

Testimony by Arnold Fields
Special Inspector General for Afghanistan Reconstruction
Before the Commission on Wartime Contracting
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on
Recurring Problems in Afghan Construction

Chairman Thibault, Chairman Shays, and Members of the Commission:

Thank you for inviting me to this important hearing to discuss recurring problems in Afghan construction. My testimony today will focus on the issues SIGAR has identified in our audits of infrastructure projects, recommendations we have made to address deficiencies, and our ongoing work to review construction contracts to reduce waste, fraud, and abuse of U.S. taxpayer dollars.

Since 2001, the United States has appropriated about \$56.1 billion for the reconstruction of Afghanistan. Most of this money has been divided among five major U.S. funds supporting Afghanistan reconstruction efforts.¹ Three of these funds—the Afghan Security Forces Fund (ASFF) and the Commander’s Emergency Response Program (CERP), which are managed by the Department of Defense (DOD), and the Economic Support Fund (ESF), which is administered by the U.S. Agency for International Development (USAID)—have been used to support construction projects, as well as a wide variety of other reconstruction programs.

Our audits of construction projects not only examine the planning, management, and oversight of the contract, but also assess whether projects are sustainable and helping to achieve U.S. and Afghan strategic goals. SIGAR’s audits of infrastructure projects implemented through the three main reconstruction funds have identified numerous problems resulting from insufficient planning, inadequate contract management, and inability to provide quality assurance and oversight, particularly in areas that are not secure. SIGAR has very serious concerns about both contract delays and the sustainability of many of the construction projects we have examined.

In addition to conducting audits of construction projects, SIGAR is investigating 90 cases of alleged bribery; contract fraud, which includes faulty construction; and the use of substandard materials in a range of infrastructure projects in Afghanistan. These cases include allegations

¹ The Afghanistan Security Forces Fund (ASFF), the Commander’s Emergency Response Program (CERP), DoD Drug Interdiction and Counter-Drug Activities (DoD CN), the Economic Support Fund (ESF), and the International Narcotics Control and Law Enforcement (INCLE).

that contractors have used inferior-grade asphalt on road projects and substandard materials in other infrastructure projects, such as bridges, canals, and facilities.

Infrastructure for the Afghan Security Forces

The U.S. strategy in Afghanistan depends on developing an Afghan National Army (ANA) and an Afghan National Police (ANP) force capable of defeating insurgents and providing security for their country. Since 2001, more than half of all reconstruction dollars—nearly \$29.35 billion—has gone to support the development of the Afghan National Security Forces (ANSF). Congress has appropriated most of this money—about \$27.8 billion—since 2005 when the Afghan Security Forces Fund (ASFF) was established. The Combined Security Transition Command-Afghanistan (CSTC-A), under the direction of the U.S. Forces-Afghanistan (USFOR-A), uses the ASFF to train, equip, base, and sustain the ANA and the ANP. Building facilities for the ANSF is a critical part of this effort.

The end-strength goals for the ANSF have tripled from 132,000 in 2006 to a projected 400,000 in 2013.² The ANSF currently has about 264,000 personnel, including more than 149,000 ANA forces and nearly 115,000 ANP personnel.³ The goal is to increase the ANA to 240,000 and the ANP to 160,000 in October 2013. President Obama has asked for an additional \$11.6 billion for the ASFF in fiscal year 2011 to support the continuing expansion of the ANSF. This would bring the total investment in the Afghan security forces since 2005 to more than \$39.4 billion.

SIGAR's audits last year of ANA garrisons in the provinces of Laghman, Kunduz, and Farah raised serious concerns about whether CSTC-A had an overall plan to address the ANSF requirements for facilities.⁴ Consequently, SIGAR conducted an audit to determine how much U.S. funding was being provided to build ANSF infrastructure and to assess CSTC-A's overall planning for construction and maintenance of ANSF facilities. The audit, which will be issued January 26, 2011, found that CSTC-A has provided or plans to provide a total of \$11.4 billion through fiscal year 2012 to build 884 ANSF facilities to accommodate the Afghan security forces.⁵ According to CSTC-A, at least over \$7 billion of this is for fiscal years 2010 through 2012. In addition, CSTC-A is providing \$800 million for the operations and maintenance of completed ANSF facilities for up to five years. We plan to aggressively review and audit all expenditures in this area in an effort to identify and or deter fraud, waste, or abuse.

