

**DEFENSE DEPARTMENT CONTRACTING IN
AFGHANISTAN: ARE WE DOING ENOUGH TO
COMBAT CORRUPTION?**

HEARING

BEFORE THE
SUBCOMMITTEE ON NATIONAL SECURITY,
HOMELAND DEFENSE AND FOREIGN OPERATIONS
OF THE
COMMITTEE ON OVERSIGHT
AND GOVERNMENT REFORM
HOUSE OF REPRESENTATIVES

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DEFENSE DEPARTMENT CONTRACTING IN AF- GHANISTAN: ARE WE DOING ENOUGH TO COMBAT CORRUPTION?

THURSDAY, SEPTEMBER 15, 2011

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON NATIONAL SECURITY, HOMELAND
DEFENSE AND FOREIGN OPERATIONS,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 11:19 a.m. in room 2157, Rayburn House Office Building, Hon. Jason Chaffetz (chairman of the subcommittee) presiding.

Present: Representatives Chaffetz, Tierney, Labrador, Welch, Yarmuth, Lynch, Quigley.

Staff present: Thomas A. Alexander, senior counsel; Robert Borden, general counsel; Molly Boyl, parliamentarian; Mark D. Marin, director of oversight; Rafael Maryahin, counsel; Sang H. Yi, professional staff member; Nadia A. Zahran, staff assistant; Kevin Corbin, minority deputy clerk; and Scott Lindsay, Carlos Uriarte, and Ellen Zeng, minority counsels.

Mr. CHAFFETZ. The subcommittee will come to order.

Good morning, and welcome to today's hearing, Defense Department Contracting in Afghanistan: Are We Doing Enough to Combat Corruption?

Thank you all for being here. Our apologize on delays. You are all very busy with very important responsibilities, and I appreciate your patience as we had votes on the floor earlier.

I would like to welcome Ranking Member Tierney, members of the subcommittee, and members of the audience for being here. Today's proceedings continue this subcommittee's efforts to oversee the billions spent in support of military and civilian operations in Afghanistan. Last year, this subcommittee conducted an investigation of the Defense Department's Host Nation Trucking Contract. The purpose of this contract was to supply our military through the use of private contractors. The idea was to remove this burden from our armed forces while at the same time promoting the local Afghan economy.

Almost since its inception in 2009, allegations surfaced that warlords, power brokers and the Taliban would seek "protection payments" for safe passage through tribal areas. According to those familiar with the contract, the result was a potential windfall for our enemy. In short, the American taxpayer had allegedly funded the same enemy our soldiers fought on the battlefield.

While the investigation did not yield smoking gun evidence that this had occurred, the anecdotal evidence was substantial. At the same time the investigation revealed that the Defense Department's contract oversight was woefully inadequate. Despite whether the allegations could be substantiated, the oversight structure did not allow for swift and thorough review. These findings were released at a hearing last June at which the Pentagon leaders testified.

As a result of that hearing, and the subcommittee's investigative report, the Defense Department established three task forces to examine these particular issues as well as corruption in general. Today we will hear from the Defense Department about its findings and its progress since last year's hearing. With the Commission on Wartime Contracting's recent revelation that anywhere between \$30 billion and \$60 billion dollars has been misappropriated in Iraq and Afghanistan since 2001, it is certainly critically important that the Pentagon get this right. I hope it has made significant progress in this regard.

I also want to commend my colleague, Mr. Tierney, for his great and tireless work here. He has done some good research in diving deep into this, and I am glad that we can continue on with the work that he initiated.

I would now like to recognize the distinguished ranking member, the gentleman from Massachusetts, Mr. Tierney, for his opening statement.

[The prepared statement of Hon. Jason Chaffetz follows:]

Opening Statement of Chairman Jason Chaffetz
Subcommittee on National Security, Homeland Defense, and Foreign Operations
“Defense Department Contracting in Afghanistan: Are We Doing Enough to
Combat Corruption?”
September 15, 2011

Good morning and welcome to today’s hearing: “Defense Department Contracting in Afghanistan: Are We Doing Enough to Combat Corruption?”

I would like to welcome Ranking Member Tierney, Members of the Subcommittee, and members of the audience.

Today’s proceedings continue the Subcommittee’s efforts to oversee the billions spent in support of military and civilian operations in Afghanistan.

Last year, this Subcommittee conducted an investigation of the Defense Department’s Host Nation Trucking contract. The purpose of this contract was to supply our military through the use of private contractors. The idea was to remove this burden from our Armed Forces while at the same time promoting the local Afghan economy.

Almost since its inception, allegations surfaced that warlords, powerbrokers, and the Taliban would seek “protection payments” for safe passage through tribal areas. According to those familiar with the contract, the result was a potential windfall for our enemy. In short, the American taxpayer had allegedly funded the same enemy our soldiers fought on the battlefield.

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These findings were released at a hearing last June at which Pentagon leaders testified. As a result of that hearing and the Subcommittee’s investigative report, the Defense Department established three task forces to examine these particular issues, as well as corruption in general.

Today we will hear from the Defense Department about its findings and progress since last year’s hearing. With the recent revelation that anywhere between \$30 and \$60 billion has been misappropriated in Iraq and Afghanistan since 2001, it is critically important that the Pentagon get this right. I hope that it has made significant progress in this regard.

I will now recognize Ranking Member Tierney for his opening statement.

Mr. TIERNEY. Thank you, Mr. Chairman.

We have just marked the 10th anniversary of September 11th. It is soon going to be a decade since our forces crossed the border into Afghanistan. We entered that conflict for a cause and our brave men and women in uniform have largely accomplished the mission of ridding Afghanistan of al Qaeda and the international terrorists that were threatening the United States.

I wanted to begin today by honoring and stating once again how proud I am of all those people that have given service to this country and I also want to thank all of you for your service to the country and to our soldiers, sailors, airmen and Marines whom you have supported.

I asked Chairman Chaffetz to call this hearing to examine the problem of contracting corruption in Afghanistan. I thank him for doing so and for working with us on this issue.

Last year, I led a 6-month subcommittee investigation of the major Department of Defense logistics trucking contract in Afghanistan. Our investigation found that the trucking contract had spawned a vast protection racket in which warlords, criminals and insurgents extorted contractors for protection payments to obtain safe passage. Our investigation further showed that senior officials within the U.S. military contracting chain of command had been aware of the problem but had done little to address it.

In plain English, the investigation found that the Department of Defense's supply chain in Afghanistan relied on paying the enemy and fueling corruption in order to maintain our substantial military footprint.

Following the subcommittee's investigation, General Petraeus established three task forces designed to address the problem of contract corruption and he issued new contracting guidelines to break down the silos between contracting and operations. These were important first steps.

Since then, the Department has provided multiple briefings to the subcommittee staff, demonstrating substantial progress in identifying where the U.S. taxpayer dollars are going. I commend the Department for that ongoing effort.

Unfortunately, the picture presented is not pretty. Recent news reports stated that the Task Force 2010 had specifically identified and traced over \$360 million in contracting dollars in Afghanistan that had been diverted to warlords, power brokers, insurgents and criminal patronage networks. The task force also confirmed the results of the subcommittee's investigation, finding that many of the trucking contractors were in fact making illicit payments that ended up in the hands of the enemy.

The Commission on Wartime Contracting looked at contingency contracting in both Iraq and Afghanistan, and estimated that upwards of \$60 billion in U.S. contracting dollars had been lost to waste, fraud and abuse. I fear that these reports are only the tip of the iceberg. Much of the Afghan economy now centers around the United States and international military presence and logistics contracts, but a significant portion of those funds seem to end up supporting the Dubai real estate market rather than jobs in Afghanistan.

At the top of the hierarchy, there are weekly reports about politicians, or brothers and cousins of politicians who have obtained multi-million dollar contracts with the U.S. Government. At the bottom of the hierarchy, the extortion of international contractors is a booming industry.

Today, the business of Afghanistan is war. How can we ever hope to extricate ourselves from the war when so many Afghans benefit from the insecurity that is used to justify our continued presence? To my mind, we have crossed the tipping point at which the size of our military footprint inadvertently fosters further instability. Every additional soldier and every additional supply convoy that we send to Afghanistan further fuels the cycle of dependence, corruption and endless war.

With that said, I want to focus today on the hearing on three basic questions. One, what is the scope of contracting corruption in Afghanistan; two, what is being done to address it; and three, how can we dramatically reduce it?

Although I am skeptical about the design of the current U.S. endeavor there, today's hearing we will focus on practical solutions that hopefully can be implemented right away.

Congress has also had an important role to play. This spring, I worked with the Armed Services Committee to include an amendment in the National Defense Authorization Act that would give commanders in the field more authority to immediately stop contracting with companies that undermine the efforts of our troops on the ground. I recently introduced a bill to establish a permanent inspector general for overseas contingency operations, one of the key recommendations of the Commission on Wartime Contracting. I encourage my colleagues here today to join me in that legislation.

I am also working to draft comprehensive contingency contracting reform legislation to fundamentally change the way we do business in war zones.

I want to close by reading from General Petraeus' counter-insurgency contracting guidance, released in September 2010. He wrote, "If we spend large quantities of international contracting funds quickly and with insufficient oversight, it is likely that some of those funds will unintentionally fuel corruption, finance insurgent organizations, strengthen criminal patronage networks and undermine our efforts in Afghanistan." Simply stated, we can't afford to fail at getting a handle on contracting corruption in Afghanistan. It is utterly unacceptable for any taxpayer dollars to ever make their way into the hands of those who would use them as a means to harm our brave men and women in uniform.

So I appreciate your testimony here today, gentlemen. I look forward to our discussion and again, thank you, Mr. Chairman.

Mr. CHAFFETZ. Thank you. Does any other Member have an opening statement?

Mr. Lynch is recognized for 5 minutes.

Mr. LYNCH. Thank you, Mr. Chairman. I appreciate your holding this hearing.

I want to associate myself with the remarks of our ranking member, Mr. Tierney, who has done yeoman's work, along with the chairman, on this issue, and his staff. I have had the benefit of traveling many times to Afghanistan, several times in the company

of Mr. Tierney's staff on this issue. I just want to emphasize, or amplify some of what Mr. Tierney has said here. We have a lawless environment in Afghanistan.

And while I understand the mission there and I understand the President's approach, there is still, I think, a wide distance between where we should be in terms of watching our money and resources in that country and where it is today. I honestly believe, having maybe eight or nine trips over to Afghanistan, and many times on this issue and on corruption in general, along with Kabul Bank, which is a whole other issue, I honestly believe at this point that corruption, corruption is a greater enemy and a greater threat to Afghanistan stability than the Taliban.

I think the Taliban can be beaten, or co-opted. I think corruption in that culture, in that country, is a much tougher road.

I applaud Mr. Tierney on his great work, and Mr. Chaffetz has been over there a number of times himself, they have done great work. And I see that DOD has made some changes in their contracting protocols, and that is good. But I don't think it is enough. I don't think it is enough. We have to get a better handle on this, and I think it needs to be a tighter rein and a greater concern for the theft, the theft of billions of dollars of American taxpayer money.

The American people are doing a good thing. They are trying their best to help a country gain stability. But our kindness and our generosity is being abused in this case. And it needs to stop. It needs to stop, and we need to put systems in place that will prevent that abuse from continuing. We are partners in this. We are partners in this, the Congress and DOD. We have to make sure that we tighten up this system and address some of the concerns that Mr. Tierney has uncovered.

Thank you. I yield back.

Mr. CHAFFETZ. Thank you.

Members will have 7 days to submit opening statements for the record.

We will now recognize our panel. Mr. Gary Motsek is the Deputy Assistant Secretary of Defense for Acquisition, Technology and Logistics. Mr. Kim Denver is the Deputy Assistant Secretary of the Army for Procurement. And Brigadier General Steve Townsend is the Director of the Joint Staff Pakistan-Afghanistan Coordination Cell.

