Good afternoon. I am pleased to appear before the Commission to testify on behalf of the Office of Inspector General (OIG) for the U.S. Agency for International Development (USAID). Today, I would like to describe OIG’s oversight activities in Iraq and Afghanistan and share with the Commission the challenges we see for development activities in those countries.

Background

Reconstruction and development efforts in Afghanistan and Iraq have been difficult. Oversight of these efforts has been difficult, too. USAID employees and OIG auditors and investigators have been operating in what
is often an unstable environment, where security is always of paramount concern.

The lack of security affects virtually every aspect of USAID’s programs in Iraq and Afghanistan, including OIG oversight. In fact, OIG’s first Afghanistan report, issued in March 2003, cited security as the overriding risk confronting USAID’s ability to manage its assistance activities. In addition to causing operating and program costs to increase, the lack of security imposes significant constraints on USAID’s ability to monitor its programs. USAID officials are unable to make routine site visits, and their official counterparts are often reluctant to be seen meeting with Americans. Normal branding procedures (e.g., ensuring that USAID’s logo is readily visible at project sites and on delivered commodities) are sometimes bypassed in order to protect the implementers and the beneficiaries. USAID-funded vehicles have been damaged or destroyed by insurgents, and implementing partners and host country officials have been the targets of threats, kidnappings, and murders.

For OIG, travel restrictions and security concerns severely limit our ability to conduct routine audit and investigative work. Trips must be cleared through Embassy personnel in advance, armored vehicles or armed guards must accompany us on assignments, and travel can be
canceled without notice. Particularly in Afghanistan, living and working conditions that are cramped and lacking in facilities we take for granted here at home exacerbate the difficulty of conducting oversight.

We are fortunate, however, to have employees who are willing to work under such onerous circumstances to assist USAID in its efforts to advance U.S. foreign policy and to build the capacity of the Governments of Afghanistan and Iraq to deliver essential services, strengthen their economies, and promote the rule of law and civil rights.

OIG has been able to conduct substantive oversight with a relatively small investment from U.S. taxpayers. Since 2003, OIG has expended approximately $18 million to oversee the more than $14 billion obligated for USAID activities in Afghanistan and Iraq. Our oversight work has paralleled the evolution of USAID’s programs in Afghanistan and Iraq from relief and stabilization to reconstruction to sustainable development.

In both countries, we are pursuing a vigorous program of performance audits that cover most major USAID projects. In addition, we perform an annual audit of USAID’s financial statements, which includes the financial operations of development projects in Iraq and Afghanistan. We also oversee an extensive program of financial audits of major contractors and grantees carrying out work for USAID in these countries.
These financial audits are conducted for OIG by either the Defense Contract Audit Agency or by public accounting firms, and we then review, summarize, and issue the resulting reports.

Today I would like to discuss the audit and investigative work that OIG is doing in Afghanistan and Iraq, and I will give some examples of the problems we have identified, as well as some examples of changes that have been made as the result of our work. I will also talk about how improved processes can benefit USAID’s development efforts in the future.

Afghanistan

OIG has been providing audit and investigative oversight in Afghanistan since the start of USAID’s programs in 2002. Currently, OIG oversight in Afghanistan is managed by our regional office in Manila, with auditors continually traveling to Afghanistan on 3-week temporary duty assignments. We have 14 auditor and investigator positions to cover all of USAID’s activities in Asia—including those in Afghanistan. Beginning this summer, OIG will have two auditors assigned full time in Kabul.
To date in Afghanistan, we have conducted 25 performance audits resulting in 68 recommendations, and we have issued 26 financial audits. This work has caused over $1 million in questioned costs to be sustained.

We are pleased to note that USAID generally has been supportive of OIG’s oversight efforts and has made progress in implementing most of the recommendations provided in OIG’s performance audit reports. In Afghanistan, 50 of our 68 recommendations have been implemented, and 29 of the 68 (43 percent) were closed by the time we issued our audit report. There are no open audit recommendations that are more than a year old. Recommendations that have yet to be addressed generally include working with host government organizations to ensure sustainability of programs, collecting questioned costs, ensuring that construction projects comply with environmental regulations, developing appropriate performance indicators for USAID programs, and putting automated systems in place for financial and program tracking. USAID is working toward final action in each of these instances.

