-up power plant?

8 Mr. Thier. It was with the caveat that people were
9 uncertain of whether the alternative plan, which is to bring
10 a line down from Uzbekistan which has its own reliability
11 problems as well as the terrain that that was to traverse--

12 Senator Portman. So that was the design here? Because
13 that is not my understanding.

14 Mr. Thier. That was, in fact, the design, but we made
15 sure that the sustainability of that plant is a very high
16 priority in three ways. One, that we are intensively
17 engaged with DABS to make sure that they are, in fact, able
18 to maintain the plant.

19 Senator Portman. Could you provide us, the Committee,
20 some data to back up the assertion that this was built as a
21 back-up power plant for peaking only? And with regard to
22 the sustainability, we would love to see more information on
23 that.

24 Mr. Thier. Sure.

25 Senator Portman. I am over my time. I guess just

1 quickly, not to leave DoD out of this, with regard to the
2 Afghan National Security Forces in terms of sustainability,
3 again, the studies we have seen, including from the
4 Commission, and you may disagree with the Commission. I
5 would like to hear if you do disagree. They think that the
6 investment in training and preparing the Afghan National
7 Security Forces risk being wasted in the long run due to the
8 same sorts of sustainability problems.

9 In 2002 until now, we have appropriated almost \$35
10 billion of taxpayer money to establish the security forces,
11 and another \$13 billion, as was talked about earlier, is
12 being added to the 2012 budget. The Commission concluded,
13 The prospects for the Afghan government's ability to sustain
14 these forces are meager, particularly considering that the
15 national government's entire domestic revenues are about \$2
16 billion a year.

17 So I would ask DoD, have we evaluated the
18 sustainability of the support here, and if so, what has our
19 evaluation shown? And if not, how can we do that? How can
20 we improve its long-term effectiveness? Just as background
21 again, we have committed \$11.5 billion since 2005 to
22 construct facilities, facilities alone, including bases,
23 police stations, outposts and so on. What are the long-term
24 maintenance costs of these facilities, and do you believe
25 that the Afghan government has the financial resources ever

1 to be able to maintain those facilities?

2 Mr. Sedney. Senator, those are important questions and
3 let me take them in two parts. First, however, I would like
4 to correct the record. In fact, I do have the numbers. The
5 exact numbers of Department of Defense contractors in
6 Afghanistan is 90,800. The Department of Defense is
7 required to submit a report, which it does, to the Armed
8 Services Committee and to the Appropriations Committee.
9 This report was dated June 21st and we will make sure you
10 get copies of that report.

11 Senator Portman. Great.

12 Mr. Sedney. On the issues of sustainability, as I
13 said, I will divide them in two. The first is a question of
14 financial sustainability, the ability of the Afghan
15 government to fund the security forces that it currently has
16 and that it may need in the future. Currently, Afghanistan
17 does not have the ability to fund the security forces and
18 the U.S. Government and, to a certain extent, our
19 international partners are funding those forces.

20 Currently, the cost of those forces, we are asking for
21 FY12--not FY12--FY11, we have \$12.4 billion, I believe, for
22 that. A certain percentage of that is for infrastructure;
23 other is for training; and other is for the sustainment of
24 the forces themselves. As you point out, this is well
25 beyond the capacity of the Afghan government to provide for.

1 However, let me go back to our national interests in
2 Afghanistan, which is to ensure that Afghanistan is no
3 longer able to be a base from which terrorists can mount
4 attacks against the United States.

5 Our solution for that is to drive down the insurgency
6 through our military efforts and to build up the Afghan
7 security force to be able to do that. Since Afghanistan
8 does not have the resources to do that, we, you, the
9 American taxpayer, the American Congress are funding those
10 security forces, again with some help from our allies.

11 The size of the security forces that will be needed in
12 the future to contain the Taliban is yet to be determined
13 because we do not know the level to which we will be able to
14 drive down the insurgency. We are currently building the
15 Afghan security forces to a level of 352,000 for October of
16 2012. That is based upon the level of insurgency that we
17 see now and the level of forces that the U.S. and our allies
18 will have there at that time.