Pursuant to committee rules, all witnesses will be sworn in before they testify. Please rise and raise your right hands.

[Witnesses sworn.]

Mr. CHAFFETZ. Let the record reflect that the witnesses answered in the affirmative. Thank you.

In order to allow time for discussion, if you would please limit your verbal testimony to 5 minutes, and whatever materials and statement that you have for the record will be submitted in its entirety.

So we will start with Mr. Motsek. You are now recognized for 5 minutes.

STATEMENTS OF GARY MOTSEK, DEPUTY ASSISTANT SECRETARY OF DEFENSE (PROGRAM SUPPORT), OFFICE OF THE UNDER SECRETARY OF DEFENSE (ACQUISITION, TECHNOLOGY & LOGISTICS); KIM D. DENVER, DEPUTY ASSISTANT SECRETARY OF THE ARMY (PROCUREMENT), OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY (ACQUISITION, LOGISTICS AND TECHNOLOGY); AND BRIGADIER GENERAL STEPHEN J. TOWNSEND, DIRECTOR, PAKISTAN-AFGHANISTAN COORDINATION CELL, J-5, THE JOINT STAFF

STATEMENT OF GARY MOTSEK

Mr. MOTSEK. Good morning, Chairman Chaffetz, Ranking Member Tierney, members of the subcommittee. Congressman Lynch, I wish I had written what you just wrote. I rarely would ever say, I would like to align myself with your remarks as well.

Thank you for this opportunity to appear before you today and discuss the efforts of the Defense Department to reduce and control contracting corruption in Afghanistan. This is an update to our testimony that we gave last June. And I hope we can in fact demonstrate that we have made some progress.

Contractors continue to provide critical support to operations in Afghanistan. The use of local national contractors in particular is a key to the counter-insurgency [COIN] strategy, of our commanding general. They currently make up 47 percent of the DOD contractor work force in Afghanistan.

There is no doubt that the strategy that promotes Afghan first carries risk. However, it is clear that the COIN strategy is essential to developing a stable Afghanistan.

Recognizing the essential role of contractors since September 2010 has been noted previously. The commander of ISAF published counterinsurgency contracting guidance. This guidance stressed that everyone must understand the role of contracting counterinsurgency and how it could not only benefit but undermine our efforts in Afghanistan.

Due in no small part to the concerns of this committee, Task Force 2010 was established by that same commander to address contracting corruption and its negative impact to that COIN strategy. The task force consists of individuals from uniformed services and includes civilian representative from a variety of contracting, auditing and criminal investigating agencies. The team most importantly includes contract forensic accountants who assist the task force in tracing money through the Afghan domestic and international financial networks. I need not remind the committee that is probably the toughest part of this job, as we all recognize.

One of the key efforts Task Force 2010 undertook was the assessment of the Host Nation Trucking contract. We are thankful for this committee's June 2010 report which served as an important resource. The Host Nation Trucking Assessment looked at eight prime companies that supported the contract to evaluate the extent, if any, that the power brokers, criminal elements and insurgents have had on the execution of those services. I know that one of the specific concerns of this committee was our use of a particular private security contractor. During last year's testimony, I committed to ensuring action would be taken. Immediately upon

departure from this committee, we suspended operations with that contractor.

On August 4, 2011, the Army entered into an administrative agreement with that private security contractor that stipulates he will not provide convoy security for a period of 3 years. In accordance with this administrative agreement, we have ceased to use this security contractor for convoy security.

There were a number of direct actions taken as a result of the 2010 Host Nation Trucking assessment. The most significant action was the contracting command's decision to execute a new contract vehicle to address the challenges we had with the previous contract. Specifically, the new contract vehicle expands the potential number of prime contractors, establishes new standards of conduct and a variety of ways of applying security.

Due to the complexity of this new contract and to meet operational requirements, we continued to use Host Nation Trucking vehicle with additional controls until the performance could be started under the new contract which is tomorrow, and to address the concerns that you expressed with the Host Nation Trucking. We have put together a comprehensive strategy that should drive business away from the bad actors, enable smaller companies to prosper and to meet the vast arrays of our complex needs.

With a potential of nearly \$1 billion we must execute this program with care and vigilance. This is one of several actions taken by the Task Force 2010. Other additional examples include the debarment of 78 individuals or companies, the suspension and pending debarment of an additional 42, and the referral to the appropriate debarment official of an additional 111 persons or companies. We continue to pursue a wide range of corrective actions.

However, we can't do this alone. As you are aware, Task Force 2010 is but a part of a larger organization that is operating that. Of course, challenges remain and our concerted effort to control corruption in contracting must persist. With the commander's commitment, which we now have without any doubt, and the participation of the international community, we will continue to make progress.

I thank you and look forward to your questions.

[The prepared statement of Mr. Mostek follows.]

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Chairman Chaffetz, Ranking Member Tierney, and members of the Committee, thank you for the opportunity to appear before you today to discuss the efforts of the Defense Department to reduce and control contracting corruption in Afghanistan. This is an update to testimony I gave last June.

Contractors continue to provide critical support to operations in Afghanistan, consisting of a broad range of supplies, services, and critical logistics functions, while reducing military footprint and increasing the availability and readiness of resources. Table 1 provides the contractor footprint in Afghanistan as of the 3rd Quarter Fiscal Year 2011. U.S. Central Command (USCENTCOM) continually monitors and assesses the current use and future requirements for contracted support to meet dynamic operational needs.

Table 1
DoD Contractor Personnel in Afghanistan as of 3rd Qtr FY 2011

Total Contractors	U.S. Citizens	Third Country Nationals	Local/Host Country Nationals
93,118	23,294	25,666	44,158

The use of local national contractors is a key element in the commander's counter-insurgency (COIN) strategy; local nationals currently make up 47% of the DoD contracted workforce in Afghanistan. Recent efforts to develop strategies to improve the viability of business in Afghanistan in support of the COIN strategy include: developing a more skilled workforce; increasing business opportunities; increasing community cash flow; improving public infrastructure such as roads and utilities; and, establishing community organizational capacity to maintain economic governance. All of these initiatives are directly influenced by the hiring of Afghan local nationals and are necessary to create a self-sustaining Afghan economy. From our perspective, the key goal is to optimize the positive effects

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of our contracting investment while sustaining the positive effects in support of military operations.

Recognizing the essential role of contractors, in September 2010, the Commander, International Security Assistance Force (COMISAF) published the Counterinsurgency (COIN) Contracting Guidance. The guidance stressed that everyone must understand the role of contracting in counterinsurgency and how it could not only benefit, but also undermine our efforts in Afghanistan. It emphasized that contracting within a contingency environment is commander's business and that leaders must be more aware of contracting activities that are occurring within their areas of responsibility.

In no small part due to the concerns highlighted by this committee, Task Force (TF) 2010 was established by the U.S. Forces Afghanistan (USFOR-A) Commander to address contracting corruption and its negative impact on the COIN strategy. The mission of TF 2010 is to provide commanders and acquisition teams with situational understanding regarding the flow of contract funds and property losses, and recommend actions to be taken to deny power-brokers, criminal networks and insurgents the opportunity to benefit from stolen property or illicit revenue.

TF 2010 was organized to help commanders better understand with whom they are doing business and to ensure contracting dollars were not empowering the wrong people or undermining the US Government and international community's efforts in Afghanistan. The task force uses intelligence, law enforcement, auditors and forensic financial analysts to gain visibility on the flow of contracting funds below the prime contractor level, to determine where issues and concerns exist, and to identify actions to mitigate fiscal and force protection risk.

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Specifically, this task force supports ISAF, USFOR-A, ISAF Joint Command, and Regional Command counter-corruption efforts. The task force consists of individuals from all the uniformed services and includes civilian representatives from various contracting, auditing and criminal investigative agencies [Defense Contract Audit Agency (DCAA), Army Audit Agency (AAA), US Army Criminal Investigation Command (CID) and Defense Criminal Investigation Command (DCIS)]. The team also includes contract forensic accountants who assist the task force in tracing money through the Afghan domestic and international financial networks.

As one of their key efforts, TF 2010 undertook an assessment of the Host Nation Trucking (HNT) contract. We are thankful for this committee's June 2010 report titled "Warlord Inc., Extortion and Corruption along the U.S. Supply Chain in Afghanistan" which served as an important resource in the review.

The HNT assessment looked at the eight prime companies that supported the contract to evaluate the extent, if any, that power brokers, criminal networks, and insurgents may have on the execution of services. The intent of the assessment was to gain an awareness of the overall supply chain delivery contract and to address concerns that malign actors may be diverting funds and/or cargo for their financial gain or funding the insurgency.

I know that one of the specific concerns of this committee was our use of a particular private security contractor and, during last year's testimony, I committed to ensuring action was taken to address this concern. On August 4, 2011, the Army entered into an administrative agreement with that private security contractor that stipulates it will not provide convoy security for a period of three years. In accordance with this administrative agreement, we have ceased to use the security contractor in question for convoy security. We continued to issue further work to the eight prime companies under the HNT contract, but only

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after receiving their affirmation that they would no longer use that particular security company, and after confirming their ongoing compliance with contracting standards.

There were a number of direct actions taken as a result of TF 2010's HNT assessment. The most significant action was the contracting command's decision to execute a new contract vehicle to address the challenges we had with the HNT contract. Specifically, the new contract vehicle immediately expands the potential number of prime contractors that can be used, implements new procedures for use of security, and establishes new standards of conduct. The National Afghanistan Trucking (NAT) contract was awarded on August 12, 2011. Due to the complexity of this new contract, and to meet operational requirements, we have continued to use the HNT contract vehicle until performance under the NAT contract begins.

The assessment of the HNT contract is but one of several actions in the counter-corruption effort that TF 2010 has completed to date which have served to improve our control over contracting corruption in Afghanistan. However, TF 2010 cannot operate successfully in isolation in a coalition environment. Therefore it and TF Spotlight (which was responsible for coordinating ISAF's management of private security companies) were organized under Combined Joint Interagency Task Force (CJIATF)-Shafafiyat to provide unity of effort with the international community. CJIATF Shafafiyat is ISAF's lead on anti-corruption efforts; it works in coordination with the international community and in support of the Afghan government to reduce corruption in Afghanistan to the extent that it no longer presents a fatal threat to ISAF's mission or to the viability of the Afghan state. This inter-agency task force is critical as anti-corruption efforts can only be successfully accomplished through the synchronized actions of the larger international community.

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In sum, we are taking all administrative and contracting actions that are reasonable to control the conduct of contractors and have established a vendor vetting process that prevents contract awards to contractors involved in prohibited activity. Separately, we have recommended legislative language which is included in both the House-passed and Senate Armed Services Committee versions of the 2012 NDAA. This legislation would allow us to void contracts in certain cases and also provide DoD authorization to examine records of a contractor or subcontractor in the CENTCOM theater to ensure that contract funds are not subject to corruption or extortion or not provided to anyone actively opposing U.S. forces in Afghanistan.

Contracted support for operations in the USCENTCOM AOR has proven to be a critical enabler to current operations. The use of contractors has allowed ISAF to rapidly support the surge of forces; to devote a greater percentage of its combat forces to priority operations; and to execute developmental aid made available to support Afghan rebuilding and infrastructure projects.

Of course, challenges remain and our concerted effort to control corruption in contingency contracting must persist. With the commanders' commitment and the participation of the international community, we are continuing to make progress. We believe that the passage of the legislative language expanding the authority of the commander would serve as a key enabler to further success.

I trust this testimony provides a documentary baseline of the topics I was asked to address at this hearing. Thank you.

Mr. CHAFFETZ. Thank you.

Mr. Denver, you are recognized for 5 minutes.