Because OIG was active in Afghanistan even before the war in Iraq began, we learned some lessons in Afghanistan that we then applied to Iraq—a perspective somewhat different from that of some of our counterpart agencies. One such lesson is that audit oversight in high-risk
situations needs to be planned at the outset of program implementation and carried out at the appropriate time. This is particularly true for financial audits. Conducting financial audits as program money is spent prevents minor issues from becoming major concerns—especially important when significant funding is at stake. This practice also sets the tone for accountability that carries through the life of the project. Contractors and grantees learn very early that OIG wants to see supportable costs that are reasonable and allowable under the contract or grant.

At the very start of USAID/Afghanistan’s Rehabilitation of Economic Facilities and Services Program—a $700 million effort to promote economic recovery and political stability by repairing infrastructure—OIG instituted a course of continual financial audits of what was then the largest and riskiest USAID contract in the country. Our purpose was to identify problems early in the program. The course of audits consisted of recurring reviews of costs incurred by the contractors in Afghanistan and in the United States. Over $4.4 million in costs were questioned, and over $620,000 of questioned costs were sustained.

In a more specific example of program improvement as the result of OIG involvement, we made recommendations in our audit of the Marla Ruzicka War Victims Fund that would directly assist Iraqi civilians harmed
by military operations. This fund was established to assist Iraqi people injured by U.S. or Coalition Forces. We compared implementation practices in a similar program in Afghanistan and found that the eligibility of potential beneficiaries included civilians who were harmed by either U.S./Coalition Forces or the Taliban. This difference in approach led OIG to recommend that USAID/Iraq reconsider its narrower eligibility requirements. The mission in Iraq subsequently expanded the requirements to match those of USAID/Afghanistan, covering civilians harmed by insurgents and allowing more citizens to receive benefits.

In Afghanistan, we have seen many instances in which the inadequate oversight of contracts and program activities hindered USAID’s development efforts. In addition, lack of documentation of results or faulty data prevented our auditors from determining whether projects had been successful. Specific problems included incomplete performance plans and monitoring reports as well as questionable sustainability of projects.

As an example of oversight problems, OIG’s February 2007 audit of USAID/Afghanistan’s Alternative Livelihoods Program in the Eastern Region of Afghanistan reported that the program could have been more successful had the program started when originally planned and had contracting issues been quickly resolved. The program had missed the
opportunity to persuade more Afghans not to plant opium poppies in the winter of 2005 because the implementing contractor had not begun the program as quickly as had been expected. Instead, the contractor had focused more on long-term planning than on immediate implementation.

Further, because of a problem with the contract mechanism, the program had not delivered $1.6 million in anticipated microfinance loans intended to provide about 8,000 Afghans with alternatives to growing poppies. The mission had used an existing General Services Administration contract that did not allow the contractor to provide loan capital through grants. When the mission learned that the contract could not be used for that purpose, it investigated alternative approaches. Those approaches included awarding a separate cooperative agreement or trying to provide loan capital through grants via the contract. Neither of these two approaches proved feasible in the short run, and in the end, the mission changed its strategy from funding microfinance loans to merely facilitating them.

Similarly, an audit of the Accelerating Sustainable Agriculture Program in 2008 identified several management and implementation problems: delays in carrying out required tasks, environmental evaluations and assessments that were not conducted in accordance with regulations, significant defects in
constructed buildings, a lack of sufficient performance data, and improper accounting of program income.

In an audit of USAID’s efforts to provide humanitarian assistance to displaced Afghan citizens, OIG found that only $600,000 of the $10 million appropriated in fiscal year 2004 for those activities had been used to provide necessary materials. In addition, none of the $5 million appropriated for fiscal year 2005 had been transferred to the Department of State’s Bureau of Population, Refugees, and Migration to meet program needs, despite notification to Congress that the funds would be made available. At that time, the United Nations had estimated that 1 million people in Afghanistan were living without shelter or basic necessities, and more than 3 million Afghan refugees had fled to neighboring countries and would be forced to return to Afghanistan. Eighty percent of those returning did not own land and would require shelter and basic necessities.

