I am pleased to appear before you to testify on behalf of the Office of Inspector General (OIG) for the U.S. Agency for International Development (USAID) and to be joined by my colleagues from the Departments of State and Defense. Today, I would like to share information about our work in Iraq and Afghanistan and the issues affecting USAID programs and operations that we have identified. I would also like to discuss ways to
address waste, fraud, and abuse in conflict settings and U.S. Government approaches to future contingency operations.

**USAID OIG Activities and Observations for Improvements in Iraq and Afghanistan**

Our office has conducted extensive oversight activities in Iraq and Afghanistan for several years. We have built this history of engagement on the strength of a committed workforce and are fortunate to have talented employees who are willing to work in such difficult circumstances. We have nine U.S. direct-hire auditors and investigators in Baghdad and are building to similar staff levels in Kabul, augmented by Foreign Service National personnel. Meanwhile, our oversight efforts in Afghanistan continue to receive support from auditors and investigators based in other parts of the world.

Our dedicated personnel in these countries have a track record of identifying waste, fraud, and abuse and working to improve USAID program management and operations. Since I last came before this Commission, USAID OIG has completed a substantial amount of oversight work in Iraq and Afghanistan. From February 2009 to date, we have issued
12 performance audits with 84 recommendations for USAID improvement and completed 19 financial audits that identified $206 million in questioned costs, of which $180 million were sustained. Over the same term, we opened 43 civil and criminal investigations, closed 17 investigations, effected 10 arrests and 3 convictions, and secured $141 million in investigative savings and recoveries for the Government.

During the past 15 months, we have examined an array of development programs that focus on such goals as improving local governance, strengthening educational systems, expanding power generation capacity, and laying the foundations for a modern, mixed-market economy. Our audits of these programs frequently found that Agency contractors and award recipients had completed many of their intended tasks and made significant progress toward achieving program goals and objectives.

Too often, however, our assessments also highlighted shortcomings in contract and project management. USAID monitoring personnel are stretched thin in both countries, and they struggle to keep pace with an expanding portfolio in Afghanistan. The results are predictable. In March 2009, we found that USAID/Iraq’s implementing partners could not detect deficiencies in security subcontractors’ reporting of serious incidents
because they had provided inadequate oversight of subcontractor practices in this area.

In April 2010, we reported that USAID officials had not reviewed implementing partners’ performance reports or ensured that stated numbers of program beneficiaries of services for internally displaced persons in Iraq were accurate. As a result, significant performance overstatements and suspected fraud—which we are currently investigating—went undetected by the Agency.

Poor contract and program management practices are often associated with weaknesses in staff training. USAID employees have sometimes lacked the experience and training needed to fulfill their responsibilities. Our November 2009 audit of USAID’s efforts to enhance Afghanistan’s power sector, for example, recommended that USAID technical representatives receive additional training on the proper preparation of statements of work, because project implementation had suffered from an ambiguous statement of work that did not require specific deliverables with concrete delivery dates.

Security issues are continuing problems for USAID in both Iraq and Afghanistan, hindering program accomplishment and implementation. Security conditions complicate site visits and meetings with partners.
Because of security risks, implementing partners have curtailed or delayed programs and lost critical momentum. In August 2009, we reported on market renovation projects in Baghdad that had encountered security-related issues that inhibited the operation of completed markets. In December 2009, we reported that USAID’s work in Afghanistan to help those who have suffered losses because of military operations had been hampered by security-related hiring delays. The program had significant difficulty recruiting and hiring personnel because of the high-risk security environment in which it operated. As a result, over a third of program positions remained vacant almost 2 years after the program started.

USAID programs also continue to face shortcomings in the quality of data. USAID policy emphasizes the need for good data to form the basis for sound programming decisions. However, our review of results reported for the distribution of wheat seed and fertilizer in Afghanistan identified irregularities in the supporting records and deficiencies in the methodology used to calculate the activity’s assessed impact. The actual results achieved under this activity and its impact on Afghan farmers were thus difficult to assess.