STATEMENT OF KIM D. DENVER

Mr. DENVER. Chairman Chaffetz, Ranking Member Tierney and distinguished members of the Subcommittee on National Security, Homeland Defense and Foreign Operations, thank you for the invitation to appear today to discuss Army efforts to reduce contracting corruption in Afghanistan.

I am pleased to represent Army leadership, members of the Army Acquisition and Contracting Workforce and our soldiers, who rely on us for timely and efficient materiel, supplies and services in support of expeditionary operations. When our Army deploys, it depends on civilian support from contractors.

As you are aware, the past decade has brought unprecedented challenges to contingency contracting. We have operated in theaters where the culture includes corrupt business practices. In spite of this environment, Army personnel supporting CENTCOM strive to uphold the integrity of the procurement process and our fiduciary responsibility to the American public.

We appreciate congressional attention to contingency contracting by several amendments in the current version of the fiscal year 2012 National Defense Authorization Act, as well as the investigative reports last year on Host Nation Trucking and private security contractors.

Oversight of subcontractors has been a significant concern of the contracting community, the audit agencies and Congress. In response, we have trained over 9,600 contracting officer representatives, CORs, instituted vetting procedures and increased transparency by mandating government approval of all subcontractors.

CORs are on the front line of our contracting oversight as responsible stewards of American taxpayer dollars. In December 2009, the Army rejuvenated our COR management and training by mandating that deploying brigades have as many as 80 soldiers trained as CORs.

The vetting of Host Nation contractors is a key element in fighting corruption and ensuring security for U.S. warfighters, civilians and contractors, as well as the security of the reconstruction effort in Afghanistan.

It has been a struggle to create a vetting process for a country that lacks universal identification criteria. Biometric identification, although time-consuming and still relatively new, provides the most reliable means to ensure security. The continued use of contractor vetting and biometric information reduces the risk to contracting with bad actors and creates a more secure environment.

Let me take a moment to provide an update on how we have refined and improved our systems and processes in respect to transportation contracts. Chairman Chaffetz, Ranking Member Tierney, we paid serious attention to the findings and recommendations from this committee's Warlord, Inc. Report. The National Afghan Trucking contract, NAT, addresses these concerns. This new transportation contract was awarded by the CENTCOM Joint Theater Support Contracting Command last month and includes stricter

oversight and performance controls than the previous Host Nation Trucking contract, HNT.

NAT ensures greater transparency into subcontracts, includes a code of ethics, significantly expands the number of prime contractors, ensures prior vetting and establishes a tiered rate structure based on security requirements and separates contracts into suites to encourage smaller and local companies to participate. The HNT contract ends today. Execution of the NAT contract begins tomorrow.

The increase in the number of available contractors from 8 to 20 on the NAT enables greater competition, leading to more work for companies that perform responsibly. It also provides the flexibility to suspend problem contractors as well as to facilitate the development of the trucking industry in Afghanistan.

NAT incorporates congressional recommendations on the role of Afghan national security forces in highway security. NAT inventories actual trucking assets available to DOD on a daily basis, and it ensures transparency, vetting, past performance information of all contractors and subcontractors. As a result, NAT will reduce costs, pay only for services performed and incentivize timely delivery, resulting in improved oversight and performance.

Army contracting continues to identify more effective ways to ensure that we get the most value for our contracting dollars and the most effective support for our warfighters. I cannot stress enough the complexity of managing countless requirements, overseeing tens of thousands of contractors and awarding billions of dollars in procurement in an environment that is already hostile on many levels.

The endemic corruption in Afghanistan remains a challenge to our contracting personnel. It will take time to change this environment. The U.S. Army remains committed to the protection of the interests of the United States, our warfighters and our taxpayers through excellence in all contracting activities.

Thank you for your continued support. I look forward to your questions.

[The prepared statement of Mr. Denver follows:]

Introduction

Chairman Chaffetz, Ranking Member Tierney, and distinguished members of the Subcommittee on National Security, Homeland Defense, and Foreign Operations, thank you for the invitation to appear today to discuss Army efforts to reduce contracting corruption in Afghanistan. I am pleased to represent Army leadership, members of the Army acquisition and contracting workforce, and our Soldiers who rely on us for timely and efficient materiel, supplies, and services in support of expeditionary operations. In all of our Army contracting operations worldwide, we strive to be responsive to our Warfighters, while ensuring proper fiscal stewardship of taxpayer dollars.

Contractors have been on the battlefield in every U.S. conflict since the Revolutionary War. When our Army deploys, it depends on civilian support from contractors. As required by Congress, the contractor census is due quarterly with the next figures available the first week of October.

In the past decade, the challenges for contingency contracting have been unprecedented. We've deployed contractors to theaters where there are questionable established business and ethical standards. Decades of such practices and wartime uncertainty have unfortunately ingrained corruption into the business culture of Afghanistan. In spite of the challenges of this environment, the Army's contracting forces supporting CENTCOM strive to uphold the integrity of the procurement process and our fiduciary responsibility to the American Public.

We appreciate Congressional interest in contingency contracting represented by several amendments in the current version of the FY12 National Defense Authorization Act as well as the investigative reports last year on host nation trucking and private security contractors.

In light of those investigative reports, CENTCOM established several task forces, including Task Force 2010, to review the circumstances, make recommendations and provide lessons learned.

Army contracting supports CENTCOM by awarding and managing much of the in-theater contract support. Based in part on the findings and recommendations of Task Force 2010 and General Petraeus' counter-insurgency strategy, the CENTCOM Joint Theater Support Contracting Command (*I will refer to this as C3 for the remainder of my testimony*) has implemented several improvements and taken action to reduce the flow of U.S. Government funds to what we refer to as "bad actors".

Improved Oversight

Oversight of subcontractors has been a significant concern of the contracting community, the audit agencies and the Congress. In response to reports, audits and reviews, C3 has implemented 11 clauses dealing with subcontractors to capture information that will aid in the vetting of contractors and subcontractors prior to award.

It is the responsibility of the contracting officer to choose the best firms during source selections. An important element is the use of past performance information on the contractors being considered. Although we give preference to Afghan firms under the Afghan First program, it has been especially problematic to obtain and maintain past performance data for host nation companies because this is a relatively underdeveloped industry for Afghan vendors. In addition, due to lack of Internet accessibility and bandwidth limitations as well as language barriers, the standard system for collecting this data, the Contractor Performance Assessment Reporting System (CPARS), which requires vendor input as part of the system, has not been very effective in Afghanistan.

In response, the Joint Contingency Contracting System (JCCS) was developed to capture host nation vendor past performance. JCCS alleviates a number of problems encountered in contracting in Iraq and Afghanistan, from translation and posting of solicitations to currency conversions, tracking past performance, and vetting results. It has proven to be an invaluable tool for contracting in theater.

After contract award, the key to our contract oversight resides with the Contracting Officer Representatives (CORs) who are on the front-lines as responsible

stewards of American taxpayer dollars. The Army began a rejuvenation of our COR management and training in December 2009, with the issuance of the Army Execution Order 48-10: Pre-Deployment training for Contracting Officer Representative Candidates and Commander's Emergency Response Program (CERP) Personnel. This order mandated that deploying brigades have as many as 80 Soldiers designated and trained as CORs. As a result, in Calendar Years 2010 and 2011, the Army Logistics University trained 8,568 CORs. Additionally, the Expeditionary Contracting Command provided augmentation training to 2,317 Soldiers as CORs since October 2010. More than 5,500 CORs, 5,500 Field Ordering Officers (FOO) and 2,700 Project Purchasing Officers received theater specific supplemental training from C3 prior to beginning their assignment.

In addition to training, C3 contracting officers provide CORs with Army-developed tools such as the COR SmartCard and COR handbooks. Further, the C3 training website contains a number of resources CORs can access. C3 also trains CORs on recognizing and reporting fraud and human trafficking. As a result of these efforts, C3 assigns well-trained CORs to every contract requiring one.

Another measure of effective contract management in a contingency environment is the identification and resolution of performance problems. From October 2010 to April 2011, the C3 Senior Contracting Official in Afghanistan (SCO-A) issued 74 terminations for default after identifying performance problems.

Vetting of Contractors

The vetting of host nation contractors is a key element in fighting corruption and ensuring security for U.S. Warfighters, civilians and contractors as well as the security of the reconstruction in Afghanistan. It is critical that we ensure the contractors are

competent and they have no ties to bad actors. It is equally important to vet the local national individuals seeking access to our bases and construction sites as contractor employees.

It has been a struggle to create a vetting process for a country that lacks universal identification criteria. To address this issue, the collection and use of biometric information provides the most reliable means to ensure security. While this data collection is time consuming and the project is still relatively new, within the first months of use, several positive matches on individuals requesting base access proved the projects' value. The continued use of contractor vetting and biometric identification will enhance security for our personnel and sites.

Vetting contractors and individuals reduces the risk to contracting with bad actors, creates a more secure environment, and therefore helps reduce overall contract performance risk. In August 2010, a vetting cell was established at CENTCOM headquarters in Tampa, Florida, to evaluate prospective non-U.S. contractor firms in Afghanistan. Non-U.S. vendor information on all contract awards and options above \$100,000 is tracked in the JCCS system, along with past performance information to prevent future awards to nefarious contractors. We continue to improve and refine our systems and processes.

A New Trucking Contract

An important tenet of the counterinsurgency strategy is to increase awards to Afghan companies. Our intent is to create an environment for Afghan companies to

compete. The National Afghan Trucking (NAT) contract responds to this requirement. Let me take a moment to provide an update on our actions in addition to the aforementioned oversight and vetting improvements.

NAT keeps Soldiers and Army trucks off the roads and frees Coalition forces to combat the Taliban directly, reducing overall troop requirements. This new transportation contract was awarded by C3 last month and includes stricter oversight and performance controls than the previous Host Nation Trucking (HNT) contract. Chairman Chaffetz, Congressman Tierney, we paid serious attention to Congressional recommendations made last year, including the findings and recommendations from this Committee in your Warlord, Inc report. NAT ensures greater transparency into subcontractors and includes a code of ethics, significantly expands the number of prime contractors, ensures prior vetting and establishes a tiered rate structure based on security requirements and separates contracts into suites to encourage smaller and local companies to participate. The HNT contract ends today. Execution of the NAT contract begins tomorrow; September 16th. The increase in the number of available contractors from 8 to 20 enables greater competition leading to more work for companies that perform responsibly and the flexibility to suspend problem contractors while meeting total mission needs. The additional prime contracts also facilitate the development of the trucking industry in Afghanistan. The new NAT contract also provides separate pricing for transport services based on whether private security contractors or Afghan Public Protection Forces are required, or if no security is required.

NAT addresses Congressional recommendations on the role of Afghan National Security Forces in Highway Security, inventories actual trucking assets available to DoD by creating "suites" of contract requirements, ensures transparency and vetting of all contractors and subcontractors, provides oversight of all contracts to ensure

transparency and performance and addresses PSC past performance. As a result, NAT reduces costs, pays only for services performed, incentivizes early completion, improves oversight and performance and further supports our Warfighters in the field.

Conclusion

The endemic corruption in Afghanistan remains a challenge to our contracting personnel. The anti-corruption task forces now operating in Afghanistan have had a positive impact on the ability of contracting offices to operate effectively. The Army appreciates the impact that these task forces have had in improving the contracting environment. Task Force 2010, the FBI's International Contract Corruption Task Force, the Army's Criminal Investigation Division's Afghanistan Fraud Detachment Major Procurement Fraud Unit, the Department of Justice's Major Crimes Task Force, the Afghan Threat Finance Cell and Task Force Spotlight have all played a role in helping to reduce corruption of government contracting in Afghanistan. However, combating contracting corruption is a continual process. It will take time to change the environment, while simultaneously providing pre-deployment training of Army personnel to ensure that they understand how to deal with the cultural differences in Afghanistan to improve or correct questionable practices.