As a result of our audit recommendations, USAID deobligated all unexpended funds totaling $4,978,270 and reprogrammed the funds to an Office of Foreign Disaster Assistance contract with CARE to provide shelter to displaced Afghans. USAID also subobligated the remaining $4.5 million into a participating agency program agreement with the Department of State's Bureau of Population, Refugees, and Migration. USAID and the
Department of State's Bureau of Population, Refugees, and Migration then developed a plan to use the $9.4 million for shelter related needs and other emergency activities for displaced Afghans in Kabul and other provinces. On May 15, 2006, USAID notified Congress of its plans to use the reprogrammed funds.

Through followup audits of USAID programs, OIG reviews the effectiveness of actions taken in response to prior audit recommendations. In our November 2003 review of work on the Kabul–Kandahar Highway in Afghanistan, OIG found that the contractor lacked an updated implementation plan, as required by the contract, to facilitate the completion of activities on time and within budget. At the time of the second review in March 2004, the implementation plan was in place, and construction activities appeared to be on track to meet established deadlines.

Overall, OIG’s work has resulted in improvements in USAID operations and in program implementation. The Agency has strengthened contractor oversight and ensured completion of monitoring plans, performance plans, and performance reports. OIG has identified defective work, and USAID has taken corrective action in such areas as highway completion and building construction. Moreover, we have recommended
that certain funds be put to better use so that taxpayer money is well spent and the programs work toward intended goals.

As development programs in Afghanistan have matured, USAID has been devoting more and more effort to capacity building in order to make the programs sustainable. In 2009, OIG expects to conduct five audits of programs intended to expand the country’s capacity to deliver services. Two of these audits involve infrastructure projects, such as improving transportation and energy distribution. In total, OIG plans to conduct eight audits in Afghanistan this year.

Our investigative efforts complement our audit work. We generally see allegations of false claims or statements by individuals attempting to defraud the U.S. Government, although we occasionally receive allegations of individuals involved with bribery, gratuities, or kickback schemes, as well as conspiracy. To prevent fraud, we routinely provide training sessions in fraud awareness for USAID staff and the staffs of implementing partners so that they can recognize suspicious activity and report it to our office.

Thus far, we have initiated 26 investigations in Afghanistan. Our work has resulted in eight indictments, seven arrests, three convictions, five administrative actions, and recoveries or savings totaling close to $20 million. OIG has six ongoing investigations.
In an investigation involving the United Nations Development Program (UNDP), an international organization that administers construction projects in Afghanistan on behalf of USAID, we uncovered many performance and financial control problems, refusal to justify use of funds, and potential violations of law. Relying on a USAID letter of credit, UNDP had transferred funds to and from a USAID project systematically without USAID’s knowledge or consent. When asked to explain the transfers, the organization refused to justify the use of the majority of these funds. The investigation further cited poor design and poor performance on construction projects, failure to provide cost justifications, and false reporting on projects. Following the investigation, USAID issued bills of collection to the organization totaling nearly $7.5 million and initiated systemic changes to increase program oversight. The agreement between USAID and the organization has ended. The Department of Justice declined to prosecute because of immunity issues.

Another OIG investigation led to $11.2 million in savings for USAID. The investigation was initiated in response to allegations that a grantee, in order to win an award, made misrepresentations in its proposal pertaining to the status of an agreement with a subgrantee. The investigation verified that the representations were false, but because there was insufficient evidence
to prove intent, we could not secure prosecution. USAID, however, terminated the cooperative agreement for material noncompliance with the terms and conditions of the award.

Iraq

In Iraq, OIG oversight began almost immediately after the war began, and we issued our first report in April 2003. We initially conducted our work through temporary duty assignments until a permanent Baghdad office (consisting of seven auditors and two investigators) was established in 2004.

Our workload in Iraq has been substantial: 45 performance audits conducted, 123 financial audits issued, and 55 investigations initiated. As a result, we made 110 recommendations, saw $25 million in questioned costs sustained, and saved or recovered almost $6 million. OIG employees in Iraq also provide frequent briefings on fraud awareness—30 since 2003.

Of the 110 recommendations that have resulted from performance audits in Iraq, all but 7 have been implemented thus far, and 25 of the 110 (23 percent) were closed by the time the audit reports were issued. Those remaining deal primarily with data quality issues, and USAID has agreed
with and is addressing them. None of the open recommendations are more than a year old.