19 What we are aiming for is to continue to drive down the
20 insurgency enabling us to continue to withdraw our forces
21 and have the Afghans continuing to improve that. What that
22 equilibrium level will be we do not know yet. There are a
23 range of--

24 Senator Portman. Mr. Sedney, I am well over my time.

25 Mr. Sedney. I am sorry.

1 Senator Portman. I apologize. I need to yield back to
2 the Chair. Let me just conclude by saying, I understand the
3 mission and, in many respects, what AID is doing on the
4 ground and what DoD is doing on the ground, even outside of
5 the military involvement with contractors, is carrying out
6 policies that you are asked to do.

7 It is under very difficult circumstances. I have been
8 there, had an opportunity to visit with some of your AID
9 colleagues, and it is tough work. The question is whether
10 this policy makes sense, whether it is a sustainable policy,
11 because so much of what we are doing and building may not be
12 able to be maintained subsequent to our departure.

13 These numbers are indicating that there is a huge risk.
14 And so, what we are asking here is for a realistic
15 assessment of what those risks are and the very important
16 reassessment of how we look at these projects. If they are
17 not going to be sustainable, why are we doing them? If we
18 are building a back-up power plant for 300 million bucks
19 that the Afghans are not using except for peak periods,
20 because they cannot afford the fuel, how does that make
21 sense?

22 So that is what we are asking for here today and
23 whatever information you can provide the Committee going
24 forward would be helpful. With that, again, I thank you for
25 your service and I give it back to the Chair. Sorry for

1 taking so much time.

2 Senator McCaskill. Not a problem. Thank you, Senator
3 Portman.

4 I am trying to figure out where the decisions are being
5 made as to the Afghan Infrastructure program at the
6 Department of Defense and the Afghan Infrastructure Fund.
7 Now, it is my understanding in FY2011, the Afghan
8 Infrastructure Fund, which is all DoD money, is \$400
9 million. Is that correct, Mr. Sedney?

10 Mr. Sedney. I believe that is correct.

11 Senator McCaskill. Okay. And I am looking at a
12 document here and this is projects that are going to be
13 built with that money. This is DoD money. Now, the first
14 one is the power generation in Kandahar City, Kandahar
15 Province. Fuel operations maintenance for all DoD and USAID
16 procured generators in Kandahar. That is \$40 million. And
17 the implementing agency is DoD, not USAID.

18 The next one is power transmission, Kandahar to Lashkar
19 and then power transmission, Chimtala to Ghazni and that is
20 \$231 million and that says--Department of State, USAID, one
21 of them says DoD on it also, and the next one just says
22 Department of State USAID.

23 The next one says power transmission Chimtala to
24 Gardez. That is \$86 million. And that is just DoD. The
25 next one is a road in Helmand Province. That is \$23

1 million, which does not sound like CERP to me, and that is
2 DoD. The last one is Government Infrastructure Provincial
3 Justice Centers. That is \$20 million and that is DoD.

4 Okay. So who is deciding what Department of Defense
5 builds and what USAID is building? Who is making that
6 decision? Is that CENTCOM Command that is making that
7 decision? Is that the Secretary of State? Where is that
8 decision being made and on what basis is it being made?

9 Mr. Sedney. First of all, on the--for the purpose of
10 the Afghan Infrastructure Fund and the reason it is funded
11 out of Department of Defense funds, as my colleague, Mr.
12 Thier said, the commander on the ground has made the
13 determination that our success on the battlefield requires
14 both the reality and prospect for certain economic--for
15 certain economic inputs. The largest of those is
16 electricity.

17 Helmand Province and Kandahar Province, particularly,
18 were the center of gravity for our ongoing campaign. That
19 is where the majority of our surge forces have--were put
20 into place. First General McChrystal and then, after he
21 took over, General Petraeus made very clear that increasing
22 and making sustainable an electricity supply for the City of
23 Kandahar was an essential part of our campaign plan, and in
24 order to defeat the Taliban, we needed to do it both
25 militarily and with the population itself.

1 So the first step, as Mr. Thier said, was the provision
2 of these temporary power plants that will be fueled by
3 diesel fuel. As Senator Portman pointed out, that is very
4 expensive, and as Mr. Thier said, that is not sustainable.

