



United States Department of State
and the Broadcasting Board of Governors

Inspector General

November 8, 2007

Dear Mr. Chairman:

Based on reports of the October 31, 2007, hearing of the Subcommittee on International Organizations, Human Rights and Oversight, at which Comptroller General David Walker testified on the "Activities of the Department of State's Office of the Inspector General", and on an unofficial transcript, I believe I can provide information herein which can assist you and the Subcommittee in your consideration of the issues discussed.

A principal issue concerned the insufficient resources available to OIG and whether I had brought that to the attention of Congress. According to the transcript I have seen, you expressed frustration "because we read today that the inspector general laments the fact that he doesn't have adequate resources", and you asked "How do we, as members of Congress, become informed of that?" In fact, as set forth in more detail below, I have not only made continuous reference to Congress and others about OIG's resource shortage since my very first day in office in May 2005, I even observed and spoke out on that problem before I took office during my confirmation process.

By way of background, prior to May 2005 I had never been involved in government service. I was a lawyer for forty years in the private sector, working solely for a leading domestic law firm, a leading international law firm, and for twenty-three years as Counsel for Big Eight and Big Six international accounting firms where I analyzed and defended many audits.

The Honorable

William D. Delahunt, Chairman,
Subcommittee on International Organizations,
Human Rights, and Oversight
Committee on Foreign Affairs,
House of Representatives.

Based on my experience and a hard-earned reputation for integrity and success, I was asked in 2004 – without seeking it or even being aware of it – to take on the job of Inspector General at the State Department. That position was vacant for over two years. At 65 years of age, I came to office with no aspiration for any further position and with no agenda other than to do the best job I could of carrying out the specific mission prescribed for me by 2004 senior management at the State Department: namely, to restore the capabilities of an IG office that had fallen into disrepair, and was known to have dissension and rivalries, and to make it more efficient, more professional and more relevant to a dynamic post-9/11 world environment.

In view of the allegations during the hearing and elsewhere that I have “politicized” the office, have acted from partisan political ties, and believe my foremost mission is to support the Bush administration, I should point out that I have never had any political ties whatsoever. I have never been involved in any political party activities; I have never worked in a political campaign; I have never been a major contributor to any one party; I have made contributions to candidates of each party; and I do not recall even making a political contribution since the year 2000. When I was considered for and offered the IG job, I had never met or spoken to the President or any other person in the White House; and even today, after 2½ years in office, I have never met or spoken with the President or any person in the White House (except for one person whom I had known from working for a volunteer organization long before coming to Washington). Except as a tourist, I have never been inside the White House.

1. Disclosure of Resource Shortage.

a) Even as an outsider in 2004-2005 looking at OIG, it became obvious that the Office was significantly under-resourced. The very first question posed to me by Senator Sununu at my confirmation hearing before the Senate Committee on Foreign Relations on March 15, 2005, was “whether you feel comfortable with the level of support and resources that are made available to the Inspector General’s office, whether you think they are adequate.” I answered as follows:

“Sir, to be very candid, I believe that the appropriation and the funding and the budget available for the Office of Inspector General is probably the biggest single challenge that I see, coming from the outside. I’m not close enough to it yet to know all of the details, but,

as you well know, if you were looking at a corporate body, in terms of an acquisition or a merger, and doing your due diligence, you would look at certain, what we call, ‘metrics’ and ‘dashboards’. And when I look at some of the metrics and dashboards, they seem to be pointing in the wrong direction.” (The transcript of the Confirmation Hearing is attached as Exhibit 1 and this material is at page 15.)

I went on to observe that over the past ten years the amount of funding for OIG had been relatively flat but its ratio to overall State Department funding had declined by half; staffing had decreased to the point where less than two-thirds of authorized positions were filled; and at a time of enormous growth in the demands on OIG and its ability to deliver improvements and efficiencies, the resources had been flat.

b) Following the Senate Foreign Relations Committee, I met with staff of the Senate Homeland Security and Governmental Affairs Committee which also had to confirm my nomination. My recollection is that House staffers were also present, perhaps from the House International Relations Committee. I read to them from the very same response quoted and referred to in a) above.

c) After taking office in May 2005, I attended the Annual Conference of the President’s Council on Integrity and Efficiency (PCIE). Immediately upon my return, I was required to produce a statement for use in the Department’s Bureau Performance Plan, its Senior Review Process, and the FY 07 Budget Process. Taking from the mission that had been prescribed to me, that document dated May 16, 2005 (attached as Exhibit 2), was entitled “Restoring Our Capabilities” and has been used repeatedly, in many formats, by myself and others in OIG as our most basic statement. It sets forth some of the same resource deficiencies as in my confirmation hearing but adds what I learned from PCIE, which reinforced “my concerns regarding State OIG underfunding”:

“I found that PCIE-accumulated data for Fiscal Year 2003 – which is unofficial but probably close enough for drawing conclusions – disclosed that, although the Department is a preeminent department and in the forefront of recent world developments, (i) our projected OIG budget increase of only 3% over the four years ending in 2006 placed it in the bottom 7% of the entire IG community and only about one-sixth of the average increase for all OIGs, (ii) our appropriation

under \$30 million was below 18 other OIGs with appropriations exceeding \$30 million, and (iii) perhaps most disturbing of all to me, our percentage of actual to authorized full-time employees of 71% placed us dead last among the 28 reporting OIGs, with all major departments being in the mid or high 90's. In 2004, our percentage decreased even further to 67.2%.

“Second, I learned that most of the other OIGs perform the vast majority of their services, and achieve the vast majority of their results, in the areas of audits and investigations. Unlike the others, State OIG is statutorily mandated to perform inspections of every Foreign Service post in addition to each bureau and other operating unit of the Department. Whereas audits and investigations are the principal functions of other OIGs, at State OIG inspections consume far more resources than either of these functions. And since this statutory mandate was adopted in the Foreign Service Act of 1980, many new, newly constructed, and significantly enlarged embassies have emerged, creating an even greater need for these periodic and highly productive reviews. So, again, increasing demands are coming over a period of flat resources – indeed, with 85% of our OIG appropriations being committed to compensation, and with travel costs required to do foreign post inspections being most affected by increased energy costs and decreased dollar exchange rates, resources available to perform all OIG functions are arguably declining. Even in a fixed-sum situation, the ability of our OIG to deliver results through audits and investigations, as do other OIGs, is limited by the statutory mandate of inspections.