Some of the first OIG audits in Iraq involved the contracting process, focusing on programs that provided support in terms of governance, education, infrastructure, health, agriculture, and other key activities. Because of OIG’s early involvement in reviewing the contracts and providing feedback to management, we identified opportunities for USAID to improve its award process for existing and future Iraq contracts. Some changes that USAID has made are the following:

- Documenting presolicitation meetings.
- Developing guidance for determining whether requests for proposals should specify that the firm has received a security clearance.
- Standardizing the treatment of security costs in bidders’ cost proposals overall, especially for contracts in Iraq.

As with our audits in Afghanistan, we have seen many instances in USAID programs in Iraq in which problems with contract oversight and activities management led to difficulties with implementation.

Primarily because of the dangerous environment, USAID was unable to provide adequate oversight of the Community Stabilization Program.
This program was being implemented in major Iraqi cities by a U.S. nonprofit organization under a $544 million cooperative agreement. In our 2008 audit of this program, OIG identified significant challenges to the program’s achievement of intended results. OIG could not determine whether the program was achieving its intended results—to help defeat the insurgency by reducing the incentives for participating in it—because of the unreliability of reported data concerning the generation of jobs, a key indicator. Further, the audit found evidence of potential fraud that had not been reported to OIG in a timely manner.

OIG recommended the suspension of program activities suspected of fraud in a specific region of Baghdad. We also recommended that USAID redirect $8.5 million to other programs, review program activities in other regions of Iraq for similar evidence of fraud, establish procedures for the prompt reporting of fraud, and improve the quality of data required for oversight of this high-profile counterinsurgency program. Investigations of fraud in the Community Stabilization Program are ongoing.

Another example of oversight problems comes from a 2005 audit of activities in Iraq’s electrical power sector. The audit found that more than 30 percent of the projects underway had not achieved their goals. Moreover, a strategic plan had not been developed, and concerns were
raised about the sustainability of the projects because of improper operations or maintenance practices within the Ministry of Electricity. As a result of our recommendation, USAID/Iraq put a strategic plan in place that includes key approaches to address the Iraq infrastructure sectors, including the operation and maintenance of the electrical power sector infrastructure rebuilt and refurbished by the U.S. Government. OIG plans to conduct a new performance audit of the power sector later this fiscal year.

A 2006 audit that we conducted in Iraq involved the implementation of basic education programs. This audit found that fewer than half of the program’s goals were being met and that the mission lacked a plan to ensure that necessary computer equipment would be in place to operate an information system meant to assist in managing education programs. OIG recommended that USAID either ensure that appropriate computer equipment would be obtained to operate the information system or discontinue funding the program. The mission agreed with the recommendation and initiated action prior to the audit report’s issuance to put the computer equipment in place. OIG conducted a followup audit in 2007 and found that our recommendation had not been completely carried out; specifically, the required equipment had not yet been installed because
servers were still in the customs clearance process. OIG recommended that the mission take action to install the servers and make the information system operational. By the time the audit report was issued, the servers had been delivered and installation had begun.

In total, we expect to conduct eight audits in Iraq in fiscal year 2009. Three involve capacity building and, of these, one centers on improvements in the electricity sector.

We have nine investigations ongoing in Iraq. In one recent case, almost $400,000 in restitution was recovered from a USAID contractor who had provided false data sheets in order to bill employees’ time to USAID when they had been working on business unrelated to U.S. Government contracts. The contractor had been hired to provide air and logistical support to airports in Baghdad, Mosel, and Basra. Investigative information has been referred to other Federal agencies for followup action.

Oversight of Security Contractors

The U.S. Government, including USAID, relies on private security contractors, known as PSCs, for a wide variety of security services, including the protection of individuals, nonmilitary transport convoys, and buildings and housing areas. By providing needed security for
reconstruction and stabilization activities in Iraq and Afghanistan, PSCs contribute an essential service and are viewed as vital to U.S. efforts in those countries. Nevertheless, the use of armed contractors to perform security tasks, coupled with prior incidents involving PSCs, has raised concerns about the level of accountability and oversight of these firms.