5 Senator McCaskill. Mr. Sedney, I hate to interrupt
6 you. I understand that all of these projects someone thinks
7 are important to the success of our mission. I think what I
8 am trying to do is pull some thread here on accountability.

9 I cannot figure out why in the world is Department of
10 Defense building provincial justice centers. Why is not
11 that USAID? Why is Dod in the construction of provincial
12 justice centers right now? I do not understand that. And
13 how is that decision being made and where is it being made?

14 Mr. Sedney. The recommendations, Senator, come from
15 the field through the chain of command. On the provincial
16 justice centers, there are some areas where the provision of
17 provincial justice centers, we believe, are so important to
18 the success of the campaign that if it is not possible for
19 AID to be funding those at this time, they are included in
20 the Afghan Infrastructure Fund.

21 Senator McCaskill. Well, who is it that is in the room
22 that is deciding which pot of money you are taking this out
23 of? It makes it very difficult to hold anybody accountable
24 because what happens, I feel like I am boxing ghosts. You
25 know, I cannot decide is it USAID that is responsible for

1 the sustainability assessment, which clearly in some
2 instances, I think, has been lacking?

3 I look at the sustainability language for these
4 projects. It does not appear to me that it has been taken
5 seriously in terms of the sustainability. It looks like to
6 me that somebody in the field has said, We need to do this,
7 and so we are just trying to find the money somewhere in the
8 budget to do it and DoD is going with it and that is not the
9 way that you carefully craft this expenditure of Federal tax
10 dollars.

11 I mean, do you see where my frustration is about--I
12 cannot figure out who to call.

13 Mr. Sedney. Well, I apologize for any confusion that
14 has been caused, but I would say that the process has been
15 much more rigorous and ordered than has been described so
16 far.

17 In terms of the Afghan Infrastructure Fund projects,
18 those projects were vetted first out in the field. They
19 were based on requirements that the commanders in the field
20 outlined and discussed intensively. This is a combined
21 civil/military effort. Discussed extensively with our
22 colleagues at the U.S. embassy and USAID.

23 There are some areas where USAID was already working
24 where a number of--a large amount of the funds, almost, I
25 think, 80 percent of the funds that USAID spends are now in

1 the south and the west. But there were some projects which
2 USAID did not have the money and which the commander in the
3 field identified as an urgent requirement.

4 After discussion out in the field over which agency
5 would be the most appropriate implementing partner, then
6 those requests were sent back for approval of projects under
7 the Afghan Infrastructure Fund. Those projects are
8 recommended to the Department and then the decisions, the
9 final approval decisions, are made in the Department of
10 Defense.

11 Each one of those projects, which I understand were
12 briefed by some of my colleagues last week, do have a
13 sustainability assessment in them.

14 Senator McCaskill. Have you looked at the
15 sustainability assessments?

16 Mr. Sedney. I have not reviewed the--

17 Senator McCaskill. I would recommend them to you.

18 Mr. Sedney. --sustainability assessments myself, but I
19 would--

20 Senator McCaskill. I would recommend them to you and I
21 would love your input after you have looked at them, because
22 I will tell you, I have looked at them and I do not think
23 that this is what we are looking for. It looks to me
24 somebody says, We need to do this, and then people are
25 checking boxes, and it looks like to me that the military is

1 deciding what projects need to be done, and if AID does not
2 have the money, we just find the money in our budget. How
3 long has the Afghan Infrastructure Fund been around?

4 Mr. Sedney. This is the first year, ma'am.

5 Senator McCaskill. Okay. And would you say this is an
6 outgrowth of CERP? This is CERP on steroids?

7 Senator McCaskill. I would not say that this is CERP
8 on steroids. I would say that over the last several years,
9 as we encountered this complex civil/military environment,
10 there were a number of areas where commanders in the field
11 saw a need for projects that would have immediate impact. A
12 number of those projects under CERP were put forward as CERP
13 projects.

14 Senator McCaskill. We have never before--honestly,
15 sir, this is really historic in some ways, because what we
16 have done here for the first time that I am aware of, we
17 have decided that in a military operation, we are going to
18 do things like build justice centers in the Department of
19 Defense.