Security constraints, contract and project management difficulties, and data quality issues have characterized USAID’s efforts in Iraq and
Afghanistan. We have noted security constraints in 61 percent of the 82 performance audits we completed since 2003. We reported contract and project management difficulties in 45 percent of our audits conducted in this period and data quality issues in 20 percent.

Although we have not observed any clear trends upward or downward in the prevalence of security and data issues, reports of contract and program management deficiencies have increased steadily. Fewer than a third of our fiscal year (FY) 2003 and 2004 performance audits noted contract and program management deficiencies, but more than two-thirds of our FY 2009 and 2010 reports highlighted shortcomings in these areas.

Project sustainability issues have also emerged more frequently in recent assessments. We did not observe any serious sustainability issues in USAID’s work in Iraq and Afghanistan until FY 2005. Since that time, our performance audits have noted sustainability issues more and more often, and about one in five of our FY 2009 and 2010 reports now notes these issues. For instance, a recent audit of USAID efforts in Afghanistan noted that the Agency had not done enough to prepare Afghan officials to manage a data center with information on development projects for which they are expected to assume responsibility in the future. Without increased attention
to this issue, the estimated $3.9 million investment in the data center and the information in its database could be lost.

These and other performance issues contribute to an operating environment that places U.S. Government funds at heightened risk of waste, fraud, and abuse. We cannot measure the full extent of waste, fraud, and abuse in Iraq and Afghanistan but can provide information on what we have found. From 2003 to the present, we have submitted $4.9 billion of the $17 billion USAID has obligated in Iraq and Afghanistan to in-country financial audits. These audits questioned $282 million in costs, or approximately 6 percent of the total audited. Over that period, we identified an additional $166 million in waste, fraud, and abuse in USAID’s Iraq and Afghanistan program portfolio in the form of investigative savings and recoveries.

Last year, the amount of waste, fraud, and abuse that we identified increased. Thus far, our FY 2009 investigative leads and referrals have led to $101 million in investigative savings and recoveries—more than all of our leads and referrals from FY 2003 to 2008 combined. A similar pattern emerged with our audits, as the percentage of questioned costs arising from in-country financial audits increased in FY 2009. This increase in observed waste, fraud, and abuse is primarily associated with a small number of
contracts with a few firms, but some of it may result from the growing prevalence of contract and program management issues we have witnessed during our performance audits.

We have been working with USAID to respond to these issues and combat conditions in which waste, fraud, and abuse can proliferate without detection. To that end, in March 2010, we provided a report to the new Administrator on the Agency’s management and performance challenges that highlighted difficulties in Iraq and Afghanistan. Since 2003, we have also provided 75 fraud awareness briefings to more than 1,500 USAID employees, contractors, and subrecipients.

USAID and other U.S. Government agencies active in development work can reduce contracting waste, fraud, and abuse in the short term by improving the contracting instruments they use. USAID contracting instruments have too often placed incentives on the number of tasks completed rather than the ultimate results they deliver. Also, most USAID contracts are negotiated on a cost-reimbursable basis, in which USAID, rather than the contractor, bears the cost risk. Excessive reliance on these types of contracts creates a risk that taxpayer funds will be spent on contracts that are wasteful or inefficient or that otherwise fail to serve the needs of the Federal Government. USAID can improve accountability by
structuring future contracts to hold contractors accountable for specific deliverables that support development aims.

In addition to USAID’s ability to address the aforementioned issues, the Agency’s success in conflict zones over the coming year will be shaped by its responses to two noteworthy challenges. First, at present, USAID does not have a sufficient number of qualified personnel on the ground to properly monitor its development projects in Iraq and Afghanistan. USAID’s ability to field experienced personnel in the coming months and provide them with the training, facilities, and support they need to do their jobs will have major implications for the success of future development initiatives. While ensuring that it has appropriate personnel in place, USAID must also overcome the problems associated with frequent turnover of staff by establishing and maintaining systems and processes for retaining and transmitting institutional knowledge.