Army Contracting continues to identify more effective ways to ensure that we get the most value for our contracting dollars and the most effective support for our Warfighters. I cannot stress enough the complexity of managing countless requirements, overseeing tens of thousands of contractors and awarding billions of dollars in procurements in an environment that is hostile and corrupt on many levels. Not only is physical security still tenuous, but the business and financial environment, educational level, technology, and infrastructure – though improving – form a gauntlet of obstacles making contract oversight more difficult.

Our dedicated contracting workforce, both military and civilian, will continue to carefully assess lessons learned in these challenging missions while we make improvements, adjustments and seek innovative solutions to enhance mission success.

The U.S. Army remains committed to the protection of the interests of the United States, our Warfighters and our taxpayers through excellence in all contracting activities.

Thank you for your continued support. I look forward to your questions.

Mr. CHAFFETZ. Thank you, Mr. Denver.

We will now recognize Brigadier General Townsend for 5 minutes.

STATEMENT OF BRIGADIER GENERAL STEPHEN J. TOWNSEND

General TOWNSEND. Chairman Chaffetz and Ranking Member Tierney and members of the subcommittee, thanks for this opportunity to appear before you today to discuss our efforts to link contracting and the flow of U.S. contracting dollars to our counterinsurgency strategy in Afghanistan.

The bottom line up front is we recognize we must see and address the challenges we face with corruption and popular perceptions in Afghanistan. Even as our supplies are flown to our warfighters, they arrive with good reliability, surprisingly little disruption and pilferage, and with low investment or loss in U.S. lives and battlefield resources.

The focal point for our COIN strategy in Afghanistan is to deny terrorists safe haven and secure the Afghan people. Our effective management of our government's contracting dollars is essential to the success of this strategy.

As you all know, after 30 years of war and social devolution, corruption is a tremendous challenge in Afghanistan. Congressman Lynch, you so eloquently said that corruption is a greater threat to the stability of Afghanistan than the Taliban. I would agree, and so would many of the other soldiers, sailors, airmen and marines that I was privileged to serve with in regional command just recently.

Deterring this corruption involves an integrated effort at all levels, so we can see where our money is going to gain an awareness and a level of control over the unintended consequences of our spending. We have and will continue to take appropriate steps to reduce the effects of corruption and be good stewards of the American taxpayers' dollar.

The U.S. military has greatly increased our understanding of the corruption problem and the unintended consequences of contracting dollars can have on our COIN effort in theater. This committee's Warlord, Inc. report was very helpful to that increased awareness and understanding.

Since last year, you have heard here, we have taken a number of steps to combat corruption. We have established Combined Joint Interagency Task Force Shafafiyat, that is a Dari word meaning transparency. That has helped to map out the criminal patronage networks that exist in Afghanistan and to address corruption as a strategic problem.

Task Force Spotlight has aided in tracking and enforcing procedures regarding private security companies and Task Force 2010 has given us a better understanding of with whom we are doing business and providing commanders and contracting activities with the information they need to take informed action.

I visited with Task Force 2010 just 3 days ago to see how they are doing. Under Army Brigadier General Ross Ridge, Task Force 2010's accomplishments include a detailed study of the Host Nation Trucking contract, which has led to identification of key changes

they have been making to contracting practices. These have now been integrated into the new National Afghan Trucking Contract.

This new contract will provide a better understanding of transportation service costs and significantly increase the number of prime contractors, which you have already heard. They have also identified individuals and companies for referral for debarment for not performing responsibly. Perhaps even more important than these actions they have taken in mitigation are the preventive actions that they have taken. Task Force 2010 has implemented including working closely with CENTCOM's contracting command and to share information across the theater to include US Embassy Kabul, USAID, NATO and other partners. This vetting process helps identify high-risk contractors before agreements are entered.

I have highlighted just a few of these efforts that DOD is making to counter the effects of corruption on our COIN operations in Afghanistan. These initiatives underscore our focus to overcome the significant challenges we face in Afghanistan and will help us improve how we are performing now and in the future.

Thanks for your continuing support of our men and women in uniform and for this opportunity to appear before you today. I look forward to answering your questions.

[The prepared statement of General Townsend follows:]

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Chairman Chaffetz, Ranking Member Tierney, and members of the Subcommittee, thank you for the opportunity to appear before you today to discuss our efforts to link contracting and the flow of US government-contracting funds to a winning counterinsurgency (COIN) strategy in Afghanistan.

As the Director of the Pakistan-Afghanistan Coordination Cell, I advise the Chairman of the Joint Chiefs of Staff in synchronizing the development, assessment, and implementation of military policy and strategic guidance for Afghanistan and Pakistan. In doing so, my team works closely with all stakeholders to refine the policies, doctrine, capabilities, and processes needed to both implement our COIN strategy and learn from our operations to improve how we will operate in the future. Along those lines, we appreciate the investigations conducted by this Subcommittee and other Congressional committees on Afghanistan corruption. These investigations highlight the significant corruption challenges we face in Afghanistan and will help us improve how we perform in current and future contingency operations.

The focal point of our COIN strategy in Afghanistan is the Afghan people. We are focused on population-centric COIN operations to deny terrorists safe havens, enable an expanded and effective Afghan National Security Force, secure the population, and assist the Government of the Islamic Republic of Afghanistan with improved governance and economic development. Our effective management of the US government's contracting funds is essential to the success of our COIN strategy. However, in a COIN environment, the supply lines themselves are often the front lines. As such, it is critical that the contracting dollars supporting our supply chain do not fall into the wrong hands.

In some cases, segments of the Afghan populace and government perceive that our money is not positively benefiting the Afghan people and is instead supporting power brokers and malign actors. Any such perception is not in our

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national strategic interest, and we must continue to take steps to ensure that contracting dollars are spent solely in the furtherance of our mission.

Our goal is to effectively use our US contracting dollars to get essential business done, promote Afghan development, all the while not creating unintended problems for our overall Afghanistan COIN strategy. We are working with US Central Command (USCENTCOM) to improve contracting visibility and accountability. This will give us greater visibility of what we are spending, what we are about to spend; and ensure we are spending it with the right people, and in the right areas. Additionally, our management of contractors on the battlefield has evolved from an early reactionary approach to a significantly more pro-active theater-wide management.

As you all know, after 30 years of war and social devolution, corruption is a tremendous challenge in Afghanistan. Corruption significantly undermines our nation's conduct of counterinsurgency operations in theater. Deterring corruption involves an integrated effort at all levels to gain visibility of the money flow, understand and shape perceptions of the Afghan people, correct the behavior of some Afghan contractors, and gain an awareness and level of control over the second order effects of our spending. We have and will continue to take the appropriate steps to reduce the effects of corruption and be good stewards of the American taxpayer's dollar.

Over this past year, the Department of Defense (DoD), USCENTCOM, and US Forces-Afghanistan (USFOR-A) greatly increased our understanding of the corruption problem and the unintended consequences our contracting dollars can have on our COIN efforts in theater. This committee staff's Warlord, Inc. Report was very helpful to that increased awareness and understanding. Since that time, we have taken a number of steps to combat corruption. Combined Joint Inter-agency Task Force Shafafiyat...a Dari word meaning "transparency"...has helped map out the criminal patronage networks that exist in Afghanistan and to address corruption

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as a strategic problem. Task Force Spotlight, recently subsumed within the USFOR-A Armed Contractor Oversight Directorate, has aided in tracking and enforcing procedures regarding private security companies. Task Force 2010 (TF 2010) has assisted in helping better understand with whom we are doing business, and provided commanders and contracting activities with the information needed for them to take action.

Specifically, TF 2010 was organized to help commanders better understand with whom they are doing business and to ensure contracting dollars were not empowering the wrong people or undermining our efforts in Afghanistan. TF 2010 uses intelligence, law enforcement, auditors and forensic financial analysts to gain visibility on the flow of contracting. They support the interdiction and recovery of stolen US government property, as well as collect and manage contract data from all US DoD acquisition teams. This counter-corruption task force supports International Security Assistance Force (ISAF), USFOR-A, and regional commanders' counter-corruption efforts on the flow of contract funds in theater. TF 2010 coordinates and seeks to deny power brokers, criminal networks and insurgents the opportunity to capitalize on the illicit revenue or stolen property, and promotes best business practices that support the Commander, ISAF Counterinsurgency Contracting Guidance.

In their first full year of operations, TF 2010 has made significant progress in their mission. A few of their accomplishments include a detailed study of the Host Nation Trucking (HNT) contract which led to identification of key changes to contracting practices that have been integrated into the establishment of the National Afghan Trucking (NAT) contract. The NAT contract was awarded on August 12, 2011 and becomes operational on tomorrow, September 16, 2011. This contract provides a better understanding of transportation service costs, and significantly increases the number of prime contractors. TF 2010 also identified individuals and companies for referral to the Procurement Fraud Branch and the DoD Suspension and Debarment Official for proposed debarment for not performing

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responsibly, which will deny bad actors the opportunity to do further business with the US. Preventative measures that TF 2010 implemented include working closely with USCENTCOM Contracting Command and to share information on vetted contractors with US Embassy Kabul, USAID, and NATO. This vetting process helps identify high-risk contractors before agreements are completed.

TF 2010 has also proposed legislative language which is included in the pending Fiscal Year 2012 National Defense Authorization bill that will provide authority to rescind or void a contract with an individual or entity identified as supporting or working for the enemy and improves transparency over contracts below the prime. These new authorities arm our leaders with the tools needed to gain visibility on the flow of contract funds, and if connections to the enemy are detected, the ability to take immediate steps to deny them further access to our money. I recognize that some of these efforts seem to have come about slowly and that there is concern about our having extended the previous HNT Contract until the new NAT Contract was in place. I share those concerns. However, we have to remind ourselves that those trucks are carrying critical supplies to the warfighter and while the current contract may introduce risk, we cannot accept the much higher risk of not providing our young men and women the material, food and supplies they need to be successful in this fight. The bottom line is we recognize we must see and address the challenges we face with corruption and popular perceptions, even as supplies are flowing to our warfighters in the field, and arriving with good reliability, surprisingly little disruption or pilferage, and with very low investment or loss in US lives and battlefield resources.

I highlighted only a few of the efforts that the DoD is making to counter the effect of corruption on our COIN operations in Afghanistan. These initiatives underscore our focus to overcome the significant challenges we face in Afghanistan and will help us improve how we perform in current and future contingency operations. Again, thank you for your continuous support and for the opportunity to come before you today. I look forward to answering your questions.

Mr. CHAFFETZ. Thank you, gentlemen.

I will now recognize the ranking member, as has been said before, who has really done some very important work on this subject. I will now recognize Mr. Tierney for 5 minutes.

Mr. TIERNEY. Thank you, Mr. Chairman.

Thank you for your testimony, gentlemen. I want to start by saying, look, your testimony highlighted the creation of Task Force 2010 and Task Force Shafafiyat. It is a major signal, you say, for showing how serious you are about attempting to understand all of the problems with corruption that are going on in contracting in Afghanistan. I think those are good efforts, I praised them in my opening remarks. But I do have a significant problem seeing any tangible evidence of them really being put into serious action at this point in time.

Mr. Motsek, last year when you were in front of the committee, you did, as you said in your testimony here today, assure us that our concerns about Commander Rohullah and Watan Risk Management would be taken seriously and you start action. I understand that you did start action on debarment for those two individuals on that. In fact, the Army announced its suspension and debarment and made a big deal out of that fact, and I think it rightfully was. Task Force 2010 found that significant sums of money from that company had gone to insurgents while Commander Rohullah served as the principal security provider.

Now, the findings of the committee, you understand first of all that our committee investigation was a committee investigation. It doesn't substitute for a Department of Defense investigation, or DOJ, is that right?

Mr. MOTSEK. Sir, that is a source document. That is correct.