² SIGAR Audit 11-6, *Inadequate Planning for ANSF Facilities Increases Risks for \$11.4 Billion Program*, January 2011.

³ The ANP total includes 106,000 personnel reported authorized, 4,000 personnel reported assigned above authorized at particular locations, and 5,000 in training.

⁴ SIGAR Audit 10-9, *ANA Garrison at Kunduz Does Not Meet All Quality and Oversight Requirements; Serious Soil Issues Need to Be Addressed*, April 30, 2010; SIGAR Audit 10-10, *ANA Garrison at Gamberi Appears Well Built Overall but Some Construction Issues Need to Be Addressed*, April 30, 2010; SIGAR Audit 10-14, *ANA Garrison at Farah Appeared Well Built Overall, but Some Construction Issues Should Be Addressed*, July 30, 2010.

⁵ SIGAR Audit 11-6.

Despite this significant investment and the large number of facilities involved, SIGAR found that CSTC-A has not developed a long-term capital construction plan that establishes priorities and maximizes resources to achieve the Afghan government's strategic security objectives. Moreover, it is not clear how CSTC-A is going to build and sustain enough facilities to meet ANSF requirements in 2013. Of the 884 projects CSTC-A said it intends to build by the end of fiscal year 2012, only 133 had been completed as of November 2010. Another 78 are under construction, but the remaining 673 have not been started.⁶ According to CSTC-A, it takes about 12 months to build new facilities, but SIGAR's audits have found that these construction projects often experience significant delays. Moreover, the decision last year to increase the ANSF total force to 400,000 will require an as yet undetermined number of additional facilities or the expansion of existing facilities.

Without a facilities plan that reflects current requirements, CSTC-A puts its \$11.4 billion for ANSF facilities construction at increased risk of being wasted because facilities may not meet ANSF strategic and operational needs. Because of this potential risk of waste to U.S. taxpayers, SIGAR recommended that USFOR-A, in conjunction with CSTC-A, develop a long-range planning document that 1) incorporates updated requirements for ANSF facilities, 2) addresses the justification for and location of all ANSF facilities, 3) determines how the facilities meet the strategic security objectives, and 4) discusses how facilities will be either shared, expanded, or constructed to meet the needs of 400,000 ANSF personnel by October 2013. In addition, to help ensure that these facilities can be utilized as intended, SIGAR recommended that USFOR-A, in conjunction with CSTC-A, develop a long-range operations and maintenance plan for all ANSF facilities that is linked to a long-term construction plan. In commenting on a draft of this report, CSTC-A said long-term construction planning in a contingency environment is difficult, but noted some actions it had taken to address SIGAR's concerns. In addition, CSTC-A agreed with the need for a long-range operation and maintenance plan for all ANSF facilities; CSTC-A stated it has asked for additional resources to address this shortcoming.

Four organizations are managing reconstruction contracts within the Department of Defense. They are the U.S. Central Command (CENTCOM) Joint Theater Support Contract Command (C-JTSCC),⁷ U.S. Army Corps of Engineers (USACE)-Afghanistan Engineer District (AED),⁸ the Air Force Center for Engineering and Environment (AFCEE), and the U.S. Army Space and Missile Defense Command (SMDC). USACE and AFCEE have the primary responsibility for

⁶ SIGAR Audit 11-6.

⁷ In 2005, CENTCOM established the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) to maintain visibility over all contracts in Iraq and Afghanistan. In June 2010, JCC-I/A was re-designated the CENTCOM Contracting Command. In November 2010, the Deputy Secretary of Defense signed a memorandum naming C-JTSCC as the successor organization to JCC-I/A and expanded the organization's contracting mission to include Kuwait and Pakistan.

⁸ AED was officially divided into two sections on August 3, 2009. AED-South is in charge of construction in Regional Commands South and West, and AED-North manages construction in Regional Commands North and East. AED-North is based in Kabul, and AED-South is based in Kandahar.

implementing infrastructure projects for the Afghan security forces. SMDC manages contracts for DoD's Counter-Narcoterrorism Technology Office (CNTPO). In addition to providing aviation support for Afghanistan's counter-narcotics office, SMDC contracts are used to construct facilities on the Afghan border to intercept narcotics shipments.