Second, the U.S. Government must develop an approach to building host country capacity that balances the imperative for local engagement in the development process with effective stewardship of taxpayer dollars. As part of the U.S. Government’s commitment to Paris Declaration principles, USAID is channeling increasing levels of development funding directly to foreign governments. By leading the resulting development projects, a host
government can shape more development activities, promote project sustainability, and build public confidence in the government’s ability to deliver programs that improve the welfare of the people. However, many of these governments are still developing the capacity to manage projects and monitor and account for associated resources. This places Federal dollars at greater risk of waste, fraud, and abuse. OIG has systems in place to provide audit coverage of U.S. and foreign grantees and contractors but is limited in its oversight of funds provided as direct budget support to foreign government entities. Accordingly, USAID must develop robust alternatives for ensuring that these funds are expended as planned and that they contribute to development objectives.

**Systems for Addressing Waste, Fraud, and Abuse**

We believe that we have instituted effective systems for detecting, investigating, and prosecuting waste, fraud, and abuse in Iraq and Afghanistan. Our strong onsite presence and outreach work in these countries promote fraud awareness and help to serve as a deterrent. We have executed a comprehensive plan of program audits on USAID’s
performance, performed financial audits of contractors and grantees, and conducted proactive and reactive investigations.

Our success in establishing these oversight activities has not been without difficulty. The process of recruiting, hiring, clearing, and training new personnel has been time and resource intensive. Given the size of our organization, limited pool of Foreign Service personnel, and current 1-year tours to Iraq and Afghanistan, we have limited flexibility in assigning and deploying personnel to these posts. Travel restrictions and security concerns sometimes limit our ability to conduct routine audit and investigative work. Living and working conditions for our personnel in Afghanistan are cramped.

Although they are faced with a very difficult working environment, our staff has made major strides in combating fraud. Recent audits have identified instances of potential fraud involving fictitious invoices, cost manipulation, and other improper billing practices; falsification of employee timesheets; and anomalies in signatures and fingerprints submitted as evidence of payments to beneficiaries. Our investigative efforts have yielded impressive results as well. An OIG investigation of a conspiracy to sell privileged information led to two arrests and the cancellation of a $62 million security subcontract. Meanwhile, an investigation into a scheme
to obtain reimbursement for inflated expenses for rental vehicles, fuel, and security personnel led to $24 million in savings and the indefinite suspension of the company and associated personnel from doing business with the U.S. Government.

Our oversight in Iraq and Afghanistan is our top priority, and we will continue to engage in a high level of activity there. As I mentioned earlier, we are increasing our presence in Afghanistan, and we continue to seek additional qualified personnel with relevant language skills and cultural knowledge. Given the volume of civil and criminal allegations that we have been receiving, we will look to expand our investigative presence in Afghanistan further in the coming years. In the meantime, we would benefit by sharing in some of the human capital flexibilities enjoyed by other organizations operating in these areas, such as the direct authority to bring aboard personal services contractors and waive compensation restrictions on reemployed annuitants.

For its part, USAID has recently taken noteworthy steps to reduce risks to Federal funds. USAID has committed to double the size of its Foreign Service by 2012 through the Development Leadership Initiative. The 200 additional Foreign Service officers it plans to hire in FY 2011 will help expand the number of personnel it can draw from to strengthen its
presence in Iraq and Afghanistan. In February 2010, USAID established a Board for Acquisition and Assistance Review consisting of senior Agency officials to review a subset of proposed awards including indefinite quantity contracts, sole-source contracts, and other awards with limited competition. The Board provides guidance on whether to restructure these proposed awards to enhance competition, increase transparency, and expand opportunities for small organizations and for women and minorities. In May 2010, USAID also formed a procurement reform group to examine ways to broaden USAID’s partner base and improve the design and delivery of foreign assistance through contracts and grants.