“Accordingly, at a time when the opportunities for OIG to produce savings, increase efficiency, and reduce waste throughout the Department's activities have grown exponentially, OIG appears to be resource constrained. Under the FY 2006 budget request currently being considered by Congress, we expect to be able to fill only about 60% of our 318 authorized positions. I believe OIG's appropriation needs to be looked at in a new light. OIG should be looked at as a kind of investment vehicle – every \$1 spent can and should return more than \$1 in recoveries, cost disallowances, funds better used, lives saved or made better, efficiencies, effectiveness, and elimination of waste; on the other hand, underfunding *increases* policy and

security risks facing the Department and the risk of inefficiency, waste, fraud, and abuse.”

d) During my first couple months in office, I visited staffs of numerous Congressional Committees with an interest in OIG, including OIG’s appropriators at the Senate Appropriations Subcommittee for State, Foreign Operations and Related Programs, and at the House Subcommittees on State, Foreign Operations, and Related Agencies and on Commerce, Science, Justice and State. In each of those numerous meetings, the “Restoring Our Capabilities” statement was given to the staff and was the basis of my presentation, along with a set of highlights first created for the June 16 meeting with Senate Appropriators from which I spoke (attached as Exhibit 3). The very first highlight read:

“OIG is woefully underfunded and resource constrained – OIG appropriations have not kept pace with Department and BBG resources since FY 1996. It is difficult to maintain oversight without the resources.”

In each meeting I repeated from the highlights the impact of OIG’s budget situation:

- “OIG is on the sidelines
 - Losing voice and influence in the Department
- OIG capabilities have eroded
 - Dwindling staffing levels, especially in audits and investigations
 - Diminished capacity for staff to maintain their skills and expertise
 - Ever narrowing scope of work that can be performed
 - Deteriorating physical infrastructure
- Current priorities are reactive
 - Unfunded mandates
 - Some mandates performed at minimum level
 - Numerous Congressional requests for work for several committees without funding. Work conducted because it was valuable and relevant to current foreign affairs issues (e.g., passport & visa fraud’s relevance to border security, Department’s contracts and grants for Iraq, etc.)”

My apprehensions were actually increased by the time of these meetings because I only realized after taking office that as Inspector General

for the Broadcasting Board of Governors (BBG) as well, how large was the additional dollar amount of BBG programs, facilities, and personnel to oversee, without one single additional person or one single additional penny for budget. BBG adds a budget over \$600 million and thousands of employees in many worldwide locations from Voice of America, Radio and TV Marti, Middle East Broadcasting Networks, and others to OIG's oversight responsibilities. Even now I wonder, and ask your Subcommittee to consider, why BBG – like, for example, Corporation for Public Broadcasting – does not have its own inspector general?

e) House Testimony.

Over the following two years, I and other representatives of OIG have had numerous additional meetings with staffers in which OIG resource deficiencies were described. These occurred particularly with regard to our efforts to get OIG included in Iraq/Afghanistan Supplementals and to get funding for my plan to have a Middle East Regional Office. More relevant, however, is my own testimony before House Committees:

House Committee on Government Reform, Subcommittee on National Security, Emerging Threats and International Relations

I testified before this Subcommittee (the Ranking Member of the Full Committee, Mr. Waxman, also being present) on October 18, 2005, less than six months after taking office, regarding OIG's oversight of State programs affecting Iraq reconstruction, governance, and security. In my oral and written submitted testimony, I stated:

“Mr. Chairman, with your indulgence, I would like to point out that our OIG was able to perform the foregoing oversight activities because we received a \$1.7 million supplemental appropriation in 2005 for Iraq activities. We have no such funds for 2006 at the present time and do not have resources to continue these oversight activities in Iraq without dramatically curtailing our oversight of other Department programs and operations, most of which is mandated.”
(The full statement is attached as Exhibit 4.)

During the questions and answers, in which Special Inspector General for Iraq Reconstruction (SIGIR) Stuart Bowen, GAO's Joseph Cristoff, and three others were also on the panel, I was reluctant to use the occasion to

appeal for funding. Nevertheless, near the close the following exchange occurred:

“SHAYS:

Is there anything that any of you want to put on the record before we get to our next panel? Any issue?

Yes?

KRONGARD:

The only thing I would say, sir – both yourself and Mr. Lynch emphasized the question of whether we all thought that the oversight was adequate, and we all kind of nodded. I would like to qualify it in the sense – and I did say this before, I don’t want to overly say it – but the fact is, for 2005, I feel that I was able to provide oversight, do these assessments of Iraqi police training, evaluate the rule-of-law programs and do a whole bunch of audits and other things. And we have zero funding for 2006 in respect of either Iraq or Afghanistan. So I do not feel that we’re able to provide the oversight for this current year.

SHAYS:

And if you didn’t say that, it would be a dereliction of your duty, frankly.

KRONGARD:

I think so.

SHAYS:

So it’s our job to get you those dollars.”

House Armed Services Committee.

I testified before the Full Committee on January 18, 2007, regarding audit and oversight activities related to Iraq. After first noting that “With resources limited due to statutorily mandated audit and inspection requirements and flat budgets in an increased cost environment, OIG has nevertheless conducted high-value projects that have included, in fiscal years 2005 and 2006 and thus far into 2007, 10 program and management assessments, 15 audits with 4 more in progress, and supervision of 4 Defense Contract Audit Agency Audits.” I later stated:

“I believe the foregoing is responsive to your question as to what is working with respect to oversight in Iraq. With respect to what is not working, I would point first to the limited resources available to my office. The work in Iraq I have described to you was funded by an allocation of \$1.3 million from the FY 2005 Supplemental and \$1.7 million from the FY 2006 Supplemental. That \$3 million over two years was intended to provide for our work in both Iraq and Afghanistan. As for 2007, we have received no Supplemental funds for Iraq and Afghanistan. By way of contrast, I believe SIGIR’s initial and supplemental fundings have approximated \$100 million. So, at a time when the costs and risks attributable to State Department programs in Iraq continue to increase, OIG’s resources have remained flat and perhaps have decreased after considering mandatory wage increases, higher travel costs, and lower dollar exchange rates.” (The full statement is attached as Exhibit 6.)