SIGAR has issued five audits that examined individual construction contracts of ANA and ANP facilities implemented by USACE and has three ongoing audits of ANSF facilities implemented by AFCEE. SIGAR's reviews of ANSF construction projects have found that, although the facilities have—with a few notable exceptions—met acceptable construction standards, poor planning and insufficient oversight have resulted in significant project delays and a variety of other problems, such as the use of lower-grade materials than required by the contract, that affect operations and maintenance.

SIGAR's audit of the Joint Regional Afghanistan Security Forces Compound (JRAC) in Kandahar Province found that, as a result of inadequate planning, each of the four projects that make up this large ANP facility experienced delays ranging from six months to two years. Because USACE staff failed to prepare a master plan that fully integrated the four projects for the JRAC, the facility has some redundant power, water, and sewer systems as well as varying cooling and heating systems, which will complicate operations and maintenance. SIGAR also found that USACE had not adhered to its own quality assurance procedures. For example, the contractor and local quality assurance representatives failed to provide an adequate level of daily reporting on progress at the job sites, raising the risk that construction problems could surface later in the life of the project, increase operations and maintenance costs, and compromise occupant safety.⁹

SIGAR's audits of ANA garrisons in Laghman, Kunduz, and Farah provinces also identified inadequate planning, construction delays, and, in some cases, problems with the quality of the construction. All three garrisons suffered from lengthy construction delays, which were caused by a combination of poor planning, inadequate oversight, or lack of security. For example, SIGAR found that phase one construction of the ANA facility at Gamberi in Laghman Province was nearly two years behind schedule and that phase two was 14 months behind schedule. Security issues prevented USACE personnel from regularly visiting the site to provide quality control, and the Afghan workers USACE hired lacked the training to provide the necessary oversight. However, SIGAR found that USACE management and oversight improved during the course of the construction.

Similarly, SIGAR's audit of the \$72.8 million ANA facility in Kunduz found that phase one of the project was 20 months behind schedule and phase two was more than a year behind schedule. Some of the Kunduz garrison structures were seriously damaged as a result of the severe settling of the soil. The condition, known as collapsible soil, should have been identified during the

⁹ SIGAR Audit 10-12, *ANP Compound at Kandahar Generally Met Contract Terms but Has Project Planning, Oversight, and Sustainability Issues*, July 21, 2010.

planning stage before construction began. Although both USACE and the contractor agreed that the soil under the garrison site was collapsible, they had not agreed on a course of corrective action at the time SIGAR completed its audit. The damage caused by settling soil was exacerbated by inadequate grading that contributed to the pooling of water and flooding. SIGAR recommended that USACE work with the contractor to resolve the soil stability issue and decide what corrective actions should be taken to complete the project.¹⁰

In October 2010, SIGAR reported that the construction of six ANP District Headquarters buildings in Helmand and Kandahar failed to meet contract requirements. The level of non-compliance varied at each site, but SIGAR found that the overall construction quality was poor and that the contractor had used lower-quality materials in some cases than those specified in the contract. The project also suffered delays of more than a year because of a contract modification and confusion between USACE and the contractor over project design issues. In August 2010, only one of the sites had been cleared for turnover to the ANP. SIGAR also found that USACE had not fully complied with its quality assurance requirements. USACE attributed the lack of adequate project oversight, in part, to security concerns.¹¹ According to USACE, the contractor is now correcting the deficiencies that SIGAR identified and is completing the police facilities.

SIGAR has repeatedly reported concerns about the ability of the Afghan government to sustain completed ANSF facilities. Since 2002, the United States and the international community have been providing funding for the sustainment of ANSF facilities. In 2006, USACE awarded a \$200 million contract for the operation and maintenance of ANSF facilities. The contract ended in April 2010 and USACE has since awarded two contracts, valued at \$800 million for up to five years, to ITT Corporation to sustain ANSF facilities. One contract covers the ANSF sites in the north; the other contract covers ANSF sites in the south. Under the two contracts, ITT Corporation is providing operations and maintenance services at 219 police stations and 110 army posts in all 34 provinces of Afghanistan. According to USACE, it is completing about 10 new ANSF facilities each month and ITT Corporation will be responsible for operations and maintenance at these facilities as they open.¹² Part of the contract includes an agreement that ITT Corporation will provide Afghan workers with training in facility management and the trades, including carpentry, plumbing, and electrical work. This provision addresses the key issue of building Afghan technical capacity to sustain ANSF infrastructure. However, as noted in CSTC-A's 2008 campaign plan, the United States and its international partners could be responsible for sustainment costs through 2025.¹³

¹⁰ SIGAR Audit 10-9.