Nevertheless, USAID and other Federal agencies can do more to prevent waste, fraud, and abuse by increasing their attention to poorly performing contractors. Agencies can respond to serious performance problems by suspending or debarring them from receiving future grants and contracts. Unfortunately, there is substantial evidence that these exclusions are applied on a limited and uneven basis. In recent years, five inspectors general and the Government Accountability Office have reported on suspension and debarment deficiencies across the U.S. Government. I regret to say that USAID’s suspension and debarment performance has been no exception. In September 2009, we reported that USAID had not considered
all of the types of cases it should have for possible suspension and
debarment action. We also found that the Agency had not properly
implemented its suspension and debarment decisions. For example, USAID
did not consistently enter debarred firms into the Government-wide system
for tracking entities excluded from receiving Federal awards. Moreover, we
learned that USAID could not establish that it had performed required
checks on prospective contractors to ensure that they were not barred from
future Federal awards. Fortunately, we found no instances in which USAID
had provided funds to excluded parties.

**Future Contingency Operations**

Contingency operations have become a feature of our international
engagement in recent years. The Special Inspector General for Iraq
Reconstruction (SIGIR) recently suggested that Congress establish a U.S.
Office for Contingency Operations (USOCO) to plan and execute the subset
of civil-military operations that occur in conflict zones. Although
interagency coordination and management of these operations could be
improved, creating an additional layer of bureaucracy of this kind may not
be the best way to effect these improvements. Historically, the subset of
operations that a USOCO would manage has represented a small fraction of the overall foreign assistance enterprise. Stabilization and reconstruction operations are associated with significant levels of spending but have accounted for only six percent of total U.S. foreign assistance between 1946 and 2008. Moreover, it is unclear that a USOCO would consistently serve a meaningful purpose. According to information in SIGIR’s report on applying lessons from Iraq, there were no stabilization and reconstruction operations during 30 of the past 60 years.

There are many possible solutions to challenges in the coordination and management of contingency operations. Some existing approaches could help improve future coordination and management and other solutions may emerge from ongoing policy discussions. If these efforts do not succeed, we should then explore other options.

With regard to oversight of contingency operations, we believe that the statutory inspectors general already in place can respond effectively to future contingency operations within their respective areas of responsibility. We see no need to establish a Special Inspector General for Overseas Contingency Operations, because the inspectors general for the Departments of State and Defense, USAID, and other agencies serving abroad can provide the necessary oversight. Each of our organizations has unmatched
knowledge of and experience working with the organizations that we oversee. We have reported on the lessons from previous contingency operations and bring an understanding of these lessons with us as we assess the progress of new contingencies that arise. For instance, to help USAID guard against waste, fraud, and abuse in Haiti following the January 2010 earthquake, we published a report with examples of issues that we had observed in past humanitarian assistance efforts and suggestions for improving their implementation in the future.

Following Hurricane Katrina, the inspector general community rallied to provide coordinated oversight across 13 Federal departments and agencies. USAID OIG likewise applies its institutional knowledge and expertise in coordination with other organizations to ensure comprehensive oversight coverage in conflict settings. We engage in joint forums to share information and harmonize our plans and activities. We participate in the Southwest Asia Joint Planning Group and chair the Afghanistan-Pakistan Subgroup, which acts as the central point for sharing information and coordinating planned audits, reviews, and inspections. Working with the Office of the Special Representative for Afghanistan and Pakistan, we recently issued a multiagency quarterly report delineating the oversight efforts of the three offices of inspector general operating in Pakistan. We
also participate in the National Procurement Fraud Task Force, assist the Department of Justice in addressing procurement and grant fraud, and conduct joint investigations in Iraq and Afghanistan. These valuable exchanges promote a concerted and thorough approach to combating waste, fraud, and abuse.

I thank you for this opportunity to address the Commission and appreciate your interest in our work and perspectives on these important topics. I would be happy to answer any questions you may have at this time.