Mr. TIERNEY. So I was a little disappointed when I learned that without further investigation, this went to a hearing and then the Army basically cut a deal with both Rohullah and the trucking company, the Watan trucking company. Mr. Rohullah claimed that he hadn't understood what was going on in the investigation, which I would propose is nonsense. But at any rate, I was disappointed that the Army hadn't done its own investigation and nailed down those facts in a way that wouldn't allow for that kind of a determination.

Second, they let Watan off the hook by basically saying, well, you can't do any more with Host Nation Trucking contracting for 3 years. The company was already out of that business. So that wasn't much of a punishment on that basis. So you have, according to Task Force 2010, a warlord, a bad actor, maligned actor, Rohullah, now free to contract with the United States. And you have Watan free to contract with everything but an enterprise that they already decided to get out.

I am not sure you could feel comfortable thinking that you fulfilled your promise to this committee. How do you feel about it?

Mr. MOTSEK. Sir, when we came together, we said we would take under advisement, and I believe I used the term in your investigation. Anything that was in there that was actionable, we would deal with it immediately.

And so the short-term solutions, as you recall, we had some issues with arming, which was the primary reason that we were

able to suspend Watan Group at the initial outset. And we continue to march forward.

Task Force 2010 did in fact do additional work with regard to both cases that you talked to. What is important in my mind to remember is that debarment by the Code of Federal Regulation, and your own excellent Congressional Research Service, shows this over and over again, should not be interpreted as punishment. Debarments are there to protect the interests of the United States.

Mr. TIERNEY. Well, I will grant you that point. So how is the 2010's findings where the \$1.7 million were made in payments by Rohullah, who received them and passed them on to maligned actors, they found in fact that he was not such an upstanding character himself. He was working in concert with Watan contracting company.

So let's assume that what you say is true, you don't want to punish them. Let's protect ourselves from having contracts with them, and wouldn't that require debarment as a basis for protecting us to have to deal with these maligned characters again?

Mr. MOTSEK. Again, the process, as you well know, you have an independent senior suspension debarment official that makes the judgment based on facts that are presented to him. Without reading too much into his decision, he believes, and he is the deciding official, that the interests of the government were in fact protected because you cannot go into, it is agreed that you will not go into additional contracts with them for a period of 3 years. If they try to go around the corner—

Mr. TIERNEY. But he debarred them from doing business they had already given up, and there are a host of others. Watan Management Co. is basically the Popal brothers, right? Cousins to President Karzai? So let's just get it out on the table here, basically, they got themselves a deal by appealing this and they got Rohullah, basically a warlord of maligned character, off the hook as well.

I don't find that satisfactory, I am sorry. I just don't find it satisfactory.

And General Townsend, I appreciate your testimony but when I saw on page 2 that you said in some cases the Afghan populace perceives that our money is not positively benefiting Afghan people and instead is supporting power brokers and maligned actors, it is not a perception, is it? It is fact. Task Force 2010 found in fact that money was going to maligned actors.

General TOWNSEND. That is fair. It is a fact that it is also a perception amongst the people.

Mr. TIERNEY. Okay. So we will both get it down on that. But it is a problem that we have here, and it has to be stopped.

The other part of this thing is that we have a serious issue on that. What are we going to do about it? We have the Task Force finding that basically tells us that we have choices. We have use of United States or ISAF forces to protect the convoys, but we really want to use them in other ways and don't have enough of them to put them in protection. Is that fair to say? Part of the theory on this?

General TOWNSEND. Yes, sir.

Mr. TIERNEY. Two, you use the Afghan national security forces, except they are not ready and they are not able to at this point in time. Is that a fair statement?

General TOWNSEND. That is fair for now. We are working on that.

Mr. TIERNEY. You are working on it, but it is a ways from happening. So what does that leave you with to protect the convoys and to get this done?

General TOWNSEND. For now, private security companies as we build the Afghan public protection force.

Mr. TIERNEY. So we are right back to the same people that were involved in the problem that instigated the investigation. One of the things we found in the investigation was that there was little going on to actually oversee and manage these contracts. I know that some of your regulations have addressed that. But tell me a little bit about whether this is happening on the street. Are people going outside the gate and observing those convoys? Are they riding along on those convoys? Are they auditing and taking investigations and inspections to make sure that things on those trucks are getting from one point to another? Is there physically people out there doing it? Or are they just relying on reports and somebody's word that these things have been done?

General TOWNSEND. I wouldn't say that every convoy is observed or escorted. But I think significantly more of them now are than were a year ago.

Mr. TIERNEY. Mr. Motsek.

Mr. MOTSEK. Sir, if you recall, last time I was here, our biggest deficiency with regard to the PSCs were we were failing to follow our own procedures which required the dual licensing process as we recall, that if you are going to use a PSC it must be dually licensed in the country. And we had an arming and vetting procedure that we were supposed to follow. In this particular time, with regard to Watan as the subcontractor, we had failed to do that. Task Force Spotlight, under General Bohrer, one of her primary functions was to get her hands around that licensing and vetting process, which we should have done before.

The other piece that has occurred since we discussed the last time is, if you recall, we had temporary rules in the Code of Federal Regulation regarding the use of private security contractors overseas. And they not only apply to us, but they apply to our sister agencies.

Since we have met, we have been able to finally push through the final rules, which are a substantial improvement over the originals. So they were published about 6 or 8 weeks ago. That was not an easy process, to get them through the CFR, and that is my fault. But they are out there.

So that process and those procedures are in place. The visibility, because of President Karzai's Decree 62 and the efforts to come up with the other option is driving this entire institution inside Afghanistan to a different standard right now. As you know, we are not going to be giving up PSCs as a nation overall. The diplomatic side of the house will continue to use them.

So in retrospect, yes, in the short term, we will use them. But our intention is to have the options to use the other two alternatives.

Mr. TIERNEY. Thank you.

Mr. CHAFFETZ. The gentleman's time is expired. I now recognize myself for 5 minutes.

Can we get a grip here on the dollars and I want to understand also what is being transported. Because my understanding is there is a difference as to what the actual physical materials that are being transferred. Do we have a sense percentage-wise, dollar-wise of what we think we have lost, what has been pilfered through this trucking process?

Mr. DENVER. If I could take that question, sir.

Mr. CHAFFETZ. Yes.

Mr. DENVER. As it relates to the HNT contract, I would have to take the question for the record in terms of giving you the specific items. But we understand that about \$700 million has actually been paid out.

Mr. CHAFFETZ. When you say paid out?

Mr. DENVER. Paid to the contractors for their services for the transportation they provided. But we have about \$145 million in penalties and withholds that relate to lost equipment, pilferage.

Mr. CHAFFETZ. Do we have a total value of what had been shipped and what had been lost, pilfered or simply didn't make it to its destination?

Mr. DENVER. I could take that for the record and get it to you, sir.

Mr. CHAFFETZ. My understanding is, though, with the Task Force 2010 being stood up, that a number of items have been recovered. Do you know the value of what has been recovered?

General TOWNSEND. About \$172 million in recovered losses.

Mr. CHAFFETZ. And what would be included in the list of \$172 million that was recovered?

General TOWNSEND. I think probably just about anything we transport, a piece of just about anything we transport on the roads, from unit equipment to general purpose supplies. To kind of get at your question of a second ago, we transport roughly 1.5 million gallons of fuel per day in Afghanistan, and roughly half of our cargo is moving on the ground.

Mr. CHAFFETZ. But there is certain cargo that is not transported via this.

General TOWNSEND. That is right. Some of the recent press accounts have talked about ammunition being transported in these convoys. And that is not the practice in Afghanistan. Ammunition is typically transported only in a U.S. military-escorted convoy and not in convoys that are secured by private security companies or moving unsecured.

Mr. CHAFFETZ. So with these private security companies providing the transportation and security, do we do sensitive electronics in those shipments, thumb drives and those types of things?

Mr. DENVER. I think we do have some electronics that track what the electronics do. We have in-transit vehicle transponders.

Mr. CHAFFETZ. I am talking about the content of what is actually behind those.

Mr. MOTSEK. Sir, the standard is no Class 5, no ammunition. And what we have is a class of supply that is called sensitive items. The simplest answer I would give you, things such as night vision goggles would not be permitted to be transported by them. Loaded computers would not be allowed to be transported by them. We could take it for the record to give you a larger list.

Mr. CHAFFETZ. Would weapons be on that list?

Mr. MOTSEK. No, they are sensitive items, they would not be transported by them.

Mr. CHAFFETZ. Uniforms?

General TOWNSEND. Uniforms were transported in these types of convoys earlier in the effort. We have made large efforts to reduce that now because of problems.

Mr. CHAFFETZ. Reduce that or eliminate it?

General TOWNSEND. I think probably the goal is to eliminate it, but I wouldn't say that we have eliminated that completely.

Mr. CHAFFETZ. That is not too reassuring. I appreciate the candor, though. Medical equipment? There is a Wall Street Journal report that I would appreciate your familiarizing yourself with, it came out just in the last couple of weeks, talking about some of the horrendous and horrific situations that are happening in Afghanistan. The article is entitled "Afghan Military Hospital, Graft and Deadly Neglect." There are oversight issues there, but specifically I know we are talking about the transportation issues. I would appreciate it if you would look at this article dated September 3rd of this year as well.

One of the other deep concerns here is that these, that we are not doing our job on the ground. And I recognize in the theater of war and all that is happening, there is an added degree of pressure that I am sure only those in theater can appreciate. But one of these reports said that often the containers were never counted or reopened once they got to their destination.

What assurance can you give to this committee that you are actually solving that problem? Because it is pretty easy to tell, you should be able to tell what left and what arrived. And yet the reports we are getting are saying that that checkpoint at the end just doesn't happen when our men and women receive these materials.

General TOWNSEND. The ground truth out there is that the vast majority of everything that shows up at a base gets opened and checked, it gets received, it gets looked at. Is there a percentage of stuff that is moving on these lines of communication that doesn't get received or inspected? Yes, I would say there probably is. And I would just give you a simple vignette to describe this, one from my own experience.

We found in a yard, we did a transition with the unit before us, we started inventorying everything on our base and we found this series of containers there locked up. So what are these containers? The last unit didn't take them with them. Well, we started opening them up and discovering parts that had been ordered over time, supplies that had been ordered over a period of time. So the unit ahead of us maybe hadn't even ordered it.

So these things arrive and you do your best to account for your equipment, and now you start accounting for someone else's equip-

ment that may be on your base. So that is kind of how it transpires.

But yes, there is a tremendous effort for units to account for their stuff.

Mr. CHAFFETZ. Well, and not just their stuff, but checking the manifest as to what was shipped and did it actually arrive.

General TOWNSEND. Yes, of course.

Mr. CHAFFETZ. Mr. Denver, and then I will yield back.

Mr. DENVER. If I may, Chairman, let me talk a little bit about the process, what is happening and what we are doing in the contract to get our hands around the pilferage and addressing this issue. First, there is an understanding that a transportation mission request is sent to these contractors. Within that transportation mission request, it identifies exactly what is to be transported and trucks that we would need to transport further.

Within the convoys, if there is sensitive equipment or equipment that can be pilfered, we actually seal these trucks so that if they are unsealed, we are aware of it when they get to destination. If we find a situation where that has occurred, if there is pilfering or if the seal has been broken, that results in a failed mission. With that particular failed mission, what happens is the contractor does not receive payment for that mission.

The other thing that happens is they also, within the contract we have built a deduct that relates to their total mission throughout each month. And if there are instances of pilferage, we have percentage deducts that take off a deduction on their invoices for that monthly shipment. That would be withheld from their invoices.

So we are taking a number of steps to identify that. The other thing we are doing I would say is with DCMA, the intent on the previous contract, we did not have a random inspection method. In the future, on the NAT contract, we will have DCMA at the gate, both origin and destination. But it will be random, so that we can conduct spot checks. Those spot checks would be based on what was shipped, the condition of the trucks. It would also involve security personnel being checked, that they are appropriate and they are badged and licensed.

