



Office of Inspector General

April 23, 2019

The Honorable Peter Welch
U.S. House of Representatives
Washington DC 20515-0001

The Honorable Tim Walberg
U.S. House of Representatives
Washington, DC 20515-0001

Office of the Third Congressional District of North Carolina
Formerly the Office of the Honorable Walter B. Jones
U.S. House of Representatives
Washington, DC 20515-0001

Dear Congressman Welch and Congressman Walberg:

On July 25, 2018, along with the late Congressman Jones, you asked us to provide a better understanding of the full extent of waste, fraud, and abuse of American taxpayer dollars in U.S. reconstruction efforts in Afghanistan. USAID's Office of Inspector General (OIG) has actively provided oversight of foreign assistance programs and operations in Afghanistan since shortly after they were initiated in 2001, and OIG auditors and investigators have uncovered significant waste, fraud, and abuse during that time. Our audit work in Afghanistan has resulted in \$363 million in questioned costs and more than \$37 million in funds that we recommended be put to better use.¹ Since 2008—the year we established a comprehensive system for tracking investigative outcomes—our investigative efforts in Afghanistan have produced \$623 million in investigative savings and recoveries.²

These financial results, which total more than \$1 billion in audit and investigative returns, are a partial accounting of the waste, fraud, and abuse we have uncovered in Afghanistan. In

¹ Questioned costs are potentially unallowable costs for reasons such as inadequate supporting documentation or an alleged violation of a provision of a law or regulation. Funds put to better use are funds that could be used more efficiently if management took actions to implement and complete OIG recommendations.

² Investigative savings are funds that were obligated, but not yet distributed, to be spent as part of an award that were preserved and made available for better uses after an OIG investigation revealed evidence that those funds were vulnerable to waste or fraud. Recoveries are funds that were already distributed and then recovered after an OIG investigation revealed that the funds were lost, misappropriated, stolen, or misused.

addition, Agency officials have acknowledged the need to address inefficient or ineffective management and program practices, as well as failures to comply with standards or requirements, in response to the 699 recommendations we have made in our reports. USAID actions taken in response to our investigative activity also provide evidence of waste, fraud, and abuse. Since 2008, 100 personnel have been removed from their jobs, 59 entities have been suspended or debarred, and 10 Agency contracts have been terminated as a result of our investigative efforts in Afghanistan. These actions not only close off avenues for bad actors to abuse U.S. funds but send a clear message to those who consider defrauding U.S. taxpayers that they will be caught and penalized.

Our work provides other, qualitative indications that U.S. Government resources in Afghanistan have been vulnerable to waste, fraud, and abuse:

- **Monitoring and Evaluation Gaps.** We have identified troubling weaknesses in USAID's monitoring and evaluation of its programs and operations in Afghanistan. USAID developed a multitiered monitoring system to address a reduction in the number of Agency employees in Afghanistan and access restrictions to directly observe activities in the field, due in part to ongoing fighting with the Taliban. However, in December 2015, we [reported](#) that the multitiered system was not providing the level of oversight envisioned, in large part because it was not being used as intended. For example, USAID could demonstrate that the monitoring system was used in only 1 of 127 awards for project activities that we examined. We are conducting a follow-up audit to assess USAID's progress in monitoring and evaluating its activities in Afghanistan and expect to report our findings later this year.
- **Weak Oversight of International Implementers.** Agency oversight of public international organizations (PIOs) has also been a point of concern. A significant portion of USAID's assistance in Afghanistan is implemented through PIOs. The Afghanistan Reconstruction Trust Fund (ARTF), which is administered by the World Bank, has received billions in USAID funding and currently accounts for more than 40 percent of USAID's programming in Afghanistan. However, as we [reported](#) in August 2017, ARTF activities and performance indicators were not aligned with USAID/Afghanistan's development objectives, and unlike other donors, USAID had not conducted a formal evaluation of ARTF activities to determine overall performance or justify further funding. Our review of five USAID-funded ARTF projects revealed that USAID had contributed nearly \$300 million without documenting the rationale for the amounts or timing of contributions for four of the five projects. Our subsequent [audit](#) of the Agency's broader approach to accountability and oversight of PIOs found a lack of rigor in assessing PIO performance and responsibility. Specifically, USAID was not conducting comprehensive risk assessments of PIOs prior to awarding them funds and did not have adequate policies in place to ensure PIO recipients had systems

that met basic internal control standards. Some PIOs failed to promptly or adequately report allegations of fraud related to USAID investments. Agency officials are taking prompt action to fundamentally revise USAID's entire policy regarding oversight of PIOs.