House Appropriations Subcommittee on State, Foreign Operations and Related Programs

I testified before the Subcommittee on February 8, 2007, also regarding audit and oversight activities related to Iraq. Once again I used language similar to that three weeks earlier before the House Armed Services Committee, updating it for the just-released 2007 Supplemental Request which included \$35 million for SIGIR. (The full statement is attached as Exhibit 7.) That would have meant SIGIR would have received \$135 million just for oversight in Iraq while over the same period OIG received \$3 million for oversight in both Iraq and Afghanistan. As it turned out, over the ensuing months I and other OIG representatives visited numerous Committee staffs to urge funding for an OIG Middle East Regional Office, which had never existed, to serve Iraq, Afghanistan, and other crisis/post-conflict areas in the region, and our efforts resulted in the FY 2007 Emergency Supplemental, as eventually effective in June 2007, providing \$1.5 million for that purpose.

Chairwoman Lowey also asked as a question for the record the extent to which OIG had found waste, fraud and abuse in Iraq. The answer I submitted began:

“For a number of reasons, including limited amounts of funding available for work in Iraq and the absence of authority to hire 3161

term employees or personal services contractors, as well as the presence of the Special Inspector General for Iraq Reconstruction, OIG's work in Iraq over the past three years has been more in the nature of inspections and management reviews—designed to improve efficiency, assess performance, and provide information for policy-makers—than in audits or investigations designed to find waste, fraud, and abuse.” (The full answer is attached as Exhibit 8.)

In short, Mr. Chairman, you stated at the hearing that it is incumbent on the inspector general “to stand up and say, I don't have the tools. I don't have the tools to do the job.” Since I came to Washington, I have tried on many occasions to inform the members of Congress that I believed OIG's resources were not adequate to do the job.

I should also note that, although the 2+ years that the IG position was vacant may have had an adverse effect on obtaining resources, the underfunding of OIG is neither a new nor a post-9/11 development, nor am I the first State IG to bring this to the attention of Congress. For the FY 2001 budget request, the last pre-9/11 budget, then Inspector General Jacquelyn L. Williams-Bridgers testified on March 1, 2000, before the House Committee on Appropriations Subcommittee on Commerce, Justice and State. Then IG Williams-Bridgers sought what she called “a modest request ... only 3.5 percent above our FY 1999 enacted level”. She then noted:

“The major challenge facing OIG is the erosion of our funding base and the elimination of our FY 1999 Emergency Supplemental Appropriation funding. The lack of adequate budgetary resources jeopardizes our ability to oversee and monitor the Department's use of over \$2 billion in security funds appropriated over the past two years.

My office has been virtually straightlined since FY 1996. With the exception of the FY 1999 Emergency Supplemental Appropriation funding, OIG has not received an increase to its annual appropriation since that time. Over the last 5 years we have absorbed the cost of all inflationary increases, as well as the cost of mandatory requirements such as Law Enforcement Assistance Pay and Chief Financial Officer Act audits. This has resulted in a delay or suspension of planned work.”

IG Williams-Bridgers concluded:

“As the Department’s Inspector General, I recognize the need for prudent government spending. Five years of what is effectively a straightlined budget base, however, makes it difficult for OIG to effectively carry out our mandated requirements. I ask that you provide us the modest increases included in our FY 2001 budget request.” (The full statement is attached as Exhibit 9.)

What is perhaps most notable is that the “modest” budget requested by IG Williams-Bridgers for the last pre-9/11 budget was \$29,502,000, which is essentially the same amount appropriated for OIG in FY 2006 and FY 2007 without any adjustment for 5-6 years of inflation and post-9/11 demands on OIG.

All of this is consistent with CG Walker’s chart showing (i) from fiscal 2001 to fiscal 2006 the State Department’s budget has gone up 55% in inflation-adjusted dollars while OIG’s budget for oversight has gone down 6% and (ii) from 227 actual staff in 2001 OIG decreased by 20% to 182 actual staff in 2006. Moreover, CG Walker’s chart apparently does not include the additional hundreds of million dollars that BBG receives, as to which OIG is expected to provide oversight without any additional resources.

2. Inspections.

a) As set forth in the Restoring Our Capabilities message (see Exhibit 2) and in my letter of comment to the GAO report (attached as Exhibit 10), what distinguishes State OIG and largely inhibits its ability to provide discretionary oversight is the statutory mandate in the Foreign Service Act of 1980 that OIG inspect each Foreign Service post and each bureau and other operating unit of the State Department at least every five years. Since 1980, of course, the number, size and complexity of U.S. missions abroad have vastly expanded. Critical missions such as Baghdad, Kabul, Hanoi, the former states of the Soviet Union, Beijing, and many new member states of the United Nations did not even exist in 1980. As CG Walker noted, GAO reported over nearly thirty years that the mandated five-year inspection cycle adversely affected OIG’s effectiveness by limiting its ability to do other work. Congress apparently considered various GAO recommendations but has not changed the inspection mandate. The House Committee on Foreign Affairs report on the applicable provision of the Foreign Service Act

explained that it went beyond the financial audit and investigations aspects of the Inspector General Act of 1978 by providing for authority to determine compliance with U.S. foreign policy objectives. “In the view of the committee, the historically dual responsibility of the office of inspector general to prevent waste and misuse of funds and also to determine compliance with U.S. foreign policy objectives sets this office apart from other Inspectors General.”

I did not create this inspection-oriented system, nor do I necessarily agree with it. However, OIG has been like that for decades and perhaps, as CG Walker noted, going back to 1906. I came into an office that had more inspectors than auditors and an even greater disproportionate share of budget going to the Office of Inspections. I note that in accordance with my stated objective to enhance the audit function and reduce the length of time and size of teams for inspections, the relative numbers of FTEs have gone from 62 inspectors and 54 auditors at 9/30/05 to 59 auditors and 53 inspectors at 9/30/07. The IG cannot, however, ignore the statutory mandate which means OIG must have the people on board to perform inspections. There was discussion in your hearing regarding the waivers of the five-year cycle requirement that have been granted by Congress. It should be noted that:

(i) The waivers have been granted for the one year in question. It would be irresponsible and possibly illegal for an IG to assume in one year that waivers would automatically be granted in future years and to re-arrange the OIG staffing among auditors and inspectors so as to be able to perform more audits, but not able to perform the inspections.