¹¹ SIGAR Audit 11-3, *ANP District Headquarters Facilities in Helmand and Kandahar Provinces Contain Significant Construction Deficiencies Due to Lack of Oversight and Poor Contractor Performance*, October 27, 2010.

¹² U.S. Army Corps of Engineers News Release, October 28, 2010.

¹³ SIGAR Audit 10-10.

CERP Construction Projects

Since 2004, Congress has appropriated nearly \$2.64 billion for the Commander's Emergency Response Program (CERP), which was created so that military commanders could fund primarily small-scale projects to meet urgent humanitarian and reconstruction needs at the provincial and community levels. SIGAR has completed six inspection reports of construction projects and conducted four audits related to CERP.¹⁴ This work has identified numerous problems with the management, oversight, increasing scope and complexity, and sustainment of these projects in Afghanistan.¹⁵

In October 2009, SIGAR's audit of DoD's internal controls over CERP funds found that management had limited visibility over the execution of CERP projects because USFOR-A, which oversees CERP, had no central system for maintaining physical files in Afghanistan and electronic records were either incomplete or nonexistent. This audit also raised concerns that CERP was increasingly being used to fund large-scale infrastructure projects of \$500,000 or more. At the time, SIGAR found that while large-scale projects accounted for only 3 percent of all CERP projects, they consumed more than 67 percent of CERP funds.¹⁶

SIGAR pointed out that large-scale projects posed increased risks for CERP for three reasons. First, these projects usually take several years to complete. Second, CERP program managers have been trained to implement small-scale projects with short time frames, not complex projects with long timeframes. Third, with the relatively short military rotations in Afghanistan, it is difficult to maintain the continuous management and oversight needed to successfully complete more complicated projects.

USFOR-A disagreed that using CERP for large-scale projects posed any management risks, suggesting that most of the large contracts were to build roads and therefore were easier to manage.¹⁷ However, SIGAR's most recent audit released this month of 69 CERP projects valued at \$53 million in Laghman Province found that the highest cost and most complex projects, including roads, were most at risk for having questionable outcomes.¹⁸

The 69 projects SIGAR reviewed represented 91 percent of the \$58.5 million obligated for CERP projects in Laghman Province during fiscal years 2008 through 2010. The projects

¹⁴ SIGAR combined its audit and inspection directorates in 2010.

¹⁵ SIGAR Audit 09-5, *Increased Viability, Monitoring, and Planning Needed for Commander's Emergency Response Program in Afghanistan*, September 9, 2009; SIGAR Audit 10-7, *The Tojg Bridge Construction Is Nearly Complete, but Several Contract Issues Need to Be Addressed*, March 1, 2020; SIGAR Audit 11-1, *Weaknesses in Reporting and Coordination of Development Assistance and Lack of Provincial Capacity Pose Risks to U.S. Strategy in Nangahar Province*, October 26, 2010; SIGAR Audit 11-7, *Commander's Emergency Response Program in Laghman Province Provided Some Benefits, but Oversight Weaknesses and Sustainment Concerns Led to Questionable Outcomes and Potential Waste*, January 2011.

¹⁶ SIGAR Audit 09-5.

¹⁷ SIGAR Audit 09-5.

¹⁸ SIGAR Audit 11-7.

included 11 for road construction; 17 to build or renovate facilities; 30 for other types of construction, such as building or repairing dams, walls, canals, or bridges; and 11 that provided equipment, including agricultural supplies. The cost of individual projects ranged from \$32,537 for a canal to \$8.7 million for a paved road.

We found 27 projects valued at \$49 million that are at risk of failing or having questionable outcomes. For example, nine of the road projects we examined are asphalt. These nine projects accounted for \$44.6 million—or 84 percent—of the total funding we examined. However, asphalt roads require more money, equipment, and expertise to maintain than dirt or gravel roads. The Laghman provincial government does not have the technical expertise or financial resources to maintain these roads, and PRT officials do not have a plan for maintaining them.¹⁹ If PRT officials do not followup with local Afghan officials, more than \$44 million intended to benefit the local communities, will have been wasted.