- **Diversions to Terrorists.** We also continue to identify oversight gaps that make USAID resources vulnerable to diversions to designated terrorist groups. In one case, the Islamic State of Iraq and Syria-Khorasan (ISIS-K) recruited a former USAID Foreign Service National employee to serve as a financial adviser and courier. The former employee received USAID funds through a subrecipient under the Assistance in Building Afghanistan by Developing Enterprises Project. As a result of our investigation, the associated subaward was cancelled, resulting in \$410,000 in savings, and the former employee was fined and sentenced to 13 years of imprisonment. OIG referred him and 13 related entities to USAID for suspension and debarment, actions which are still pending a USAID determination. These efforts have helped ensure that U.S. Government funds and materials are not diverted to those who mean us harm.
- **Fraud in Major Infrastructure Contracts.** Investments in infrastructure projects, particularly investments channeled through Afghan Government institutions, have been subject to complex fraud schemes. In recent years, USAID has made many of its infrastructure investments through Afghanistan's national utility, Da Afghanistan Breshna Sherkat (DABS). After examining these investments, OIG worked with the Special Inspector General for Afghanistan Reconstruction (SIGAR) to identify kickback schemes, collusion, contract steering, and conflicts of interest. In one case, employees of a USAID subcontractor conspired with the owners of a security company and steered a subcontract for physical security services to that company. In another case, bribes were paid to DABS' chief executive officer with the aim of securing a lucrative contract, while the Minister of Economy and his son solicited bribes from the winner of the contract and others seeking USAID-funded contracts. As a result of this investigation, the CEO of DABS and the Afghan Minister of Economy have been removed from their positions.
- **Abuses of Higher Education Funding.** The U.S. Government's investments in the American University of Afghanistan (AUAF), which have exceeded \$100 million over more than a decade, have been at the core of support for higher education in Afghanistan. However, in July 2018 a joint investigative referral from my office and SIGAR raised serious doubts that AUAF possessed the control and accountability systems necessary to be entrusted with U.S. taxpayer money. The referral documented AUAF's failure to comply with accounting, timekeeping, and recordkeeping standards, as well as issues surrounding key

personnel, conflicts of interest, and the governance of its board. In the referral, we requested that USAID assess AUAF's present responsibility and whether AUAF should be entrusted with continued receipt of U.S. Government funds. In response to the referral, USAID's Suspending and Debarment Official executed a comprehensive administrative agreement with AUAF, wherein the university accepted and acknowledged the need to make improvements in the areas identified by our offices. Included in this agreement is a requirement for an independent consultant to monitor and report on all of AUAF's accountability efforts, the creation of an audit, compliance, and risk management committee to ensure compliance with the terms and conditions of AUAF's assistance agreements, and requirements to frequently report to USAID on the status of corrective actions taken. A material breach of the terms of this administrative agreement shall constitute a cause for immediate suspension or debarment of AUAF. In response to issues highlighted in the joint referral from my office and SIGAR, USAID added supplemental award conditions, including requiring a USAID official to serve as a voting member of AUAF's board for the duration of USAID funding, mandating full cooperation with a USAID-designated financial overseer, and ensuring that AUAF demonstrates progress toward obtaining U.S. academic accreditation.

My office remains committed to providing effective oversight of foreign assistance programs and operations in Afghanistan, and we continue to target the most serious risks to USAID's portfolio. Our oversight priorities include (1) responding to the risk of diversion of U.S. Government resources to terrorist organizations; (2) promoting the integrity and effectiveness of reconciliation, stabilization, and humanitarian assistance efforts; and (3) promoting the integrity and effectiveness of efforts to strengthen local capacity to sustain U.S. investments after USAID involvement ends, as well as the planning and monitoring of efforts designed to advance sustainable development.

As we implement our risk-based approach to oversight in Afghanistan, we also place a strong emphasis on collaboration with our oversight counterparts. In addition to routine coordination and joint investigations with SIGAR, we maintain robust engagement with the Department of State and Defense OIGs. I meet biweekly with the Defense Department Principal Deputy Inspector General and State Inspector General to discuss oversight plans, travel with them on annual interagency visits to Afghanistan, work with them on quarterly reporting on conditions there, and publish an annual coordinated oversight plan with those offices and SIGAR. Recognizing the positive impact our work has had in addressing waste, fraud, and abuse—particularly in Afghanistan—Congress and the administration specifically set aside resources for our oversight work in Afghanistan as part of the fiscal year 2018 and 2019 appropriations.

Thank you for your continued support and interest in our work in Afghanistan. I share your interest in robust oversight of foreign assistance in Afghanistan and have a deep commitment to this work. Just this February, I visited Afghanistan along with the Defense

Department Principal Deputy Inspector General and State Inspector General to ensure that we maintain a rich understanding of conditions on the ground and use that knowledge to drive our oversight work.

My office also conducts extensive outreach to implementers and other stakeholders to make them aware of fraud schemes and their responsibility to protect USAID funds from such schemes. During my recent visit to Afghanistan, I was invited to address all USAID mission personnel and spoke with representatives of more than 80 USAID implementers, helping them understand their role in promoting accountability for U.S. Government funds in the country and for reporting all allegations of waste, fraud, and abuse to our office. If you require additional information about our work in this area, please do not hesitate to contact Andrew Schmidt, OIG's Director of Congressional and Public Affairs, at 202-712-1150.

Sincerely,

/s/

Ann Calvaresi Barr