20 Now, we did some of this. There was obviously some
21 cross-pollination in Iraq, some that happened in a way that
22 was helpful and, frankly, a lot of money was wasted. Tens
23 upon billions of dollars went up in smoke in Iraq because
24 what the military commanders thought they needed that moment
25 turned out we were not going to be able to sustain it.

1 Health care centers that were never built, power plants that
2 were blown up, roads and bridges that were destroyed.

3 And so, I am trying to--do you believe that this is the
4 new normal, that in contingency operations in the United
5 States, the Department of Defense will have its own
6 construction fund that will be commanded by the military
7 leaders to determine what roads should be built, what power
8 lines should be built, and what justice centers should be
9 built?

10 Mr. Sedney. First of all, Senator, I would say it is
11 not the Department of Defense that determines which ones
12 will be built. The commanders in the field do make
13 recommendations, they do consult intensively with--

14 Senator McCaskill. But it is your money. What do you
15 mean you are not deciding it is going to be built? This is
16 money we appropriated to the Department of Defense.

17 Mr. Sedney. Right.

18 Senator McCaskill. Surely you are not telling me
19 somebody else is deciding how to spend your money.

20 Mr. Sedney. No. What I am saying is, we are--we are
21 not deciding on the whole complex of things that need to be
22 done in Afghanistan. We are deciding which ones are of
23 urgent military necessity, and yes, this is a new area. The
24 Afghan Infrastructure Fund is a brand new concept.

25 It does come out of the issues that we saw with CERP

1 where CERP was tending towards things that were more than
2 just the quick impact projects that it was originally
3 designed for. There was intensive consultation with
4 Congress on putting the Afghan Infrastructure Fund in place.
5 We created a new office in the Office of the Secretary of
6 Defense to work on overseeing this, and the--

7 Senator McCaskill. And who is that person?

8 Mr. Sedney. Pardon?

9 Senator McCaskill. Who is in charge of that office?

10 Mr. Sedney. One of my colleagues in our Office of
11 Stability Operations. I can get you the exact--I can get
12 you his name.

13 Senator McCaskill. I think this is the kind of stuff
14 that we would have liked to see covered in your opening
15 statement, Mr. Sedney. We have got a lot of projects that
16 are being built, and I know that this is really a difficult
17 evidence. There are all kinds of challenges, and our men
18 and women have performed heroically, and our military
19 leaders are doing an amazing job.

20 But I do think that we have played fast and loose, and
21 sometimes sloppy, with the way we have spent this money, and
22 if this is the priority for the military command, then why
23 is that not transferring to make it the priority of the
24 State Department? Why are we not using the funds that have
25 traditionally been always appropriated in this country for

1 reconstruction projects.

2 The expertise has always been at the State Department.
3 And after the military pulls out of there, guess where it is
4 going to be back to? It is all going to be back to the
5 State Department.

6 And what has happened is, with this morphing of CERP
7 into something even bigger, I understand it allows you to
8 short-circuit some of the processes that traditionally are
9 in place, and it allows you to jump the line in terms of
10 budget priorities, but in the long run, it makes
11 accountability and oversight very, very difficult, because
12 you are going to go out--how many power projects do you have
13 in USAID right now in Afghanistan?

14 Mr. Thier. I would have to get you the exact number of
15 individual projects.

16 Senator McCaskill. But more than a couple?

17 Mr. Thier. Not too many at the moment, but we have
18 several.

19 Senator McCaskill. Let me change the subject now and
20 go to the Kabul Bank. I know this is difficult and, in some
21 ways, delicate. But while we are pouring billions of
22 dollars into the infrastructure of Afghanistan, because they
23 have a GDP that is, I do not know, I think it is higher than
24 \$2 billion. What do you think it is, Mr. Thier? Without
25 us, what is their GDP?

1 Mr. Thier. I think overall GDP is about \$18 billion.
2 I do want to say that I think that this 97 percent figure
3 has been somewhat mis-cited.

4 Senator McCaskill. That is the highest I have ever
5 heard their GDP. When I was in Afghanistan, I was told by
6 the people on the ground in Afghanistan, including, I
7 believe, the Ambassador, that the GDP was somewhere around
8 \$10 to \$12 billion in Afghanistan.