In addition to the sustainment issue, SIGAR identified construction problems on three of the road projects. For example, the incorrect application of the prime coat of paving has resulted in the deterioration of a section of the \$8.7 million, 25-kilometer Alisheng Road project. Security has also been a factor, preventing PRT officials from conducting the necessary oversight.²⁰

SIGAR's audit of CERP projects in Laghman Province also identified several management and oversight weaknesses. For example, most CERP projects are awarded by project purchasing officers; however, CERP standard operating procedures require warranted contracting officers to award contracts of \$500,000 or more. However, project purchasing officers signed CERP contracts for four projects worth more than \$500,000 that resulted in more than \$18.3 million of unauthorized commitments for the government—unauthorized because the official who made them lacked the authority to enter into the agreement on behalf of the U.S. government. In addition, 47 of the project files—representing more than \$13 million in disbursements—had incomplete financial documentation. Thirty of the project files—accounting for \$40.1 million in obligated funds—did not contain evidence of the legal review required by CERP standard operating procedures. Forty files—representing \$9.1 million in disbursements—contained minimal evidence that project monitoring, as evidenced by quality control and quality assurance reports, had occurred. SIGAR also found that USFOR-A commanders and CERP oversight officials lack a coordinated, results-oriented approach to determine whether CERP projects have achieved their goals, are being used as intended, and are being sustained by the government of Afghanistan.²¹

SIGAR's earlier inspections of CERP projects in Khowst and Kapisa provinces identified similar issues of poor planning, lack of quality assurance, and sustainability. For example, in May 2009 SIGAR inspected the \$1.6 million project to improve the Khowst City Electrical Power System

²⁰ SIGAR Audit 11-7.

²¹ SIGAR Audit 11-7.

and found that 1) the contract failed to include key requirements needed for the system to operate in accordance with the original design plan, 2) some of the work was substandard, and 3) the Afghan government had no budget to support routine maintenance or purchase basic safety items such as earplugs, gloves, and goggles for their employees.

SIGAR has made several recommendations to improve CERP oversight, promote sustainment of CERP projects, and help determine whether CERP projects are achieving their intended purposes. These include developing a plan to address the management of large-scale construction projects, working with Afghan government officials to develop sustainment plans for active CERP projects, updating CERP standard operating procedures, and developing a coordinated, results-oriented approach for evaluating the effectiveness of CERP.

The NDAA and the Creation of the Afghanistan Infrastructure Fund

The Fiscal Year 2011 National Defense Authorization Act (NDAA) (P.L. 111-383) addresses many of the issues that SIGAR has identified. The law, which extends CERP for one year and authorizes expenditure of up to \$400 million in Afghanistan in fiscal year 2011, limits individual CERP projects to a maximum of \$20 million. It further requires the Secretary of Defense to notify to the Congress not less than 15 days before obligating CERP funds for a project in Afghanistan with a total anticipated cost of \$5 million or more. The notification must include 1) the location, nature, and purpose of the proposed project, including how the project is intended to advance the military campaign for Afghanistan; 2) the budget and implementation timeline for the proposed project; and 3) a plan for the sustainment of the proposed project.

The NDAA reflected Congress's concern that DoD was using CERP to fund large-scale projects in support of its counterinsurgency strategy rather than for the original purpose, which was to enable military commanders to implement small-scale projects to meet the urgent humanitarian relief and reconstruction needs within their areas of responsibility. The NDAA authorized the creation of a new fund—the Afghanistan Infrastructure Fund (AIF)—to be the primary source of DoD funding for large-scale development and reconstruction projects in Afghanistan.²² The legislation allows DoD to put up to \$400 million of its fiscal year 2011 operations and maintenance funds into the AIF, which will support a joint DoD/Department of State infrastructure program. SIGAR will be closely monitoring the development of this new program.

The Economic Support Fund and USAID infrastructure Projects

Since 2002, the Congress has appropriated more than \$11 billion for the Economic Support Fund (ESF), which is administered by USAID, to provide humanitarian assistance, promote good governance, and foster economic development in Afghanistan. USAID is implementing a wide

²² Joint Explanatory Statement of the Committees on Armed Services of the U.S. Senate and House of Representatives on H.R. 6523, Ike Skelton National Defense Authorization Act for Fiscal Year 2011.

variety of infrastructure projects in Afghanistan's energy, health, education, water, and transportation sectors.