(ii) The waivers have been made through the appropriations bills, so for fiscal year 2001 through 2005, they came from three to six months after the commencement of the fiscal year and too late to take into account in planning the four inspection cycles for the year, which planning is done in the prior year. OIG still has to go into each fiscal year with work plans, staffing and resources (in both the Office of Audits and the Office of Inspections) that are designed to comply with existing law.

(iii) Even if somehow the inspection mandate were modified or eliminated, an IG could not simply terminate the inspectors and replace them with auditors. and

(iv) The Department of State has come to rely on the deterrent effects and constructive evaluations and recommendations that come from the inspection process. Both the Department and the OIG that I entered had adopted the policy that, even with a waiver from Congress, to allow posts to go more than seven or so years without an inspection, which is a period likely to cover three ambassadors, is a high risk to be avoided. Therefore, OIG tries to comply with a five to seven year cycle. But as I stated in my letter of comment to GAO, this policy should be implemented free from a statutory mandate so that high risk or high priority matters at a particular time can be attended to. I stated many times that I would prefer OIG's work to be dictated by priorities and world events, not by the calendar. Thus, in effect, I have agreed with CG Walker and the GAO that Congress should remove the inspection mandate.

b) There was also much discussion at the hearing regarding the content of an embassy inspection. According to the transcript, you asked CG Walker several questions:

“To me, an inspection means, according to your report, a former Foreign Service officer – maybe, presumably of ambassadorial rank – gets on a plane and goes to visit an embassy.

What happens then? What is he tasked with? Is he there to make sure that the paper clips are being counted, that the air conditioning is working? Or is he there to ensure that, in his conversations with embassy or consular personnel, that American foreign policy objectives are being met? And after conclusion of that visit, does he report back?”

Perhaps it will be of assistance for me to provide some answers.

Inspections are performed by teams led by a former Ambassador. A team would typically consist of experts or specialists in political/economic, public diplomacy, consular, management, information technology, security, and intelligence/law enforcement. Although I have been doing my best to reduce the size of teams and length of inspections, a typical team will consist of around 10-12 members and will be at the embassy for six to eight weeks following four or five weeks of preliminary work doing interviews, surveys and questionnaires and preceding another four to six weeks or more finalizing a report. By way of recent examples, (i) the team that inspected

posts in Russia consisted of 18 members, who were in Russia over an eight-week period following nearly a month of preliminary work and followed by nearly four months before three separate reports were issued: a sensitive but unclassified (SBU) report that contained 45 formal recommendations and 92 informal recommendations, a classified report with 36 formal recommendations and 29 informal recommendations, and a separate report on BBG operations in Russia; (ii) the team that inspected the three missions in Vienna (the U.S. Embassy, the U.S. Mission to UN Organizations in Vienna, and the U.S. Mission to OSCE) consisted of 12 members, spent about seven weeks in Vienna, and issued three SBU reports with 29 formal and 31 informal recommendations and a classified report with 15 formal and 29 informal recommendations; and (iii) the team that inspected Sudan and Kenya consisted of 10 members, spent about seven weeks in Africa, and issued a report on each country with 35 formal/23 informal recommendations and 20 formal/30 informal recommendations, respectively, plus classified reports on each with 15 formal/2 informal and 9 formal/5 informal recommendations, respectively.

Similar to what CG Walker described, inspections are designed to cover three broad areas:

- Policy Implementation: whether policy goals and objectives are being effectively achieved; whether U.S. interests are being accurately and effectively represented; and whether all elements of an office or mission are being adequately coordinated.
- Resource Management: whether resources are being used and managed with maximum efficiency, effectiveness, and being accurately and effectively represented; and whether financial transactions and accounts are properly conducted, maintained, and reported.
- Management Controls: whether the administration of activities and operations meets the requirements of applicable laws and regulations; whether internal management controls have been instituted to ensure quality of performance and reduce the likelihood of mismanagement; whether instances of fraud, waste, or abuse exist; and whether adequate steps for detection, correction, and prevention have been taken.

Several products result from an inspection, including an SBU report; a separate classified report that addresses the mission's ability to deter, detect

and respond to threats; a separate report on any BBG operations or activities in country; a classified report describing the adequacy of Chief of Mission oversight of intelligence and law enforcement functions; and an Inspectors Evaluation Report on the Chief of Mission, Deputy Chief of Mission, and perhaps other principal officers at post. These IERs are prepared only by a team leader, are reviewed and concurred in by three other ambassador-level OIG personnel, and are highly valued by the Office of Director General of the Foreign Service and others in the Department. Any efforts to reduce the number of IERs by modification to the inspection process has been and will be met with opposition from Department management.

Inspections are governed by and performed in accordance with standards promulgated by the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency in "Quality Standards for Inspections", known as the "Blue Book". I have also been a leading proponent, in my role as a member of the PCIE's Inspection and Evaluation Committee, of instituting peer reviews of the Offices of Inspection in those IG offices which have them. As evidence of my commitment, our Office of Inspections submitted this summer to a pilot program peer review by two other IG offices.

I have questioned from the outset why OIG cannot get more of its inspection material to a wider audience. I am told that inspection reports have been designated as SBU since 9/11 and that legal and policy considerations regarding the sensitive nature of the reports' content constrain their dissemination. Reports do go to the cognizant and relevant Congressional Committees, and I have instituted a Highlights procedure whereby summaries of reports are posted on OIG's website. I have also begun having non-post-specific reports, such as those covering issues and programs such as police training, rule-of-law, and anticorruption, posted on OIG's website, and I presently have a study group to report back to me on how wider distribution can be accomplished.

c) Two concerns have been raised by GAO and the Subcommittee concerning independence. First, I agreed in my letter of comment with GAO's concern over the appointment of Foreign Service Officers as Acting IG. Indeed, my concern with such appointments went beyond the independence concern raised by GAO. I believe the appointment of four Acting IGs over more than two years before I took office, each of whom was an enormously talented Foreign Service Officer but was precluded by law

from ever being IG and therefore obviously temporary, contributed to the decline and loss of direction in OIG. I also took a significant step to eliminate the possibility of that happening after my term by hiring, for the first time in years, a Civil Service Deputy Inspector General rather than a Foreign Service DIG which had been the practice. However, I did note that I thought GAO's recommendation went too far because, in addition to eliminating Foreign Service Officers from consideration to be Acting IG, it limited eligibility for that position to "personnel without State Department management careers". Thus, my own DIG, for example, who is a CPA and earlier in his career worked in another IG office, and is extremely qualified to be Acting IG, would be disqualified because he has had a State Department management career.

