

Senate Caucus on International Narcotics Control

Hearing on “Future U.S. Counternarcotics Efforts in Afghanistan”

January 15, 2014

Questions for the Record from

Senator Charles Grassley

1. Agency lack of cooperation

Question from Co-Chairman Grassley: Has your office faced any significant lack of cooperation from either U.S. agencies or international institutions?

SIGAR Response: Very few people in government like it when an Inspector General shows up. Thankfully, there are many in the U.S. government who do understand the role of an inspector general and why the taxpayers need SIGAR to conduct robust oversight in Afghanistan.

SIGAR and Special Inspector General Sopko have never had any problem with the White House, Secretary of State, Secretary of Defense, or top military leaders in Afghanistan. They, and many of the senior officials who work for them, understand the need for effective, independent oversight. No one has ever stopped SIGAR from issuing its reports.

However, SIGAR does occasionally encounter impediments, and it learns of efforts by some to interfere with its oversight work. For example, SIGAR recently received information alleging that a senior official has interfered with one of our inquiries, and their actions could meet the standard of obstruction. Given the seriousness of the allegations, SIGAR referred all necessary information to the Department of Defense Inspector General, who has since opened an investigation. In other cases, SIGAR has experienced situations in which lower-level officials in U.S. agencies have resisted SIGAR’s oversight work. Here are a few examples:

Special Mission Wing: In late 2013, SIGAR requested and received an update from the Department of Defense (DoD) on the status of the Afghan Special Mission Wing (SMW), which was the subject of a June 2013 SIGAR audit, “Afghan Special Mission Wing: DOD Moving Forward with \$771.8 Million Purchase of Aircraft that

the Afghans Cannot Operate or Maintain.” To SIGAR’s surprise, DoD classified information that was previously available to SIGAR in unclassified format during our audit. For example, in SIGAR’s June 2013 audit report, we reported that the SMW was staffed with 180 Afghan personnel (out of a planned full force of 806), including 42 pilots, 32 crew chief/flight engineers, 86 mechanics, and 20 security personnel. The updated personnel numbers are now classified. SIGAR also reported in June that, as of January 16, 2013, only 7 of the 47 pilots assigned to the SMW were fully mission qualified to fly with night vision goggles. The updated number of qualified pilots is also now classified. Finally, we also reported last June on the progress of establishing four SMW squadrons. Similarly, updated information on the status of the squadrons is now classified. SIGAR finds this new development rather frustrating. DoD has yet to provide a convincing explanation as to why this information is now classified. The recent classification of this information has made it difficult for SIGAR to update Congress and others on the status of the SMW.

64K Building: In July 2013, SIGAR alerted DoD in writing to the potential waste of nearly \$36 million used to build a 64,000 square foot command and control building at Camp Leatherneck in Helmand Province, Afghanistan, that was unused and unoccupied. In that letter, SIGAR asked for answers to a number of specific questions about the circumstances that led to the construction of this facility, even though it appears U.S. military commanders in Afghanistan determined as early as May 2010 that the facility was no longer needed.

SIGAR was subsequently advised that DoD was conducting its own investigation. As a result, SIGAR agreed to temporarily suspend its investigation. SIGAR received the results of DoD’s 15-6 investigation in October, without the supporting exhibits. While the 15-6 investigative memo was undated, SIGAR believes it was completed in August. If this is correct, this would mean DoD provided the 15-6 memo to SIGAR two months after it was completed.

In November 2013, SIGAR sent a second letter to DoD. The letter asked DoD to provide the supporting exhibits for the 15-6 memo, raised new questions about DoD’s investigative findings and recommendations, and announced that SIGAR was re-launching its own investigation. In December, DoD provided a disc containing the exhibits but did not respond to the specific questions in SIGAR’s letter. The disc was classified and contained thousands of documents, some of which appeared to be inconsistent with the findings in the 15-6 investigative memo.

Despite these challenges, SIGAR is committed to moving forward with our investigation and this effort is on-going. We believe there are important lessons to be learned from the circumstances that resulted in this possible waste of taxpayer dollars.

2. Money Laundering

***Question from Co-Chairman Grassley:** What does SIGAR know about the connection between illicit finance and money laundering and how do they impact the narcotics trade in Afghanistan? How will our efforts to investigate and combat money laundering and terrorist finance be impacted by the reduction in security forces and the closing of the Afghan Threat Finance Cell? How is the transition affecting the U.S. government's ability to "follow the money"?*

SIGAR Response: Illicit and criminal financial networks in Afghanistan enable the drug trade and the insurgency. U.S. and international officials estimate that the Taliban and other insurgent groups earn between \$100 million and \$400 million a year from a combination of illegal activities, including drug trafficking, extortion, taxation, kidnapping for ransom, and smuggling of natural resources. They believe that more than a third of the Taliban's income comes from opium.

Directly linked to and compounding the problem of corruption in Afghanistan is the fragile state of the country's financial sector. In January 2014, SIGAR released an audit report titled "Afghanistan's Banking Sector: The Central Bank's Capacity to Regulate Commercial Banks Remains Weak," which highlighted significant limitations within the Afghan central bank to perform its core functions, including regulating Afghanistan's commercial banks and other financial institutions, such as hawalas, traditional money brokers who transfer significant sums of cash. The absence of robust regulation of Afghanistan's banks and hawalas raises the risk that they will be used to facilitate money laundering by the country's narcotics traffickers. For example, UNODC has reported that about 80-90% of the hawala dealers in Kandahar and Helmand are involved in money transfers related to narcotics.

SIGAR has increased its focus on money laundering because we have found that networks that move narco-dollars are also moving money gained through fraud, theft, and corruption. Protecting the U.S. reconstruction investment in Afghanistan requires making sure that we can follow the money. In addition, SIGAR has hired money laundering experts who formerly served on the Afghanistan Threat Finance Cell (ATFC), an interagency fusion cell tasked with identifying and disrupting financial networks serving terrorist and criminal interests, and we are investing in information technology to enable

our agents to follow the money trails leading into and out of Afghanistan. Our efforts to “follow the money” have had some success. In August 2013, SIGAR’s investigation of large-scale corruption in Afghanistan led to the Department of Justice freezing more than \$63 million in U.S. government funds, allegedly obtained through fraudulent means, located in bank accounts held in Afghanistan and in correspondent banks in the United States and abroad. This is the first time the U.S. government has attempted to freeze and then seize funds held by an Afghan contractor in an Afghan bank, and this was the direct result of SIGAR’s investigation.

The law enforcement drawdown in Afghanistan is affecting interagency task forces like the ATFC, which is composed of specialists from DEA and DoD. Over the last year, the ATFC has gone from having over 50 personnel to about 30. Only a few of the remaining staff are law enforcement agents and subject matter experts. These reductions have significantly impaired the ATFC’s counter-treat finance capabilities during this critical transition period. A number of current and former ATFC members have told SIGAR that it would be extremely challenging to revitalize this task force that has been so critical in combating narcotics trafficking. Given the serious problem of illicit finance and corruption, which both enable the narcotics trade in Afghanistan, the United States must maintain the key capabilities of the ATFC.