But the real answer here is, are we putting in the oversight. The oversight takes more than just contracting, it takes the Defense Contract Management Agency, it takes the contracting officer, it takes the requirement site.

Mr. CHAFFETZ. And do we have a log of what is missing and the value of it?

Mr. DENVER. I would have to take that for the record and get that back to you, sir.

Mr. CHAFFETZ. Thank you.

Mr. TIERNEY. Would the chairman yield for a second?

Mr. CHAFFETZ. Yes.

Mr. TIERNEY. It is an appropriate time, I think, to make note of one thing here. I would like to have unanimous consent to put this on the record, if I could. This is a sheet the Department made available to us with respect to oil deliveries. It is a multi-page item. In the red, you see the amount or percentage of shortage on delivery. Basically it will tell you there is mostly zeroes. Zero deliv-

ered out of what should have been 100 percent, most zeroes on that, to significant occasions.

Now, we are also told that \$25,000 is the penalty they pay for not delivering a full load. Yet the value of this is over \$40,000 on the street. So I am not sure we have our penalties aligned with the price on that. There are 1,100 trucks delivering oil that were pilfered, 5.4 million gallons of fuel gone, no explanation on that. So I hope that we are addressing that. I would just ask the chairman if we could put that on the record.

Mr. CHAFFETZ. Without objection, we will enter it into the record.

[NOTE.—The information in the report was not able to be reproduced legibly. The report can be found in the official record of the hearing.]

Mr. CHAFFETZ. I will yield back and—yes, General.

General TOWNSEND. I would just like to put that into a little bit of context. You are right, fuel pilferage rates are higher than we want them to be. Overall, pilferage rates on the ground locks in Afghanistan is about 1 percent plus or minus. So that is overall context of what we are talking about here.

Still, the level of our endeavor in Afghanistan, that is still a lot of stuff, 1 percent even. With fuel, it is as high as 15 percent. And part of that is, Congressman, what you just pointed out there about penalty may not be offsetting the actual street value of this commodity. And this is a discussion I had with General Ridge just about 3 days ago. He recognizes this and is working on adjusting that penalty.

Mr. CHAFFETZ. Thank you.

We will now recognize the gentleman from Massachusetts, Mr. Lynch, for 5 minutes. Or maybe a little more.

Mr. LYNCH. Thank you, Mr. Chairman. I appreciate that.

I want to thank you for coming before the committee and helping us, like I said before, this is one team, one fight we are all trying to do the right thing here. We had an opportunity, myself, I believe the chairman and several of our staffers here, Mr. Alexander was there, Mr. Lindsay was there, I think Mr. Fernandez from my office was there. We went into Kandahar, and we went down that Route 4 that leads from Karachi, goes up through Quetta and then goes into Afghanistan. The major seaport there is Karachi in Pakistan and then these trucks leave. And the Pakistani trucking outfits take over at a place called Spin Boldak that we went into. That is controlled by a fellow by the name of, he is now General Razik.

Now, they had threatened, if we went in there, to do oversight on the trucking operation, that they would shut the border down. There are thousands of trucks going through there in the course of a day.

So when we on behalf of Mr. Tierney at the time, he was the chairman, went down there and inspected, they shut it down, just as they had threatened. So first of all, we couldn't refuse to go down there and do our jobs doing oversight. But he followed through on his threat and he shut the trucking center there, the border crossing, down until we left. We did as much oversight and inspection as we could, and then when we left, the oversight committee left, then he opened up the border again.

And myself, we had a Stryker brigade with us, we didn't go down there by ourselves, God bless them. That is pretty tight control, when you can shut off the oversight of the U.S. Congress and DOD and the military did what they could to get us in there to do the oversight.

But that vignette is one that troubles me greatly, that here we are, spending billions of dollars in taxpayer money, we go down there, we are elected by the folks that are actually paying the freight here, we go down to inspect what is going on there. And you have this, he is a general now, he was a colonel back then, he is a warlord, is what he is, Razik. And this is all sort of Taliban-controlled territory that we drove through from Kandahar down to Spin Boldak.

I just have to tell you, it is a whole lawless area. If the guy can shut off Congress from conducting reasonable oversight, then what chance do we have of implementing a system where we actually perform due diligence on protecting the taxpayers' money? I just have great misgivings about this. Look, we have some leverage here, they need our help. We need to use that leverage to make sure that they operate by our standards. We shouldn't be operating under the wild west standards that they operate under. And that is sort of what is going on here.

I have to say, I think it goes right from the top, from Karzai on down. It is just rotten from top to bottom over there. The goodness and the generosity of the American people is being abused. Here they are, trying to do the right thing, I know the President has a withdrawal plan there. But in the meantime, he is trying to do the right thing. The average Afghan over there is in a desperate strait, and we are trying to do the right thing from a humanitarian standpoint, we are trying to stand up that country so they can take care of themselves.

But in the meanwhile, we are getting fleeced by the very people we are trying to help, or a certain portion of it. I don't think the average Afghan is really as malicious as these folks. But it is a game. It is a game. And now, in the economy that we have right now, we could never afford this, ever. But especially now it is just heartbreaking to see the resources of the American people abused and stolen in this fashion. And to have some two-bit warlord down there blocking off the U.S. Congress from doing its constitutional duty to make sure that the appropriated moneys here by the American people are getting to the source that they are targeted to, and spent in a way that is consistent with our mission, this just can't go on.

And I appreciate what you are trying to do. I appreciate your tweaking the contract, going from 8 to 20. That is helpful, get a little competition. Next time I go down to Spin Boldak, am I going to face the same situation, where they are blocking the oversight committee from going in down there?

Mr. MOTSEK. Sir, very possibly. You hit the nail, in my mind, in your opening comments, on the head. What we are doing in the core of this hearing has to do with a couple of contracts. But you hit the larger issue, and Congressman Tierney has raised it, as has the chairman, that this is a society that is based on 3,000 plus years of doing things this way, and 30 long years of war. And we

are not going to change it overnight. That is the frustration we have.

So the metrics of the number of convictions I have are interesting, and they are important. But the real issue is, the efforts, quite frankly, that the larger task force is doing to try and engage to change the tone, so that you have a judicial system that you can trust, you have a police system that you can trust, you have a leadership system that you can trust. And it goes back to Congressman Tierney's comment about who is related to whom and what is going on.

That is not going to happen overnight. I think we all recognize that.

Mr. LYNCH. I don't think it is going to happen in a thousand years.

Mr. MOTSEK. And it may not. But the fact that, and in no small part again, because of this committee, we are not taking the narrow view. The narrow view would have been Task Force 2010 and Spotlight. But to have the overarching view, which pulls in our other partners, our international partners, it pulls in the ISAF side of the house. So we have to look at it directly.

We get the right words, make no mistake. We get the right words from the senior leadership about the importance of corruption and controlling corruption. And years ago, we didn't even get the right words. My frustration, and I am sure everyone's frustration is the same as yours, is what is tolerable. My personal opinion is we are not going to eliminate corruption, we are not, in our lifetime. Our efforts right now should be centered on primarily controlling the corruption that we can control so that our interests in our dollars and our values and our resources are protected, as are our allies' resources.

But I share, what happens to you is, you go in, and as soon as you leave, unless we have a presence there 24 hours a day, 7 days a week, we take risks that that will transition back to exactly as you said. We all share your frustration. But I would say that the fact that we are looking broadly, and that is going to be very tough to measure. And as you know, I can't give you metrics that say that the executive branch of Afghanistan is now good because of these four metrics. The proof will be if we can reduce the numbers. The only number we will be able to show you is a reduction in the number, the dollar value of corruption. That will be the bottom line when we come before you again.

Mr. CHAFFETZ. The gentleman's time is expired.

I want to make sure that we have time for Mr. Yarmuth of Kentucky here. So we will now recognize you for 5 minutes.

Mr. YARMUTH. Thank you, Mr. Chairman.

I am going to use part of my time to make a unanimous consent request to insert a document into the record. Last month, Ranking Member Cummings sent a letter to Chairman Issa requesting authorization for me to join a congressional delegation to Afghanistan, led by Senator Wyden. The purpose of the delegation was to investigate allegations of contracting fraud and corruption.

As today's hearing demonstrates, this subcommittee has done great work on this issue. And given recent media reports, and the

testimony we are hearing today, it is clear we must continue this oversight of this very important issue.

As a member of the subcommittee, I wanted to join Senator Wyden's delegation to press U.S. officials for answers to exactly the kinds of questions we are examining today. That is why I was extremely disappointed that Chairman Issa rejected my request. His rationale was that Democrats from our committee should not be allowed to join bipartisan delegations unless a Republican from our committee also joins.

This is a misguided policy that has no basis in House rules or policies. The policy established by Speaker Pelosi and continued by Speaker Boehner is that every foreign delegation must be bipartisan, and that it include a Republican and Democrat from each committee, I am sorry, not that it include a Republican and a Democrat from each committee. Senator Wyden's delegation meets this standard because it has another Republican House Member, Representative David Schweikert.

Both the committee on House Administration and the Office of Interparliamentary Affairs have confirmed that this misguided policy is not the Speaker's but Chairman Issa's alone. So I am asking unanimous consent to include a letter Ranking Member Cummings sent to Chairman Issa this morning, requesting him to immediately reverse this policy. Thank you.

Mr. CHAFFETZ. I am going to hold off on ruling on that. Would you mind if I had a chance to look at the letter, please?

Mr. YARMUTH. Certainly.

Mr. CHAFFETZ. You may continue.

Mr. YARMUTH. Thank you, Mr. Chairman.

This conversation that Mr. Lynch has talked about, the mis-use of taxpayer dollars and the waste of taxpayer dollars, American taxpaying dollars, that sometimes go to our people we are trying to help, and in fact, according to Task Force 2010, reports of Task Force 2010, it indicated that they have identified \$360 million that has been diverted to insurgents and power brokers and warlords and so forth. Some of that money, presumably, funding the very insurgency that our counterinsurgency is designed to combat.

So, General, as you talked about the counterinsurgency strategy, I would like to ask you, to what extent do you think these diverted funds are undermining the counterinsurgency strategy? And to what extent they are being used to attack our own troops, and do you think we are doing enough to make sure that we are not funding attacks on our men and women?

General TOWNSEND. Thanks for the question, Congressman.

I had this conversation with General Ridge a couple of days ago. That \$360 million that they have identified, that you cited there, is from a look at \$31 billion of contracts. So that is a little bit of context there, \$31 billion into \$360 million. That is still a tremendous amount of money, if it is correct, it is really bad.

So I don't know how you can quantify how much of that money has actually, I think that money, part of it is probably going to just simple crime that would exist in any society. Some of that money for sure is going to, I think, the insurgency. And then how much, I can't quantify how much of that money is going to attacks against us versus some other insurgent purpose. It is clear to us some of

that money is going into the insurgency and we have to do whatever we can to stop that. I don't think you can completely stop it, but we have to do whatever we can to minimize it.

There is nobody in uniform over there who likes to hear that, first of all, everybody in uniform over there is a taxpayer, too. And they don't like to hear that our tax dollars are going into funding the guys that we are trying to fight. So I think that what I can say is that we have the processes in place, partially due to the efforts of this committee, we have the processes in place now to address it. But it would be hard to quantify, I think, how much of that money is actually going to the insurgency. Clearly, some is too much.

Mr. YARMUTH. But you do have a strategy, or are working to develop a strategy for trying to determine where, how it is getting to the insurgents and stopping that?

General TOWNSEND. Absolutely. You have a couple organizations, Task Force Shafafiyat, that is their job, is to do the overall strategic anti-corruption effort. And they integrate the efforts of some of these other organizations like 2010, they also integrate our efforts across not just the U.S. Government, the Afghan government and also our NATO and other partners there.

