

CHARLES E. GRASSLEY, IOWA, CHAIRMAN

ORRIN G. HATCH, UTAH
JEFF SESSIONS, ALABAMA
LINDSEY O. GRAHAM, SOUTH CAROLINA
JOHN CORNYN, TEXAS
MICHAEL S. LEE, UTAH
TED CRUZ, TEXAS
JEFF FLAKE, ARIZONA
DAVID VITTER, LOUISIANA
DAVID A. PERDUE, GEORGIA
THOM TILLIS, NORTH CAROLINA

PATRICK J. LEAHY, VERMONT
DIANNE FEINSTEIN, CALIFORNIA
CHARLES E. SCHUMER, NEW YORK
RICHARD J. DURBIN, ILLINOIS
SHELDON WHITEHOUSE, RHODE ISLAND
AMY KLOBUCHAR, MINNESOTA
AL FRANKEN, MINNESOTA
CHRISTOPHER A. COONS, DELAWARE
RICHARD BLUMENTHAL, CONNECTICUT

United States Senate

COMMITTEE ON THE JUDICIARY

WASHINGTON, DC 20510-6275

KOLAN L. DAVIS, *Chief Counsel and Staff Director*
KRISTINE J. LUCIUS, *Democratic Chief Counsel and Staff Director*

July 20, 2016

Via Electronic Transmission

The Honorable Ashton B. Carter
Secretary of Defense
U.S. Department of Defense
1000 Defense Pentagon
Washington, DC 20301-1000

Dear Secretary Carter:

I am writing to follow-up on Acting Under Secretary Brian McKeon's letter of March 23, 2016, which responded to my letter of February 5th, regarding a Senate Armed Services Committee (SASC) hearing on Afghan reconstruction projects.

My original letter focused on alleged waste and financial mismanagement by the Defense Department's (DoD) Task Force for Business and Stability Operations (TFBSO). Since ongoing financial and performance audits conducted by the Special Inspector General for Afghanistan Reconstruction (SIGAR) and requested by Senator Ayotte and myself will address those issues, I will not pursue them at this time. Instead, I am concerned that some of Secretary McKeon's answers appear to contain errors and omissions. In addition, some new information on the cost of the Compressed Natural Gas (CNG) station surfaced after the hearing. Both areas need clarification now.

My three concerns are as follows:

First, during the hearing, Secretary McKeon referred to a report prepared by Williams, Adley & Company (WA) on TFBSO financial transactions as a "financial audit."¹ Since this report states on the first page that "it did not constitute an audit," I asked: Why did Secretary McKeon characterize this report as a "financial audit?" Rather than answer the question, he describes the ongoing "full financial audit" of the Washington Headquarters Services (WHS).

¹ Williams Adley (WA), Agreed-Upon Procedures Report for the TFBSO, April 30, 2015.

Furthermore, he stated that “a full financial audit can only be done on the total WHS financial statement” which is simply wrong. A financial audit can be big or small, depending on the agreed-upon scope of the audit. I ask that Secretary McKeon provide a straight forward answer to my original question.

Second, in response to question #6 about what the department learned from the WA report, Secretary McKeon stated: **“The Department learned that with a few exceptions, the TFBSO fund balances are accurate and supported by appropriate documentation.”** A careful examination of the WA report suggests Secretary McKeon’s statement may be misleading and/or inaccurate.

The contract states that the WA firm was supposed to “conduct an independent audit in accordance with GAGAS [Generally Accepted Government Auditing Standards].” Its purpose was to verify the accuracy and propriety of selected TFBSO’s financial transactions. To accomplish this objective, the company needed “to review supporting documentation to reconcile and validate balances for transactions selected” for August 2011 through December 2014. However, the caveat on page two of the report, regarding the “sufficiency of procedures,” clearly indicates that the original objective was abandoned. The main problem was a lack of supporting documentation. If the objective was not met, then Secretary McKeon’s assertion that fund balances were accurate and supported appears to be misguided.

Two examples help to bring the problem with Secretary McKeon’s statement into sharper focus.

A sample of 45 accounts payable transactions, valued at \$87.4 million, was selected for review. Supporting documentation was requested, but as the report states, “we were unable to verify invoices and receiving reports for transactions selected” and “unable to verify six transactions, totaling \$5.5 million, due to unavailable funding documentations.” Without a 3-way match-up between contracts, invoices and receiving reports, it is impossible to verify the accuracy and propriety of payments. By audit standards, this was a significant failure rate. The failure rate for travel-related payments, by comparison, was far worse. Forty-five travel expense transactions, valued at \$214,888.00, were tested. Of those, only two, valued at \$1,131.00, could be reconciled with “unliquidated balances.” The other 43 transactions could not be reconciled and validated due to “unavailable supporting documentation.”

The two above-mentioned deficiencies reported by WA would seem to invalidate Secretary McKeon’s response to question #6. If he stands by that statement, then he needs to tell me exactly how many transactions were matched and verified with appropriate supporting documentation, including contracts or purchase orders, invoices, receiving reports, payment vouchers, and accounting records.

In answering questions #8-9, Secretary McKeon seems to be complaining that the “short period of performance” of the WA contract, which was December 23, 2014 – March 31, 2015, made the retrieval of relevant records challenging. He suggested that there was a “misunderstanding” about what documentation was available. The department was more explicit about the problem. According to the WA report, WHS told the firm **“there is no effective way**

to search for supporting documentation in the system without having to examine each individual document attached to a transaction.”² If more time was needed to recover the missing documents, as suggested by Secretary McKeon, then the WA contract should have been modified to allow the additional time needed to complete all required tasks. I would like an explanation for why the contract wasn’t modified to ensure a more accurate and complete report.