I also agreed with GAO's concern over the appearance of independence in having Ambassadors be team leaders. However, I note:

(i) as a factual matter, I was told that in the decades within people's memories, there had never been a credible allegation supporting the concern that ambassador-level team leaders would not be independent;

(ii) because the team leaders report to an Assistant Inspector General-Inspections and then to a Deputy Inspector General, each of whom is Civil Service, and ultimately to an IG who by law cannot be Foreign Service, and the majority of each inspection team consists of Civil Service personnel, the likelihood that an ambassador would exercise undue influence may be remote;

(iii) significant checks exist in OIG's strict recusal policy, the PCIE Quality Standards, OIG's Inspector's Handbook, and other Department, PCIE, and professional guidance on ethics which guard against impairment of objectivity; and

(iv) most important of all, during my tenure I have not had one single team leader who was not already retired or about to retire, and thus I have never had a situation where a team leader was eligible or available for a further assignment in the Department. (I should note that I view it as one of the significant handicaps OIG faces that people in the prime of their careers are no longer willing to come to OIG, and therefore OIG is dependent for team leaders on retired annuitants (WAEs) whose available time is limited by regulation, who may not be as current on policies and developments

within the Department and around the world, and whose lead roles are not always viewed with favor by others in OIG. At present, with six inspection teams functioning in each of three or four cycles annually, OIG has only two FTE team leaders, each of whom is retiring this year, and must rely for the remainder on a large roll of WAEs).

Considering the foregoing, and weighing what I believe to be the overriding need to have people with ambassadorial experience and expertise lead an inspection of a foreign post, I conclude on balance it is better to have ambassadors despite the possible appearance issue. I just do not believe that in this difficult world there is any substitute for a team leader who has performed under the difficult and often adverse conditions that characterize a foreign post, for the credibility given to evaluations and recommendations made by an ambassador, or for the trust and acceptance accorded to an ambassador by the whole range of people at a foreign post, whose willingness to be candid and critical regarding what goes on at post is the keystone to the inspection process. While I recognize reasonable people can differ, my own view based only on my brief experience is that even if Congress should choose to move the inspection process from the OIG to Department management, inspection teams should still be led by ambassadors. Such a move of the inspection function back to management would also diminish or eliminate the collaborative work now conducted among OIG's Offices of Audit, Inspection, and Investigation.

Finally, although it would take a lot more time and space to articulate, in view of suggestions that embassy inspections be conducted by auditors and in accordance with Government Auditing Standards, I would say that is not practicable. Inspections are judgmental, are based on experience and expertise of the inspectors in the unique operations of foreign posts, are done on a more timely basis than audits and are flexible in responding to what is heard or found at post, and the recommendations that emanate from them and have been viewed for decades (or maybe a century) as an essential tool in the pursuit and implementation of foreign policy objectives may not meet the tests, support, and levels of evidential material required by auditing standards.

3. Investigations.

I have strongly agreed with GAO's recommendation that there be a memorandum of understanding between OIG and DS for coordinating

investigative activities and delineating areas of responsibilities. When I took office and learned of the rivalry, competition and perhaps even conflict that existed between DS and OIG's Office of Investigations (INV), I inquired about having such an agreement. I was told efforts were made some ten years earlier, proceeded for some time, but did not produce an agreement. I have experienced significant cooperation with DS at the top levels of the two offices, but acknowledge that this has not pervaded the working or field agent level. Indeed, events have occurred that have exacerbated the rivalry.

It has been very difficult to manage in, and attract and retain qualified people to, an environment where INV generally has around 17 employees of whom, after excluding management, administrative and medical leave personnel, there are typically a maximum of 10-13 special agents available at any time, all of whom are located in one office in the Washington area, with extremely limited discretionary funds for travel, equipment, and investigative costs, and compare that to DS which has roughly 1,450 special agents, is in perhaps 300 locations in the U.S. and around the world, and has resources, as CG Walker said, "many, many, many more times" that of the entire OIG (probably over a billion dollars), with what he calls a "global force of approximately 32,000".

Mr. Chairman, you also asked at the hearing why the Inspector General was not involved in the DS investigation of Blackwater in Iraq and the alleged conferring by DS of immunity. Blackwater, along with other security providers, provide services under a Worldwide Protective Security Service Contract of huge proportions covering many locations. The contracts are managed by DS. Even putting aside questions of jurisdiction, duplication of effort, expertise, cost, benefit, etc., it is simply inconceivable that 10 INV agents could oversee thousands of DS investigations that take place each year (the GAO report noted that in fiscal 2004 DS opened 5,275 new criminal investigations, and that has likely increased by 2007) or that INV could do anything else if it tried to oversee DS. I should note that OIG does inspect DS and has reported on one major DS division in each of the past five years.

The Semiannual Reports to the Congress (SAR) that OIG files disclose the number of Hotline complaints alone received by INV. For FY 2007, INV received 527 (a number that has continually increased, without any corresponding increase in resources), or more than two for each business day of the year. The Hotline is only one source for actual and proposed INV

criminal investigations in the U.S. and around the world relating to State Department programs and activities. Trying to deal with the vast array of possible criminal wrongdoing within the constraints of INV's resources has been virtually impossible. As I said at the Bureau Performance Plan and Senior Review sessions shortly after taking office, INV was "at or below critical mass". I had also learned at my first PCIE Annual Conference that even though many of the smaller IG offices had virtually no law enforcement responsibility, OIG ranked 23rd of the 28 PCIE members in number of investigative staff. Without getting into specifics of any investigation, suffice it to say there are many times when available resources (both financial and human), experience and capabilities, benefits to be achieved, likelihood of success, and availability of other investigative bodies to do the same work have to be weighed in determining whether a particular investigation proposed by someone in INV or OIG can or should be undertaken and, if so, when. I have tried to make these determinations as best I can, with the objective of making OIG as effective, efficient, and relevant to the current world as I can.

I appreciate GAO's recommendation, and at my direction OIG's Security and Intelligence Advisor and AIG-INV are working with DS to reach a memorandum of understanding.