Last year, SIGAR issued one audit that assessed U.S. and international efforts to develop Afghanistan's energy sector and another audit that focused on the \$300 million USAID project to build the Kabul Power Plant. These audits identified the same problems associated with insufficient planning, inadequate oversight, and sustainment that SIGAR found in its reviews of ASFF and CERP construction projects.

SIGAR's audit of the energy sector found that the Afghan government did not have an updated master plan for infrastructure development. As a result, many energy projects were being implemented across Afghanistan in an ad hoc manner, rather than as part of an integrated strategy. Although the U.S. and international efforts have increased Afghanistan's production of electricity, the Afghan government faces serious challenges to sustaining existing facilities. The Afghan electricity utility lacks the ability to collect revenue from customers and the capacity to operate and maintain power plants and transmission lines. Since the report, USAID and international donors are making progress in addressing these weaknesses, including developing a new master plan.

SIGAR's audit of the Kabul Power Plant identified a wide range of factors, including land title issues, ambiguous statements of work, poor subcontractor performance, and problems with customs clearance that contributed to construction delays and increased costs. In addition, SIGAR found that the long-term sustainability of the power plant depends on the Afghan government's ability to purchase the fuel to run the generators and cover operations and maintenance costs. Despite the Afghan government's earlier commitments to cover these costs, USAID has concluded that the Afghan government will require international assistance for both fuel and operations and maintenance. International donors and USAID are implementing programs to help the Afghan government commercialize its utility sector, but USAID officials estimate that it will be at least five years before the government can generate enough revenue from the Kabul electric utility to cover the costs of operating the Kabul Power Plant. To help protect the U.S. \$300 million investment in this plant, SIGAR recommended that USAID produce a definitive study on the technical feasibility and advisability of using cheaper but technically challenging heavy fuel oil instead of diesel fuel. USAID conducted this study and determined that the plant in the short term should be commissioned and operated on diesel fuel only, but in the long term it should be switched over to heavy fuel oil.

Ongoing and Planned Construction Audits

SIGAR's ongoing and planned audits of infrastructure projects are focused on efforts to build facilities for the ANA and the ANP because the majority of reconstruction funding is going to develop the ANSF. SIGAR has one ongoing audit of two AFCEE construction projects for ANA facilities worth \$42.2 million in Herat and Mazar-e-Sharif, as well as audits of the \$144 million

Afghan Defense University and the \$161 million Kabul Military Training Center. In addition to these audits, SIGAR will initiate a review of the \$48 million Ministry of Defense Headquarters in Kabul.

Also, in the near term, SIGAR plans to audit about \$132 million of USACE-managed contracts to build ANP facilities, including an ANP garrison at Khowst, the ANP National Training Center at Wardak, and the Afghanistan National Civil Order Police in Kabul.

Conclusion

SIGAR's audits of infrastructure projects in Afghanistan have identified serious problems resulting from insufficient planning, inadequate contract management, and inability to provide quality assurance and oversight, particularly in areas that are not secure. Developing Afghanistan's infrastructure is an important element of the overall U.S. reconstruction strategy in Afghanistan and SIGAR will continue to conduct audits of projects being implemented through the ASFF, CERT, and ESF funds. SIGAR will also closely monitor the establishment of the Afghanistan Infrastructure Fund this year.

Given the U.S. objective to rapidly build Afghan forces capable of assuming responsibility for their country's security by 2013, SIGAR is particularly concerned about three issues related to the ANSF. First, although the goal is to develop Afghan security forces totaling 400,000 by October 31, 2013, the United States lacks a comprehensive plan for building ANA and ANP facilities. Second, the projects audited to date have been seriously behind schedule, making it doubtful that the construction effort will keep pace with the recruitment and training efforts. Third, it is not clear how Afghanistan is going to be able to provide the operations and maintenance required to sustain any of these investments without continuing financial support from the United States after the current operations and maintenance contract expires in 2015. These issues place the entire U.S. investment of \$11.4 billion in ANSF facilities construction at risk of not meeting Afghan needs or intended purposes and resulting in a large degree of waste.