Third, during the hearing on January 20th, Secretary McKeon said the original cost estimate for the Compressed Natural Gas (CNG) station project was based on a “flawed methodology” that produced a grossly inflated price tag. He suggested the true cost for “the entire station project was \$5.1 million.” He also reported that Vestige Consulting had reviewed its \$43 million cost estimate and had revised it downward to “well under \$10 million.” He stated that Vestige’s new estimate was laid out in a memo to SASC on January 12th prior to the hearing.

I am afraid Secretary McKeon’s testimony may have opened a real can of worms.

After the hearing, the author of the SASC memo, Mr. Robert Schraven, Chief Executive Officer (CEO) of Vestige Consulting, made statements that seem to undermine the reliability of the memo sent to SASC under his name.

In order to get to the bottom of this matter, SIGAR launched a post-hearing follow-up investigation that attempted to clarify several perplexing questions.

Toward that end, SIGAR interviewed Mr. Schraven, Mr. Kris Haag, former Director of Energy Sector Development at TFBSO, and the Defense Security Cooperation Agency (DSCA) Comptroller, Mr. Aaron Harding.³ SIGAR also reviewed over 100,000 documents on the TFBSO hard drive that was finally provided on January 14th, just six days before the hearing.

Contradicting his own memo to SASC, Mr. Schraven “strongly disagreed” with Secretary McKeon’s claim that Vestige’s calculations were flawed. He stands firmly behind his original \$43 million estimate. It’s “accurate,” he said. He characterized the lower figure used by Secretary McKeon as “speculative” and “not based on any new information.” Then he made a startling revelation. “He did not author the paragraph” in the SASC memo containing the revised cost estimate. Instead, Mr. Schraven stated that Mr. Haag wrote the disputed passage. Mr. Haag is currently employed in the private sector by another company. His role in this matter seems highly irregular.

It appears that Mr. Schraven has led us right back to the original price tag for the CNG station -- the \$43 million estimate stated in Vestige’s Economic Impact Assessment issued in December 2014 and accepted by SIGAR in its October 2015 report. It is the only estimate that was thoroughly and carefully vetted by DoD and TFBSO prior to its publication. In fact, this was the department’s officially approved cost estimate for the CNG station that was provided to Vestige by TFBSO but never verified for accuracy. As SIGAR testified: “the best supported total

² WA Report, p. 9.

³ Statements attributed to Mr. Schraven, Mr. Haag, and Mr. Harding are drawn from their interviews by SIGAR, which are summarized in SIGAR’s prepared testimony before the House Armed Services Committee on April 15, 2016, pp. 18-20.

project cost is still approximately \$43 million. There has been no other supportable figure presented by DoD, Vestige, or any other party.”

SIGAR’s post hearing investigation clearly indicates that Secretary McKeon’s testimony does not constitute the last word on the project’s cost – not by a long shot.

According to the experts, the cost can never be verified. Breaking out the numbers between direct and overhead costs is the key, but TFBSO’s accounting system just can’t do it – a fact confirmed in testimony by even Secretary McKeon. That assessment was reinforced by the DSCA Comptroller, Mr. Harding, who conducted “a forensic audit” of project costs at Secretary McKeon’s request.

Mr. Harding stated: “There was a lack of oversight regarding records management at TFBSO ... Existing records are wholly insufficient to support any new analysis that would allow one to arrive at a more accurate allocation of overhead for the CNG filling station project, or any other project ... Overhead could have been much higher or lower than \$30 million but impossible to determine with confidence... because the TFBSO records were so poor.”

The assessments by the Vestige CEO and the DSCA Comptroller square with what the Williams Adley firm discovered, and what I know about the department’s shoddy bookkeeping practices. For these reasons, the real cost of the CNG filling station will remain elusive -- unless Secretary McKeon is able to produce a complete set of documents that support his \$5.1 million cost estimate.

To help clear up the issues surrounding the revised cost estimate, I have several additional questions for Secretary McKeon:

- Can he shed any light on why Vestige CEO Schraven would secretly allow Mr. Haag to craft and insert a controversial cost estimate into a Vestige memo to SASC? That Mr. Schraven strenuously disagrees with and totally disavows that estimate suggests the possibility that he may have been pressured to do so in order to blunt all the criticism in the press about the filling station’s huge price tag. An article in the Washington Post, entitled “A \$43 million gas station in Afghanistan. Not so fast,” by Glenn Kessler, dated February 1st, seems to lend some credence to this possibility. The article accepts the Vestige memo at face value, saying it “took back” the \$43 million estimate. Any comment?
- Does Secretary McKeon have any knowledge as to why and how Mr. Haag became involved in preparing Vestige’s revised cost estimate that was presented in the SASC memo?
- What is the factual foundation for Mr. Haag’s revised cost estimate? Please provide the documents.

- If Secretary McKeon still stands behind his \$5.1 million figure, I ask him to provide a complete set of underlying records to back it up. I also ask that these be verified as accurate and complete by a certified public accountant.

Should you have any questions, concerns or need clarifications, please do not hesitate to contact Janet Drew of my staff at (202) 224-5225. A response is requested by August 19, 2016.

Sincerely,



Charles E. Grassley
Chairman
Committee on the Judiciary

Cc: The Honorable Glenn Fine
Acting Inspector General
Department of Defense

The Honorable John Sopko
Inspector General
Special Inspector General for
Afghanistan Reconstruction

The Honorable Patrick Leahy
Ranking Member
Senate Committee on the Judiciary