4. Construction Workers Camp at New Embassy Compound.

There was a good deal of discussion – and I believe unwarranted criticism – at the hearing regarding the Memorandum issued in April 2007 on the Construction Workers Camp (Camp) at the new Embassy Compound in Baghdad (NEC). Surprisingly, there was not one single mention of Multi-National Force-Iraq Inspector General (MNF-I IG) who performed the principal work. The work performed by the DIG and me was never even intended to be separate from the work of MNF-I IG and only resulted in a separate Memorandum because of a late schedule change by MNF-I IG. (Attached as Exhibit 10 is the summary of the Memorandum which appears at page 23 of the current SAR being sent to the Congress.)

As set forth above, OIG gets a large number of complaints through its Hotline, and they are only a portion of complaints and allegations that also come into OIG as subjects and suggestions for audits and inspections. Many of these allege serious violations at missions and broadcast facilities throughout the world and are far beyond the resources and capabilities of OIG to pursue.

As the Semiannual Reports to the Congress set forth, of the 527 Hotline complaints received by INV alone in FY 2007, 296 were referred to other offices outside OIG for action, 144 were deemed by INV not worthy of action, and only 87 (less than 1/6) were even held for action by INV. Even more telling, for all of FY 2007, from all sources including self-initiated, INV opened only 33 new cases. It is obvious, therefore, that upon receipt of allegations, judgments must be applied regarding availability of resources, credibility of allegations, interests or presence of other oversight or law enforcement bodies, etc. Moreover, these judgments have to be made without much preliminary work, for to invest resources in preliminary work for such a large number of allegations would virtually eliminate resources for full investigations.

In the case of the NEC, perhaps by late 2005 but into 2006, allegations were surfacing from a number of sources, including those who objected to the use of non-American contractors, those who objected to the use of non-American workers, those who were critical of not using Iraqi workers or contractors, those who had unsatisfactory work or personal experiences at the NEC, those who were critical of the use of workers from certain third countries, and so on. Purely by coincidence, I personally had experiences which cast doubt on the credibility of some of the allegations. I had been to Iraq in November 2005 for purposes other than the NEC, but while there I spent a day at the NEC walking and riding through most of the site, including the Camp. In the months following this visit, allegations arose regarding such things as workers being malnourished, forced to eat leftovers from American personnel, food when available fed in a pig trough, squalid living conditions, and filthy disorganized medical clinics. Since I had actually seen and eaten in the dining facilities, visited the medical clinic, and looked in on living quarters, where I had seen none of the conditions alleged, there were at least questions regarding credibility of some of the allegations. There were other allegations as well as to which I had no knowledge and which covered a wide array of issues. However, to undertake a full-scale audit, inspection or investigation, which at best would likely have consumed all discretionary financial and human OIG resources for the year, or at worst was beyond OIG's resources particularly as to employees willing to go to Iraq, was not a wise allocation of resources; but on the other hand, the allegations were serious enough to merit review. (Parenthetically, it should be noted that at least four times I have made personal appeals to all OIG employees for volunteers to work on jobs in Iraq and Afghanistan, and not one single volunteer was put forward to me.)

Against this background, I did what I thought was the best thing. I went to MNF-I IG, the recognized leader in the field of inspecting camps in Iraq, and urged them to add the Camp to the many workers and guard camps they were already inspecting and planning to inspect. It was MNF-I IG's critical work that had already led to trafficking-in-person reforms in camps administered under DOD in Iraq and Afghanistan; their reputation for independence and objectivity was beyond question. As the well-known Memorandum for All Contractors from Joint Contracting Command-Iraq/Afghanistan, dated 19 April 2006, stated: "The right of freedom of movement and quality living standards are serious issues; MNF-I takes a zero tolerance approach to any violation" and further "The MNF-I Inspector General will conduct compliance inspections in 90 days." MNF-I IG is also part of the worldwide network of the Department of Defense Office of Inspector General. DoD had implemented a comprehensive program for combating trafficking-in-persons (TIP). A September 2004 Secretary of Defense Policy Memorandum stated that "these trafficking practices will not be tolerated in DoD contractor organizations or their subcontractors in supporting DoD operations. Further, commanders should make full use of all tools available, including DoD Inspectors General and criminal investigations organizations, to combat these prohibited activities." On November 18, 2005, DoD IG had announced an Evaluation of the DoD Efforts to Combat Trafficking in Persons, of which MNF-I IG was a part. So, far from giving these allegations regarding TIP violations at the Camp the back of my hand as has been suggested, and without a single OIG person on the ground in Iraq and few if any willing to go there, and with a severely constrained travel budget, and with no OIG experience whatsoever in inspecting such a camp, I went to what I thought was the best possible entity to carry out such an inspection. Moreover, the expectation was that if the work to be done by MNF-I IG revealed significant concern over the allegations, then OIG would re-examine whether to devote substantial resources for a full audit, inspection or investigation.

It was not a simple matter to get MNF-I IG to take on inspection of the Camp. Among other duties, MNF-I IG was inspecting 57 other camps in Iraq, all within DoD jurisdiction. It should be noted that at this time in June 2006 SIGIR and OIG were working on a transition plan for the then-expected conclusion of SIGIR's existence and the transition of its duties. The DIG and I were planning a trip to Iraq in the Fall to meet with all SIGIR employees and to finalize personnel, space and many other transition matters. I was also going to Iraq to speak to all the Iraqi IGs and to do other Anticorruption and Rule-of-Law activities in Baghdad and Al Hilla, and the DIG and I were going to Jordan

to visit the Jordan International Police Training Center where Iraqi police were trained. However, as a way of inducing MNF-I IG to do the Camp inspection, of reducing potential jurisdictional issues, of gaining experience in this new line of work for OIG, and, frankly, of assuring that the Camp got the highest level of attention as one of 58 camps being inspected, I offered to the MNF-I IG that my DIG and I would personally join his inspection team. That helped seal the deal, even though the dates selected by him of August 15-20, 2006, for the inspection were unfavorable. MNF-I IG provided me with their work program for a review focused on TIP and the fair and ethical treatment of a foreign work force, which was developed through their own experience and the worldwide experience of DoD OIG.