So there are other organizations over there, the Afghan Threat Finance Cell, I attended a briefing with Chairman Mullen just about a week ago by the Afghan Threat Finance Cell. They are an intelligence organization, interagency organization. And their job is to delve into this and point folks out.

I can tell you that they are certainly taking action there.

Mr. YARMUTH. I would hope that to the extent that you can, you can report to the subcommittee as to progress you have made and of any discoveries you have made about how this process may be going on, and whether you have had any success in stopping it.

Thank you, Mr. Chairman.

Mr. CHAFFETZ. The gentleman yields back. Thank you.

The gentleman had previously requested unanimous consent to insert into the record a letter dated September 15, 2011. Without objection, so ordered.

[The information referred to follows:]

DONALD BURNS, MISSISSIPPI
 CHARLES W. BROWN, MISSOURI
 DAN BURTON, INDIANA
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 CHRIS COLLINS, NEW YORK
 MICHAEL E. TURNER, OHIO
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 SPEAKER

ONE HUNDRED TWELFTH CONGRESS
Congress of the United States
 House of Representatives
 COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
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September 15, 2011

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 JAKE E. SPRIER, CALIFORNIA

The Honorable Darrell E. Issa
 Chairman
 Committee on Oversight and Government Reform
 U.S. House of Representatives
 Washington, D.C. 20515

Dear Mr. Chairman:

I am extremely disappointed that you have rejected Rep. Yarmuth's request for Committee authorization to travel to Afghanistan on CODEL Wyden. Rep. Yarmuth is a member of the Subcommittee on National Security, Homeland Defense and Foreign Operations, which is currently investigating allegations of widespread Department of Defense contracting corruption in Afghanistan.

As Rep. Yarmuth stated in his request and in subsequent staff correspondence, this travel would have provided him the opportunity to examine these issues first-hand and press U.S. officials for answers regarding recent allegations of contracting corruption. Indeed, Rep. Yarmuth was set to depart only hours after today's Subcommittee hearing on this subject, "Defense Department Contracting in Afghanistan: Are We Doing Enough to Combat Corruption?"

Your staff informed Rep. Yarmuth's staff that you rejected the congressman's request because the trip did not have a Republican member of the Oversight Committee. My staff has confirmed with both the Committee on House Administration and the Office of Inter-parliamentary Affairs that this misguided policy is not the Speaker's, but yours alone.

The policy established by Speaker Pelosi and continued by Speaker Boehner is that every foreign CODEL must be bipartisan—not that it must include a Republican and Democrat from each Committee represented. As explained to your staff, CODEL Wyden includes Rep. David Schweikert (R-AZ) and clearly satisfies the Speaker's bipartisanship standard.

The United States has been at war in Afghanistan for the past decade. Congressional delegations are an important means for members on both sides of the aisle to conduct rigorous oversight, stay informed on developments, and thank our brave men and women in uniform for their service and sacrifices.

The Honorable Darrell E. Issa
Page 2

I ask you to reverse your policy for future CODEL authorization requests and extend to Democratic members the same courtesy that has so often been extended for your travel.

Sincerely,


Elijah E. Cummings
Ranking Member

cc: The Honorable John Yarmuth, Member
Committee on Oversight and Government Reform

Mr. CHAFFETZ. Now I recognize the gentleman from Massachusetts, Mr. Tierney, for 5 minutes.

Mr. TIERNEY. Thank you.

I want to stay on this topic a little bit here. Part of it is the money, nobody wants to lose the money, the taxpayers are like that. The larger part of it is, what is it doing to our operation in Afghanistan in terms of this counterinsurgency angle that we have taken over there. And one aspect of that, as I understand it from General Petraeus' own writings, is that corruption and feeding into corruption is not going to be helpful. It is one of the main things that has to not happen in order for the counterinsurgency to be effective.

So the publicly available legal documents that were filed by Watan in the case they had said this: Watan argued that the alleged bribes were not bribes, per se, but rather facilitation payments. They argued that Watan had no choice but to pay Afghan government officials and other armed groups for police protection while Watan transported cargo for the U.S. military through Afghanistan's volatile war zone.

General Townsend, do you agree that the security operators, the contractors, had no choice but to make those payments?

General TOWNSEND. I do agree that in many cases they don't have a choice, or they perceive that they don't have a choice. They perceive that they will be attacked if they don't make some of these payments.

Mr. TIERNEY. And Mr. Motsek, do you agree with Watan's analysis that these so-called facilitation payments or bribes, as some of us might say, large sums of cash provided to provincial Governors, the local police or warlords, in order to ensure that trucks aren't bothered, do you think that is legal under U.S. law?

Mr. MOTSEK. Clearly, it is not. It is clearly, and it is counter-productive to what we are trying to do. And again, it is part of the larger systemic problem that we have.

Mr. TIERNEY. So here is what Watan's court filing goes on to state: "The Army allowed and encouraged HNT contractors to do and pay whatever was necessary to assure convoy security and prevent loss of life. The Army engaged in the affirmative misconduct by encouraging private contractors to undertake activities that the Army only disavowed once they were exposed to the public."

Mr. Denver, was the Army aware of the apparently common practice of facilitation payments? And does it encourage people like Watan to make them?

Mr. DENVER. I am not familiar with whether the Army had that information. I would tell you this, in conversations when I had a meeting with the suspension and debarment official, I think he indicated the same that you have heard today, that the facilitation payments were necessary. So in that context, I would say when Watan came to the table and identified what they paid, in that context I would say that is when it became, we were aware. But I am not familiar with it as to whether we were aware prior to, sir.

Mr. TIERNEY. In another court filing, Watan stated that the Army apparently made a policy determination that having its contractors pay for safe passage in money is cheaper than paying for that same passage in guns, bullets and bodies. The court filing goes

on to call extortion payments the realities of Afghan society and the realities of this war. Do you agree, General Townsend, that it is simply the cost of fighting war in Afghanistan?

General TOWNSEND. I am not sure I would agree that it is the cost of fighting war in Afghanistan. It is certainly part of the landscape in Afghanistan. And we took extraordinary efforts, down even at the very low tactical level, every day, to try to root out, when we would hear a report that a checkpoint was charging passage fee, a toll, we would go investigate that and go to great lengths to try to find out if they were charging a toll and ways we could mitigate that.

One example is we actually posted billboards beside some of these checkpoints that said there is no toll required to pass this checkpoint. Then you would have to deal with the Afghan literacy rate below 30 percent.

Mr. TIERNEY. And the fact that somebody with a gun is standing there asking for a toll.

General TOWNSEND. Some guy with a gun is standing there. There is no argument from us that corruption is probably, the biggest victims I think are the Afghan people, even more so than the American taxpayer.

Mr. TIERNEY. So the International Crisis Group wrote, I think saliently, there is a nexus between criminal enterprises, insurgent networks and corrupt political practices in Afghanistan. We know that there are a pile of relatives of people in high political offices that are involved in these contracts, that are subcontractors and making these payments or whatever. So my question is, in order to break that nexus, what prosecutions have happened? How many people have been prosecuted? How high up the chain? The Afghan people, do they see an example of some of these well-connected people actually being brought to the rule of law, or are they going to continue to be an impediment to our insurgency, counterinsurgency because they think the whole game is rigged and the government is as bad as the Taliban?

General TOWNSEND. I can answer that question, not in the context of what we are talking about here, trucking, corruption, but—

Mr. TIERNEY. This is indicative. All that is just indicative of a much larger picture.

General TOWNSEND. Yes. Kabul Bank, for example. There are a number of officials that are under investigation with respect to the Kabul Bank situation, corruption practice there, incident there. I think we are hopeful that the Afghan government will prosecute some of those parties but it has yet to happen. But there are a number of investigations, over 20 investigations in work with Kabul Bank. And we are waiting to see what they do.

And we are, right now, the U.S. Government is conditioning some of our support to see the outcome of Kabul Bank.

Mr. TIERNEY. Well, I would hope so. You just drive from the airport, where you land your plane, down to the capital and look up, and you can see houses up there that are well-heeled people living in that, and the regular Afghan people just really suffering and having a hard time making it. And they get it, too. I don't know how you ever get the confidence of them to support having this

country come around and move in the right direction without doing more in that regard.

So I think you have your work cut out for you. I think we ought to take a real hard look at our mission over there, and the prospects for accomplishing well-intended goals on those things without really addressing that issue the way it ought to be. I know it is political, I know there are people like the intercession, I understand, there are people into the Watan case and the Rohullah case or the Popal brothers or whatever, that is a good example of why people would be disgusted when somebody should have been debarred and should have been out there that all of a sudden they get a slap on the wrist and they are off and running. This is not good. Not good. And I think we have to be cautious of that.

I yield back. Thank you, Mr. Chairman.

Mr. CHAFFETZ. The gentleman yields back. I would now recognize myself for 5 minutes.

Under the Host Nation Trucking, we had eight prime contractors. Six of those eight were found to have committed some sort of fraudulent behavior, be it fraudulent paperwork, reverse money laundering, excessive profiteering, aiding and abetting, unjust enrichment. So now the plan is, oh, instead of having just 8 prime contractors, now we are going to go to 20 prime contractors. One of the criticisms of the Host Nation Trucking process was we had too many subcontractors, we couldn't keep track of them. And that sometimes people were paying themselves, only to pay themselves again and again and again.

So how, what are you doing to alleviate this problem? Because you are expanding the number of contractors. And at the same time, what are you doing to make sure that those nefarious characters are not indeed just getting in line, but somewhere else under a different name?

Mr. DENVER. Sir, if I could take that question. I think as I indicated earlier, the real approach is ensuring that we have the right oversight. It is true that the number of prime contractors has expanded. In the new contract, it is 20 contractors. And many of those prime contractors came from the previous contract.

I can tell you that—

Mr. CHAFFETZ. How many?

Mr. DENVER. I believe it is 11. Eleven total, play either in a prime or subcontractor capacity, sir.

Mr. CHAFFETZ. And how many of those were previously found to have been involved in—

Mr. DENVER. None of those were found to have been involved in this. They are just 11 contractors that we know, they were subcontractors before that we know that they were, they conducted performance under the contract previously. But none of them—

Mr. CHAFFETZ. My understanding is, in order to be considered as a prime contractor, you have to have access to 600 trucks, is that right? I believe it is 600 trucks.

Mr. DENVER. It may be across the suite. I would have to take that for the record.

Mr. CHAFFETZ. In Afghanistan, I have to believe that the universe of potential vendors here, or potential contractors, is fairly small.

Mr. DENVER. I have some information on the contracts. I would tell you that it is a growing industry. But when we went out with the contract—

Mr. CHAFFETZ. Yes, we are pouring \$2 billion in there. Of course. What percentage of the GDP, it is a growing industry all right. It is probably the most enriched industry there is, next to the poppies. But go ahead.

Mr. DENVER. Basically when we went out with the contract, we asked contractors to come in, the prime contractors and subcontractors to come in and identify what their capacity was in the contract. And I would tell you that there was sufficient trucking assets to be provided within Afghanistan from the Afghan firms. So it is a developing industry. I would actually consider it a positive, that we were able to grow the industry under the new contract and show some success. These new companies, or these companies now participating under the new contract have been vetted.

Mr. CHAFFETZ. Are you here to assure us that nobody who has been found to be fraudulent in the past is involved in this new contract?

Mr. DENVER. No, sir. No, sir, I am not here to say that. I am here to say that—

Mr. CHAFFETZ. Well, how do we get the assurance that that is the case?

Mr. DENVER. Well, I would tell you that there are risks associated with this. And the assurance that you have is that we are putting the oversight—

Mr. CHAFFETZ. Are they or are they not allowed to participate in this new contract, if they are under suspension or have been found to be fraudulent in the previous contract?

Mr. DENVER. If they are under suspension, they are prohibited from receiving a contract award, that is correct. But if there are ongoing investigations, you have to let the due process run. Right now, I am not here to tell you that something couldn't happen in the future. But those companies that we made awards to were not excluded and were not suspended, sir.