In fact, as a result of our investigative work in Afghanistan, a private security firm and four subcontractors have been charged with conspiracy, major fraud, and wire fraud. The indictment alleges that the subcontractors defrauded the United States by obtaining reimbursement for inflated expenses purportedly incurred for rental vehicles, fuel, and security personnel. USAID has suspended the security firm and its principals. The investigation remains ongoing.

In another investigation, an American employee and a foreign national employee of a USAID contractor working in Iraq accepted kickbacks to direct the award of a security contract. The two individuals were terminated from employment, and the investigation uncovered approximately $4 million in overcharges to USAID for project commodities. The case has been accepted for civil prosecution.
In addition to the investigative work involving PSCs, we are conducting an audit in Iraq to determine whether USAID has managed its contracts and grant agreements to ensure that adequate oversight has been exercised over the PSCs employed by contractors and grantees. We expect to issue the findings from that audit within the next several months.

In a January 2005 audit of a contract with one vendor of security services, OIG found problems with USAID’s contracting process: The Agency had not adequately documented the use of less than full and open competition or explained its contractor choice, and it had obtained the services using a letter of credit that did not meet Federal Acquisition Regulation requirements. We cited potential funds-control violations, as well as the mission’s purchase of motor vehicles that did not meet U.S. Government armoring standards. Moreover, the mission had no documentation to support the $1.9 million cost of the vehicles. OIG made several recommendations to improve contracting procedures, along with a recommendation that USAID determine whether funds-control violations had actually occurred. As a result, USAID reeducated its contracting officers on numerous acquisition regulations and determined that the suspected violations had not occurred.
Moving Forward in Afghanistan and Iraq

As the U.S. Government moves forward with development efforts in Afghanistan and Iraq, we can point to two steps that will help USAID strengthen accountability of development programs: (1) examining internal USAID procedures to provide better contract oversight and project management, in light of security concerns, and (2) hiring additional contract specialists and ensuring that contracting officers’ technical representatives, or COTRs, are trained and appropriately held accountable. USAID has begun to make improvements in both areas.

USAID is examining ways to better monitor its programs and improve the quality of its performance data. We support practices that USAID has been putting in place to provide better oversight within difficult working conditions, such as the following:

- Hiring additional local staff, who can operate more easily in Iraq and Afghanistan than U.S. employees;
- Coordinating with the military, in some cases, when military personnel may be able to provide assistance in areas of poor security; and
• Employing virtual techniques, such as periodic digital photography, more widely to document progress in infrastructure reconstruction.

Despite these positive steps, OIG is concerned that USAID does not have a sufficient number of well-trained technical representatives to handle the large numbers of contracts issued by the Agency.

We recommended in a September 2003 audit that USAID place greater emphasis on training contracting officers’ technical representatives (formerly referred to by USAID as cognizant technical officers) and hold them responsible for conducting these duties through proper designation and evaluation procedures. We conducted a followup audit in 2008 and found that our previous recommendations had not been addressed. Because we felt the issues were so critical, I brought the deficiencies to the Administrator’s attention.

The Administrator recognized our concerns, and the Agency directed employees to follow proper procedures and provide the necessary documentation. Also, the Agency is now providing additional training to COTRs.
Conclusion

The security situation in both Afghanistan and Iraq will continue to affect virtually every aspect of USAID’s development efforts. We understand that the risks constrain USAID’s ability to manage its assistance activities. However, we also recognize the importance of carrying out U.S. assistance accountably. In addition to coping with the security problems, USAID must have a substantial and well-trained corps of contract and activities managers to adequately oversee its development programs. The Agency also must find ways in these difficult and dangerous environments to improve the quality of its performance data. With sound data, USAID can measure its efforts successfully and demonstrate to the American people that tax dollars are being spent wisely and making a difference in parts of the world that are of vital interests to our security at home.

I want to thank you for the opportunity to speak with you today about some of the challenges we have seen in implementing development programs in Afghanistan and Iraq. We in OIG are committed to working through the challenges, along with USAID, to provide effective oversight and help improve development programs. We appreciate the involvement
of the Committee on Wartime Contracting in Iraq and Afghanistan as it works to further improve processes and ensure that funds for reconstruction and development efforts in these countries are spent appropriately. I would be happy to answer any questions the Committee might have.