Unfortunately, in mid-July I was informed that other higher priority matters required MNF-I IG to postpone their inspection of the Camp. Since the DIG and I were going to Iraq anyway, we concluded it would be useful to carry out a limited review based entirely on the work plan provided by MNF-I IG since we would not likely be able to join the MNF-I IG team when they would reschedule their inspection. It was never intended that our limited review would be anything more than an adjunct to the MNF-I IG inspection. The Memorandum we eventually issued does not change this in any way. By its explicit terms: it does not purport to be anything more than a limited scope review; it did not constitute an audit; it consisted essentially of what are called in the auditing world “agreed-upon or limited procedures”; it was not intended to and did not provide any attestation to refute the allegations; it was limited to negative assurance based on procedures, each of which was specifically enumerated; and it did not purport to refute or respond to all the allegations but just those which were specifically referred to and lent themselves to this type of “see/hear/taste/touch/feel” process. The Memorandum does not embellish in any way and is a precise statement of the work done, the information obtained, and the negative assurance received. Most of all, it acknowledges that the MNF-I IG inspection, which did subsequently take place over two visits in December 2006, was significantly more extensive, and it appended the MNF-I IG’s memorandum on the results of its inspection. While people at the hearing and elsewhere belittled the work that I did – for example, the questions that were asked and that only “about six workers” were interviewed (not mentioning the dozens I spoke to randomly) – they totally ignored that the work plan was specifically that of MNF-I IG and the principal work was subsequently done by MNF-I IG – whose memorandum, for example, says “36 workers from 7 different nations participated in the sensing sessions.” I believed then, and I believe now, that MNF-I IG was objective, experienced, and the most efficient

and effective way for OIG to test the credibility of the allegations to determine what, if any, further expenditure of OIG resources was appropriate. I note that when adverse publicity criticizing the inspection work followed my July 26 testimony before the House Committee on Oversight and Government Reform, the head of the MNF-I IG inspection team e-mailed me stating:

“These allegations are ridiculous. I checked rooms that I wanted to see, I ate in one of the chow halls and looked at all the others, spoke to workers randomly, went through their medical facilities. I don’t know what these guys are talking about. I hope they send another team to inspect. I have no reason to cover something up and take great offense if these gentlemen are calling me a liar.”

Mr. Chairman, I feel exactly the same.

Neither MNF-I IG nor OIG had the resources or ability to address all of the many allegations made. For example, perhaps the most prominent allegation in the media was that 51 Filipino workers were “kidnapped to work on the U.S. Embassy”, flown to Baghdad under the pretext of going to Dubai, and “smuggled into the Green Zone”. Although each of MNF-I IG and I interviewed Filipino workers and found nothing to support the allegation, neither of us specifically addressed the allegation in our memoranda because we did not have, or wish to expend, the resources to track down and question many of the Filipinos wherever they might then be, in Iraq, back in the Philippines, or elsewhere. Again, the principal purpose of the exercise was not to prove or disprove every allegation but rather to test the credibility and validity of the allegations to determine what, if any, additional resources should be expended. By early 2007, when MNF-I IG’s inspection results were becoming available, I considered those results, my own more limited review, the visit to the Camp by senior Embassy Baghdad officials referred to in the Memorandum, the demonstrable lack of credibility of some of the allegations, and perhaps most important the several other investigations of the NEC and Camp that had commenced by other agencies, including several divisions within the Department of Justice. I concluded that it was neither the best use of OIG’s limited financial resources nor would it be worth trying to force OIG people to go to Iraq to further pursue questionable allegations that were already being pursued by other appropriate law enforcement entities. Of interest simply for confirmation of our own work was that the Philippine Government did pursue the alleged kidnapping of its nationals by tracking down Filipino workers both in Iraq and back at home, and they found no support for it. Although this

received little media coverage in the U.S., attached as Exhibit 11 are articles from Manila quoting the Philippine Ambassador to Kuwait, who along with a Special Presidential Envoy were part of the investigation team appointed by the Philippine President, as saying of the workers: “They said they were not forced to go, they went willingly and were aware their destination was Iraq. They said they were satisfied with their working conditions and want to stay on.” That is the same as what was said by Filipino workers to me and to MNF-I IG.

5. OIG Activities in Iraq.

It was stated at the hearing that OIG has been a “non-factor” in dealing with the issues of waste, corruption and oversight activities in Iraq, as well as in Afghanistan. I do not believe that is a fair assessment. First, I would like to point out that, as the budget requests of IG Williams-Bridgers in 2000 referred to above and CG Walker’s testimony and chart reveal, during my time in office OIG has been forced to operate in a post-9/11 world with less real dollar resources and 20% fewer people than were considered insufficient in a pre-9/11 world. IG Williams-Bridgers said in 2000 that the OIG budget base “makes it difficult for OIG to effectively carry out our mandated requirements”, and that was before the U.S. even had any programs to audit or embassies to inspect in either Iraq or Afghanistan, much less multi-billion dollar assistance, training, governance, reconstruction, and war efforts. Regarding “mandated requirements”, at the time I took office, it had been determined that 70% of OIG’s audits and inspections were mandated and an additional 9% of projects were specifically requested by Congress or the Department. None of this mandated work carried funding with it.

Second, as CG Walker also testified, Iraq is a bit unique in that there are “many players on the field doing oversight work in Iraq.” OIG has had extremely limited resources to expend on oversight in Iraq, has never had a single permanent person on the ground, and has not had the authority to hire 3161 term employees or personal service contractors who are used by others to fill staffing requirements in Iraq. At the same time, however, other significant “players on the field” include: SIGIR, with approximately \$135 million in aggregate appropriations solely for oversight in Iraq and as many as 50 or more people on the ground; USAID’s Office of Inspector General with its own Regional Inspector General Office in Baghdad; DoD OIG with offices in Baghdad and elsewhere in the region; GAO with a continuing flow of TDY personnel in Iraq; and various military, contracting, and other OIG and oversight entities with a presence in Iraq.