9 Mr. Thier. I think it has gone up steadily. I may be
10 slightly overstating--

11 Senator McCaskill. Optimistic.

12 Mr. Thier. --but that was my understanding--

13 Senator McCaskill. Right.

14 Mr. Thier. --it has been growing every year. But--
15 sorry.

16 Senator McCaskill. I guess what I am trying to figure
17 out here is, we have got a \$900 million fraud that has
18 occurred at the Kabul Bank and that is where we put
19 international assistance for Afghanistan. And clearly, we
20 have technical assistance on the ground that is supposed to
21 be overseeing the financial sector through USAID.

22 Can you explain how they were able to do insider
23 lending to the tune of hundreds of millions of dollars that
24 is now gone, and why we are not being more aggressive in
25 terms of requiring the kinds of audits that the other bank

1 that now is in question, that may have the same kinds of
2 problems, the Azizi Bank, why we are not requiring
3 independent forensic audits and results of those audits
4 before we put any more money in either one of those banks
5 that has any connection to the United States taxpayers?

6 Mr. Thier. So let me clarify two things. No U.S.
7 taxpayer dollars have ever gone to Kabul Bank.

8 Senator McCaskill. It is just IMF money?

9 Mr. Thier. I am not familiar with any IMF funds ever
10 having gone, but I cannot, obviously, speak to that. The
11 other--

12 Senator McCaskill. Well, you say no U.S. funds have
13 gone to the bank, but if we are paying Afghan contractors
14 and if we have blown their GDP up way above what it will
15 ever, ever be after we are gone, that money is going into
16 some bank. So you say it is not United States' money, but I
17 would hasten to add that a lot of the money that has gone in
18 every Afghanistan bank for the last three years has been
19 American money. Would that not be a fair assessment?

20 Mr. Thier. Well, there is no program that has existed
21 in the past that provides any type of support to Kabul Bank.
22 The only way--what we have done as a Government is to
23 support the Afghan government's ability to develop its
24 financial system. That has primarily been involved in, for
25 instance, building the Afghan Central Bank from nothing into

1 an entity.

2 Part of that assistance has been to build their
3 capacity. But I hasten to add that at no point has the U.S.
4 Government or U.S. Government officials or contractors been
5 responsible for the oversight of Afghanistan's banking
6 system. That is a sovereign function of the government of
7 Afghanistan. We have attempted to build their capacity.

8 I think critically on the other point about Azizi Bank
9 and the forensic audit, not only do we support that idea,
10 but we have been demanding it.

11 Part of the IMF conditions for a new IMF program that
12 have been designed around the Afghans rectifying the
13 problems in Kabul Bank has been precisely that a forensic
14 audit of the Azizi Bank needs to be conducted, and that the
15 IMF program, which these conditions we support strongly,
16 require that audit to be conducted prior to a new IMF
17 program being put into place.

18 So I do want to emphasize that we agree with you
19 strongly, that an audit needs to be done, as well as a
20 number of other steps, conditions that have been endorsed by
21 the U.S. Government, before any IMF program goes forward.

22 Senator McCaskill. Okay. Thank you for that and we
23 will have some follow-up questions on that.

24 Let me finally, a couple of things finally I want to
25 do. One is CERP. I have had many conversations in the

1 Armed Services Committee with General Petraeus and others
2 about CERP, Ash Carter and others about CERP. Do you all
3 have, in the Department of Defense, an analysis of where
4 CERP money has been spent in relationship to where there has
5 been challenges in terms of our military mission and what
6 kind of success the CERP funds have, in fact, brought about?
7 Is there data?

8 Mr. Sedney. Senator McCaskill, I do not know of any
9 study yet that has been done on the connection of CERP
10 funding to military success. While we have repeated
11 statements and validation from commanders in the field, as
12 far as I know, and I will check and see to make sure, there
13 has been no study trying to validate any statistically valid
14 correlation between CERP spending and military success.

15 In Afghanistan, since we are still in the process of
16 developing or achieving that success, my own view would be
17 that it would be too soon to be able to make such an
18 evaluation because we are still in the process of carrying
19 out the war.