Mr. CHAFFETZ. I would like to continue to dive further into that. Let me real quickly, time is short, we are going to have to come up for votes here again. There are two programs, the Afghan First and the Direct Assist, something that the State Department is very adamant about pursuing. With those two programs, is there an overlap of contrast here that we think will become increasingly—we are asking for more oversight, we are asking for more accountability. And yet at the same time we have the State Department saying, you have to speed up the payments, you have to make these payment direct. You have to make sure that, and I see a conflict between those objectives under Afghan First and Direct Assist as opposed to what we are trying to do in making sure that the \$2 billion plus is accountable.

Yes, Mr. Motsek.

Mr. MOTSEK. Sir, that segues into something I should have talked about earlier, and that is, the two pending pieces in the NDAA legislation are somewhat key to address your concerns. The fact that, I can't remember whether it is the House or Senate version, hopefully both pieces pass in committee, you will presum-

ably give us the authority to delve deeper into those secondary, those tertiary contractors that we have never had before. Heretofore, as you know, we only had a legal relationship with the prime. If the law changes as in in the NDAA, we will be able to go deeper. That is number one.

Number two, you are going to grant, if the law passes, the commander on the ground greater authority to take people off the table with frankly less legal proof that they are undeserving to continue or to operate with us, that we can actually use in our judgment process intel and a variety of other methods to make that assessment. Both of those pieces we talked about at the early testimony. We promised that we would bring you proposed legislation. And as always, it gets a little morphed as it gets on the Hill.

But fundamentally, those two pieces are in the NDAA. They are somewhat key to Mr. Denver to be able to dig further into those secondary and tertiary contracts.

The reality is, the trucking industry is a decentralized process. And the bulk of your truckers are owner operators, just like they are in the United States. And that is not going to fundamentally change. So these guys that get these contracts are able to pull together 600 or 450 subs, and they own 150. That is how they pull together the resources to make this happen. That is the reality of the business. It is the same way in the United States.

The key is, as Mr. Denver has said, we are trying to vett that guy before he ever gets a chance to come to the table and not after the fact. Your legislation gives us greater ability to do that.

Mr. TIERNEY. Will the gentleman yield for a second?

Mr. CHAFFETZ. Yes.

Mr. TIERNEY. Just on that point, I am looking at the Federal report, as early as the summer of 2009, there were frequent reports of subcontractors and middlemen who were paying contract money to warlords and the Taliban to guarantee safe passage for the convoys. The U.S. Army investigators prepared a briefing for senior commanders that bore the blunt title, Host Nation Trucking Payments to Insurgents. The investigators estimated that the going rate for protection was \$1,500 top \$2,500 per truck, paid by contractors and their subs to private Afghan security companies allied with warlords or insurgents or in some cases directly to militias or Taliban commanders. That is a military report.

The military maintained that the Federal contracting rules did not require, and by some interpretations prohibited a close look below the level of prime contractors. That is a disgrace, that somebody in the Department of Defense would let out a contract that didn't let people go deeper into what was behind those contracts or the subcontract level. But the better quote was from somebody in the military who said, "These people should be fired and sent home." The senior Defense official said of the military overseers, that attitude is crazy, what are they saying, it is okay to pay the enemy because they have better snacks, that the convoys travel unimpeded?

I think everybody gets that now, I hope everybody gets that now. That kind of contracting is before first level law school.

Mr. CHAFFETZ. We are now going to recognize the gentleman from Massachusetts, Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman. I appreciate that.

Gentlemen, the Commission on Wartime Contracting, which is an independent bipartisan commission, recently published a report summarizing their work in Afghanistan and Iraq since 2008. And based on their estimates, in the last decade, the United States has spent more than \$192 billion on contingency contracts and grants.

Of this amount, as much as \$60 billion has been lost to contract waste and fraud. Mr. Motsek, do you think that is a reasonable estimate?

Mr. MOTSEK. Sir, I think I hold the record for testifying in front of the commission. The answer is, based on the way we are discussing fraud, the answer is no.

Mr. LYNCH. What do you think is a better number?

Mr. MOTSEK. I can't give you an exact number.

Mr. LYNCH. Okay, I don't want you to—

Mr. MOTSEK. What I would have to—

Mr. LYNCH. No, I just had one question and you answered it. So that is good, we need to move on. We are short on time, I am sorry. I don't mean to be disrespectful, you have been very helpful as a witness.

Here is my issue. Right now, the President has a couple of plans, one in Iraq, one in Afghanistan, where we are going to reduce our profile for the military and we are going to actually use more and more contractors. And so we have this problem. We have, at times we have had more folks under contract than we have had in the military. So as this trend continues, they have estimated that we are already over-reliant on contractors in Iraq and Afghanistan. And it is going to get more so as we draw our troops down.

So they put it this way. The United States will lose much of our mission-essential organic capability. And also, it will create an Afghanistan rife with inflation and distorted economic activities. You have some bad incentives in there.

How do we facilitate this transition with greater use of contractors? Eighty percent of these contractors are non-U.S. citizens. So we have very little control over that accountability, I guess is what I am looking for. And with 80 percent of those who are under contract non-U.S. citizens, I am very concerned about this corruption, undermining the remaining effort that we are making in Iraq and in Afghanistan to stabilize both those countries.

Where does that leave us? Where does that leave us if we are transitioning to a contractor-based, or contractor-centric operation?

Mr. MOTSEK. Sir, we don't have the capabilities in the organic force today in many of the areas that we are discussing. You would have to grow the Department of Defense to make that happen. So that is the reality. So you are absolutely correct.

The fact, we have already talked about the broad issues and what needs to be done. A microcosm, in my mind, to eliminate and to give competence to the local national is two-fold. Number one, with regard to Host Nation Trucking as an example, we are not going to pay in dollars any more. We are not going to pay in dollars. That is a blinding flash of the obvious. We pay in Afghanis.

So now it is not question of dollars leaving the country, which has been a problem to begin with. The second piece, and I don't know how to resolve this in the short term and long term, but until

you can have assured payment to the individual without payoffs on the way down, we have this problem with the police, we have it endemic in the government. Until you can pay the person directly their money, there is no confidence in the system.

We have gone, through the international community, we are paying some of the police, we are paying them on their cell phone because it goes directly to the policeman and it doesn't filter down and lose those dollars along the way.

So there are practical steps you have to take. But you are absolutely correct, it will be a contractor-centric institution. Iraq obviously, after December 31st, as things stand, absolutely.

Mr. LYNCH. Okay. Mr. Chairman, my time is just about expired. I do want to say one thing, though. Having spent enough time over there in Afghanistan, as bad as this situation is, it would be worse if we had U.S. personnel, military personnel providing security on these convoys. The body count would be totally unacceptable. So I appreciate the effort that you have made to straighten this mess out. Thank you. I yield back.

Mr. CHAFFETZ. I am going to recognize Ranking Member Tierney for just a moment here, as we conclude. We have votes coming up on the floor.

Mr. TIERNEY. Thanks, Mr. Chairman.

Rohullah continues to be providing security on the road in Afghanistan to this day. Anybody look at the intelligence reports in our intelligence community about the background of this individual? No? All right.

General TOWNSEND. Sir, I would like to say this about Rohullah. Can't go into it a whole lot, but Rohullah is not off our scope.

Mr. TIERNEY. I would like for you gentlemen to provide for us at some point in time in written form subsequent to this hearing the amount of prosecutions that are ongoing right now for this type of corruption and graft, as well as the amounts of money that have been recovered to date.

Last, I just want to get an idea of who is responsible, so that when we look at this and try to evaluate later on, we can know who to call for witnesses and who to talk to. As I understand it, the trucking contracts now for oversight, it is the 419th Mount Control Battalion that are in charge of managing the contract, is that correct? Nobody here knows. All right. That is one problem.

They report to the 143rd Expeditionary Sustainment Brigade, does that sound reasonable?

Mr. MOTSEK. Sir, today, but they will transition, perhaps even before you have your next hearing.

Mr. TIERNEY. That is going to change again?

Mr. MOTSEK. It will change as units rotate. I would caution about using, we will find organizations for you and give you the hierarchy, I think that is what you are looking for.

Mr. TIERNEY. Well, it is because what I have from the investigations that we did was that the contract signing is the immediate responsibility of the Baghran contracting center, regional contracting center, who reports to the principal assistant responsible for contracting in Iraq and Afghanistan, who gets authority from the Army acquisition executive or the Secretary of the Army. But a practical matter, from CENTCOM.

So where do you gentlemen fit in in that chain?

Mr. MOTSEK. The commander of JSCC—

Mr. TIERNEY. Rather than using acronyms, can you—

Mr. MOTSEK. The commander of Joint Support Contracting Command is Admiral Kalathas, he is my deputy and he is detailed there for a year to operate that.

Mr. TIERNEY. So is he doing the regional contracting center in Baghnan?

Mr. MOTSEK. He owns that. He owns that.

Mr. TIERNEY. And you work for him?

Mr. MOTSEK. No, he works for me.

Mr. TIERNEY. He works for you?

Mr. MOTSEK. Normally, he has been detailed forward. If I could very quickly explain it. The Army is the executive agent for contracting in the conflict. We had to give the executive agency to someone, and it could have been a service, it could have been agency. The Army is the executive agent. They have tried many years to get away from that. They are going to stay the executive agent.

And because of that, the Army acquisition executive, who is Mr. Denver's boss, is the ultimate responsible agent from the contracting standpoint. So the authority and the warrants for the people to operate under the Joint Contracting Command come via the Army to spend money. And so appeals and oversight, direct oversight of contractors, with very few exceptions within Afghanistan, are the Army's responsibility. I will give you the warrant diagram, sir.

Mr. DENVER. Sir, if I may take a moment to add to that. That is true, the OSD appointed the Army as the executive agent. The executive agency went to my boss. I am actually, detail those authorities for executive agency. And I have an organization that provides broad oversight, when you get into theater, Admiral Kalathas is the head of contracting activity in theater.

Then he has two senior contracting officials that work for him, one for senior contracting official in Afghanistan, one for senior contracting official in Iraq. The senior contracting official Afghanistan oversees those regional contracting offices, the ones that you referred to. But that is the contracting chain of command for local authority, sir.

Mr. TIERNEY. Well, then I suspect we will be seeing you gentlemen back here again, since you have responsibility.

I want to thank the chairman again for working with us on this. I appreciate his hard work and leadership on this matter. Thank you all for testifying.

Mr. CHAFFETZ. I want to thank you gentlemen for your commitment to our country, for your service. We do thank you.

The Pentagon, the Department of Defense, has to get this right. The State Department has to get this right. We are talking about billions upon billions upon billions of dollars that unfortunately we know is going to fuel some of the very people that we are trying to suppress. That is totally unacceptable. The waste, fraud and abuse that is happening in the theater of war is unacceptably high. And we see that in report after report.

I understand the difficulties, and I am trying to appreciate all the nuances in the difficulty of war. And there will be some small

degree that happens in that theater. But when we hear about tens of billions of dollars in waste, fraud and abuse, it is unacceptable.

One of the next hearings that we will have in this subcommittee will deal with what is happening in Iraq. Because we have to get the contracting part of the equation right. As the transition is made from the Department of Defense to the State Department, the State Department is looking to bring up something like 17,000 contractors. So the news clips may be that we are drawing down in Iraq, but the reality is, we are hiring up in Iraq to the tune of 17,000 contractors in an unbelievable amount of money. We have to get this equation right.

I thank you all for being here. I appreciate the great work from Mr. Tierney and his staff, in a very collaborative effort. You are going to find Republicans and Democrats very united, working together on this. So at this time, this committee will stand adjourned.

[Whereupon, at 12:45 p.m., the subcommittee was adjourned.]