To have such limited resources, in such an important arena, where other significant entities already provide oversight, has presented an enormous management challenge in trying to decide what resources can wisely be invested in Iraq and provide meaningful results. Even faced with this strategic and operational conundrum, OIG has been more than a “non-factor”. OIG has conducted Iraq projects that included in fiscal years 2005-2007 more than 20 audits and 10 program and management assessments and supervision of 4 Defense Contract Audit Agency Audits. Part of this has been made possible by my own strong advocacy of interagency Inspector General undertakings as a way of leveraging OIG’s limited resources and also enhancing cooperation among IG offices. Following are some of the meaningful inspection and then audit projects OIG has been able to conduct:

a) Interagency Assessment of Iraq Police Training (July 2005). This joint project with DoD OIG made 30 formal recommendations and had Key Judgments which included that:

- Recruitment and vetting procedures were faulty.
- Most of the training programs were designed and executed by the Coalition with insufficient input from Iraqi leaders.
- The emphasis on numbers of police overshadowed the attention that should be given to the qualitative performance of those trained.
- Within the budget constraints at the time, the Iraqi Ministry of Interior could not fund the existing staff of about 170,000, let alone the additional numbers projected for training.

With perhaps great foresight, the report concluded that:

“Unless and until the Ministry of Interior takes full responsibility for the management and administration of the Iraqi Police Service training program, the Coalition is destined to fall short in helping to create an effective police force. The ‘handoff’ will be a process, not an event. Attention must be given to formulating – in close consultation with Iraqi counterparts – an agreed plan for that process”.

b) Inspection of Rule-of-Law Programs, Embassy Baghdad (October 2005). This inspection report made 21 formal recommendations, the very first one of which continues to be significant (the issue was discussed at length in a recent

hearing of the House Appropriations Committee Subcommittee on State, Foreign Operations, and Related Programs on October 30, 2007):

“Embassy Baghdad, in coordination with the Bureaus of Human Resources, Near Eastern Affairs, and International Narcotics and Law Enforcement Affairs, should designate a senior officer to be the rule-of-law coordinator exclusively.”

Some of the Key Judgments in the report include:

- A fully integrated approach to justice-sector reform in Iraq was essential and did not exist.
- Basic to the success of all U.S. hopes for democracy and good governance in Iraq is an effective anticorruption regime. The institutional framework for anticorruption activities was in place, but it was fragile and untested.
- Interagency differences in Washington had stalled certain justice reform projects, and disagreements were diverting attention of agencies at work in Iraq and amplifying existing interagency tension there. OIG urged policymakers to break the interagency log jam so the projects could go forward or the funds for them be used elsewhere.

c) Survey of Anticorruption Programs, Embassy Baghdad (August 2006). This survey was done in collaboration with SIGIR, and each entity issued its own report. OIG’s report made 9 formal recommendations and repeated OIG’s 2005 judgment that an effective Iraqi anticorruption regime is basic to success for democracy and good governance in Iraq. Key Judgments included:

- Engaging Iraqis to design an anticorruption regime for the future is essential for success but is far from fully achieved.
- Honest governance in organizations that are material to protecting Iraq’s infrastructure, particularly the Ministries of Oil, Electricity, Defense, and Interior, requires the most urgent attention.
- The modest U.S. government funding for anticorruption programs represented less than .003 percent of total Iraq Relief and Reconstruction Funds and non-U.S. donor funding was even less robust.

Mr. Chairman, each of the preceding projects was an inspection, not an audit, and each inspection team was led by an ambassador. I do not believe these projects could have been achieved as audits, and there has not been the slightest hint that

the objectivity of the teams or their leaders was in any way compromised by the presence of ambassadors or Foreign Service officers. On the contrary, the critical insight provided and the receptivity of various entities receiving the recommendations made were significantly enhanced by having ambassadors as team leaders. These inspections, or management reviews, which are designed to improve efficiency, assess performance, and provide useful information for policy-makers, fill an important niche between the audits and investigations that other oversight bodies provide in Iraq.

Some of the audits done by OIG included:

a) Survey of INL Funding for Iraq as of December 31, 2005. This survey was conducted jointly with SIGIR to identify funding received and expended by INL that was earmarked for Iraq and to evaluate INL accounting procedures for those funds. The report identified nearly \$1.5 billion available to INL for activities in Iraq and INL's obligation of about 88% of that total. It also identified funding recipients that did not adequately provide funding information and made recommendations for strengthened financial accountability and internal controls.

b) Review of DynCorp Contract Task Order for the Iraqi Police Training Program Support (January, 2007). During your hearing, reference was made to "almost \$44 million spent to construct a temporary camp that was never used". Others have referred to \$36 million for weapons and equipment that could not be accounted for and monies spent for unauthorized work or an "Olympic-sized swimming pool". What has been totally missing from these references has been the fact that the audit report making these disclosures was a joint audit conducted by SIGIR and OIG. (Attached as Exhibit 12 is the transmittal of the report, signed by Stuart Bowen and myself, and the Executive Summary of the report.) OIG has received no recognition for its work.

c) Report Related to Selected DynCorp Invoices (July 2007). At INL's request, OIG assessed INL's process for reviewing and approving FY 2005 invoices related to the Jordan International Police Training Center where Iraqi police were trained. OIG found that INL did not have an effective process for reviewing and approving the invoices. Further, OIG found the invoices were not supported by complete and clear documentation that complied with regulations and requirements. OIG identified more than \$11.5 million in inadequately supported invoice amounts. OIG has made recommendations that could be expanded to all contract oversight in INL and also discussed improvements in the invoice and approval process which INL had made.

Overall, despite significant resource constraints and the presence in Iraq of numerous other more heavily-resourced oversight entities, OIG has judiciously used its limited resources to carry out meaningful projects in Iraq. Projects similar to those referred to above have been carried out in Afghanistan as well, including an Interagency Assessment of Afghanistan Police Training and Readiness (November 2006) conducted jointly with DoD OIG, an Interagency Assessment of the Counternarcotics Program in Afghanistan (July 2007) conducted jointly with DoD OIG, and an Inspection of Rule-of-Law Programs in Afghanistan as to which OIG's inspection team has just returned from Afghanistan in October and is preparing its report.

Mr. Chairman, I hope the foregoing will be useful to you, members of the Subcommittee, and the staff as you go about your important work.

Sincerely,

A handwritten signature in blue ink that reads "Howard J. Krongard". The signature is written in a cursive, slightly slanted style.

Howard J. Krongard
Inspector General

Enclosures:

As stated.

cc:

The Honorable Dana Rohrabacher
Subcommittee on International Organizations,
Human Rights, and Oversight
Committee on Foreign Affairs
House of Representatives

The Honorable David M. Walker
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