20 Senator McCaskill. Well, we have done CERP now for as
21 long as I have been in the Senate, and so we have got lots
22 of CERP money that has been spent in Iraq and Afghanistan.
23 And this is my specific question and I would ask you to take
24 it for the record, because I want you to be sure before you
25 answer this question.

1 My question is, does the Department of Defense, does
2 the American military have data that would lay over where
3 CERP money has been spent versus hot spots to determine
4 whether or not the CERP money is actually being spent in
5 areas where there are hot spots as it relates to our
6 military mission? And if so, is there any data available
7 about the success of that CERP money in terms of helping
8 directly with the military mission other than anecdotal?

9 Mr. Sedney. In terms of the first part of your
10 question, yes, we do have data which shows where CERP money
11 is being spent and where there is insurgent activity, and
12 that is something that we can provide to you.

13 On the second part, as I said, on the evaluation of the
14 success in Afghanistan, which is the area that I am
15 responsible for, I do not think we yet have the data to be
16 able to evaluate the success because we are still in the
17 process of carrying out the fight.

18 But certainly on the first part of the data that you
19 requested, we will be able to provide that to you. On the
20 second part, I will consult with my colleagues and see if
21 doing a study on success of CERP in Afghanistan is something
22 that would be something we would want to try and do now or
23 do it more retrospectively as we are further along in the
24 campaign.

25 Senator McCaskill. Mr. Solis, do you have any--

1 Mr. Solis. Senator, if I could, and I did not do this
2 particular study on CERP, but I do know that we did make a
3 recommendation along the lines that you mentioned about
4 trying to measure success against some set of standards and
5 metrics, and that was in a recent report. The Department
6 did concur with that.

7 So there is some--there is a recommendation out there
8 to do that and the Department has concurred.

9 Senator McCaskill. To do that kind of study--

10 Mr. Solis. Yes.

11 Senator McCaskill. --so we could get some kind of
12 sense of the efficacy, because essentially, we have now
13 moved beyond CERP into much bigger projects based on AIF,
14 and it worries me that we have done that without really
15 checking to see if CERP was a success in terms of the
16 mission and whether or not the Afghan people, whether
17 getting--I mean, I do not mind that the Afghan people--I
18 understand they need power, I understand that it would be
19 nice to have the lights on, but I need to make sure that
20 spending hundreds and hundreds of millions of dollars on the
21 power grid and the power system in Afghanistan is, in fact,
22 going to translate into defeating the Taliban.

23 It is nice that we turn on the lights for them, but it
24 would also be nice if we got more broadband in Missouri.
25 And those are the kinds of decisions we have to make, and I

1 worry that the blinders get on and we lose perspective about
2 whether or not these projects are essential to the mission
3 of defeating the Taliban and providing stability.

4 I am not quarreling that we have got to train the army.
5 I am not quarreling we have got to train the police. But I
6 just think it is time for us to really button down whether
7 or not building the roads that we are building the schools
8 that are building and building the justice centers that we
9 are building, and sometimes USAID is building them,
10 sometimes the Department of Defense is building them. Is
11 the Army Corps taking the lead on all these projects, the
12 AIF projects?

13 Mr. Sedney. I know they are taking the lead in at
14 least one of them, but I can get back to you with who is on
15 the lead.

16 Senator McCaskill. And I assume all of these are being
17 contracted out?

18 Mr. Sedney. We are in the process of doing that, but
19 yes, they will be--they will be contracted, although I
20 think--I will have to take that question, ma'am.

21 Senator McCaskill. Okay. I have a number of other
22 questions in here. You all have stayed long and this
23 hearing was supposed to be over at noon. Sorry. I have got
24 to ask about counter-narcotics before we go.

25 We released a report, the Committee released a report,

1 Mr. Denver, on the counter-narcotics contracts in
2 Afghanistan. Frankly, it dealt with all the counter-
3 narcotics monies that we have spent and the problems there.
4 First, for Mr. Denver, what have you done to improve the
5 management of the counter-narcotics contracts in
6 Afghanistan, and if this is something you are not prepared
7 to answer today, we are happy to take it for the record.

8 Mr. Denver. Thank you, Madam Chairman. I will need to
9 take this for the record. I do know that the Space and
10 Missile Defense Command is the organization, the Army
11 organization that oversees the counter-narcotics contracts
12 so I will need to take it for the record and coordinate with
13 them and get back to you.

14 Senator McCaskill. Okay. USAID, Mr. Thier, since
15 2002, has awarded \$1.4 billion for agricultural programs as
16 a means to encourage farmers to engage in something other
17 than opium farming. There is concern that these programs
18 are distorting the Afghan economy or creating false
19 economies that are unsustainable. Do you have any real
20 measure of the impact of these programs, and will any of
21 these impacts be sustainable in terms of the alternative
22 agricultural programs?

23 Mr. Thier. I would be happy to get you more on the
24 measures, but to fundamentally answer your question, yes. I
25 think that this investment in agriculture, which has really

1 been about finding alternatives for people who are growing
2 opium poppy, has been dramatically successful in two
3 regards. First of all, a large number of provinces, and I
4 can also get you the number, have gone opium-free, and that
5 has been very important to our strategy of trying to reduce
6 and eliminate opium production in Afghanistan.

7 The other is that there really is no silver bullet to
8 replace opium in Afghanistan, but what we are trying to do
9 is to create an agricultural mix and market for those
10 agricultural products that will allow Afghan farmers to be
11 able to make a decent living so that the choice to plant
12 opium will be far less attractive, vis-a-vis, other efforts.

13 And we have reached literally tens of thousands of
14 farmers with these programs that have increased crop yields
15 dramatically, and I think we are quite proud of that
16 investment, and I do think it is a long-term investment
17 because they are able to generate seed from those, they have
18 opened up new markets, we are increasing trade across the
19 borders as well, and it is really a critical part of our
20 ultimate sustainability strategy for Afghanistan to increase
21 agricultural income.

22 Senator McCaskill. I think it is a terrific program.
23 I know that we have a Missouri National Guard unit that is
24 over an agricultural program and has done great work. In
25 fact, we lost one of ours over there that was there on that

1 program.

2 Let us talk about now not the agricultural program, but
3 for both DoD and for USAID. We have now spent \$2 billion in
4 counter-narcotics contracts in Afghanistan. Can either of
5 you speak to any specific milestones that have been reached
6 in terms of having a negative impact on the narcotics
7 trafficking in Afghanistan and exporting out of Afghanistan
8 after we have spent \$2 billion?

9 Mr. Thier. Our work again really focuses on the crop
10 replacement side. Other aspects of the State Department are
11 responsible for the elements of interdiction and law
12 enforcement. Our efforts focusing on agriculture have
13 really been, as I said, to find replacement crops.

14 I think one of the most significant factors that I
15 noted is that a large number of provinces that were planting
16 opium just a few years ago have gone poppy-free.

17 Senator McCaskill. Have we actually measured the
18 amount of opium being produced in Afghanistan and do we have
19 milestones in each year as to where we are in that metric?

20 Mr. Thier. We do not do that, but there are very
21 intensive measurements that are done on a year-by-year basis
22 of the opium crop, of its price, of the number of hectares.
23 There was a dramatic decline last year that was in part due
24 to blight, but also, I think, due to other programs as well.

25 Senator McCaskill. Maybe we need to figure out that

1 blight, work the blight. Maybe it will be less expensive
2 than \$2 billion. I would like to get that information, if I
3 could, from your colleagues at either DoD or at State, what
4 milestones we can point to that this investment of \$2
5 billion has been a wise investment.

6 I think the alternative crops, obviously, if we can
7 show--I mean, one is going to prove the other. But I guess
8 the question is, and you are not the right person. We will
9 try to pose questions to the right people if you will help
10 us find them.

11 And it may be, Mr. Sedney--I was hard on you today--you
12 may not have been the right person to be at this hearing.
13 But we struggle when we do these hearings and that is part
14 of our problem, and I will close with this. It would be
15 great if I could get the right people in front of this
16 hearing that actually I can hold accountable on contracting
17 in Afghanistan for infrastructure.

18 But it is harder than it looks to find the right people
19 because it is not clear who really is making the decisions
20 at the front end as to where the money is going to go, the
21 decisions in the middle as to the contracting process, and
22 the decisions at the end as to whether or not we have done
23 an adequate job assessing sustainability.

24 I certainly will look forward to the input from DoD
25 after you look at the sustainability rationale that has been

1 laid out for the projects in the AIF, and I think you are
2 going to continue to hear more and more questions in this
3 area as we try with all of our might to find every taxpayer
4 dollar we can in terms of spending less.

5 I am not here to say I do not support the mission in
6 Afghanistan, I do, but I question whether all of the money
7 we have spent on contracting in the effort against
8 counterinsurgency, whether or not we have gotten any value
9 for it. And this has been a giant experiment, what we have
10 done in Iraq and Afghanistan, and so far, from where I sit,
11 in terms of doing contracting oversight, I think the grade
12 is not a good grade in terms of the amount of money we have
13 spent and what we have gotten for it in the long run.

14 So, I thank all of you. We will have questions for the
15 record and I really appreciate your time this morning.

16 Mr. Solis. Senator, if I could add just one thing--
17 Senator McCaskill. Yes, Mr. Solis.

18 Mr. Solis. --about sustainability very quickly? You
19 know, while our work focused mostly on the oversight of
20 contractors at DoD, as we looked at it, some of the outcomes
21 that you could have is poor construction. And as we talk
22 about sustainment, you cannot assume that what we have out
23 there is already ready to go in terms of people just going
24 in and using it and then be able to sustain it.

25 I think what you have also got to look at is, what is

1 it going to take to possibly rebuild or reconstruct--

2 Senator McCaskill. Right.

3 Mr. Solis. --facilities that are already there. And
4 some of our work has shown that a lot of these buildings
5 that are out there, particularly on some of these bases, are
6 not ready to be moved into. And so, I think as you think
7 about sustainment, you are going to also have to think
8 about, are we ready to move folks in, what is it going to
9 cost to rebuild or reconstruct those buildings.

10 Senator McCaskill. You are right at the back end. I
11 mean, we have the front end deciding where the money is
12 going to go, we have the middle portion which is actually
13 letting the contracts in a cost-effective way and overseeing
14 the contracts, and then at the back end, who do we hold
15 accountable if the structures are substandard, if they are
16 not to spec, if they are not going to work for the purposes
17 they were intended.

18 That is what we saw so frequently in Iraq, frankly, and
19 some of it dealt with the safety and security of our troops
20 in terms of the construction that had been done. Other was
21 construction. You know, the health centers are a famous
22 example of the health centers that somebody got paid for and
23 the ones that were built were not capable of being used, and
24 the ones that were not built, we never got the money back.

25 So there is a disconnect between what the commanders in

1 the field want to have happen and what actually happens, and
2 the money that is spent from that point to that point is
3 where I think we can save billions and billions of dollars
4 if we really work at getting this right.

5 It is better, the CORs are better, they certainly are
6 better. The CORs are now being trained. When I first
7 started down this path, when the idea for the War
8 Contracting Commission was just an idea that I came up with
9 because I am a student of history and what Harry Truman did
10 in World War I DON'T THINK, and I thought it was time that
11 we did that after what I learned in Iraq, and Jim Webb and I
12 worked hard to get that contracting commission established.

13 But we are a long way from where we need to be, and I
14 want the Department of Defense to take this really seriously
15 and I want AID to take it really seriously because what is
16 going to happen is the American people are going to turn off
17 the spigot if we do not do this right, and they have a right
18 to turn off the spigot if we do not do this right, and there
19 is so much work to be done.

20 If all of you would just study the work that GAO has
21 done, we could make huge progress. But somehow that just
22 does not ever happen. It is painful how long it is taking
23 to get the accountability we need and to even get the
24 accurate information.

25 So I will continue to follow up with the new Secretary

1 of Defense on this. He and I have discussed it. I have had
2 many conversations with commanders on this subject matter
3 and everyone nods their head and says they get it, but it is
4 not getting done right and it needs to improve.

5 Thank you all very much for being here today.

6 [Whereupon, at 12:40 p.m., the hearing was adjourned.]