

TESTIMONY OF DONALD A. GAMBATESA, INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

SUBMITTED TO THE APPROPRIATIONS SUBCOMMITTEE ON STATE, FOREIGN
OPERATIONS, AND RELATED PROGRAMS
U.S. HOUSE OF REPRESENTATIVES

OVERSIGHT OF ASSISTANCE PROGRAMS IN IRAQ
BY
USAID'S OFFICE OF INSPECTOR GENERAL

FEBRUARY 8, 2007

Madame Chairwoman, members of the Committee, it is an honor to appear before you today. I welcome the opportunity to testify on behalf of the Office of Inspector General (OIG) for the U.S. Agency for International Development (USAID) to describe OIG's operations in Iraq and its contributions to USAID's reconstruction and development efforts.

By way of background, OIG staff conducts performance audits and contracts with the Defense Contract Audit Agency (DCAA) to conduct financial audits of USAID activities implemented by U.S. contractors. DCAA's reports are reviewed by OIG, which then develops and transmits

recommendations to USAID for corrective action. OIG also conducts criminal, civil, and administrative investigations and provides fraud awareness training to USAID staff and the staff of entities hired to implement its programs. This training helps people recognize indications of fraud and provides direction on what to do if they observe suspicious or illegal behavior.

OIG began performing oversight of USAID's Iraq Reconstruction Program in early 2003. At that time, our headquarters staff began reviewing the agency's procedures for awarding reconstruction contracts to ensure compliance with federal acquisition regulations. OIG conducted 12 compliance reviews between April 2003 and April 2004. Those reviews found that USAID generally complied with federal regulations in the awarding of contracts using other than full and open competition and that the contracts, valued at about \$1.5 billion, were valid and legal. However, several recommendations were made to strengthen the contracting process.

Auditors and investigators began participating in continuous temporary-duty assignments to Iraq in August 2003 until a permanent

regional field office was established in July 2004. In addition to auditing USAID's contract award process, OIG worked in areas such as local governance, electrical power, and economic reform.

Currently, eight auditors and one investigator perform oversight of the \$5.4 billion obligated by USAID to date. OIG will be assigning one additional investigator to its Baghdad office in March to participate in the recently established International Contract and Corruption Task Force (ICCTF). Investigators of the Federal Bureau of Investigation, the Defense Criminal Investigative Service, the U.S. Army Criminal Investigative Division, the Department of State OIG, and the Special Inspector General for Iraq Reconstruction (SIGIR) staff this task force. Its purpose is to investigate and prosecute cases of contract fraud and public corruption related to Iraq reconstruction.

To ensure the effective use of limited resources and to prevent duplication of effort, OIG coordinates closely with SIGIR and other government organizations that are conducting audits and investigations in Iraq. At the headquarters level, OIG attends SIGIR's quarterly meetings

during which completed, ongoing, and planned audits, as well as investigative issues of mutual interest, are discussed.

In Iraq, OIG staff has a close working relationship with SIGIR that often involves daily communication, as well as participation in quarterly meetings of the Iraq Accountability Working Group. This group was formed in Baghdad to coordinate audits, share information among U.S. government audit staff, and minimize audit disruption to clients. Our investigator attends ICCTF meetings and works directly on cases with investigators from other agencies.

To oversee USAID's activities in Iraq, Congress has appropriated \$7.9 million to OIG in three supplemental appropriations: \$3.5 million in fiscal year (FY) 2003, \$1.9 million in FY 2004, and \$2.5 million in FY 2005. Our Iraq operations for FY 2006 were funded from FY 2005 carryover funds and FY 2006 appropriations.

The FY 2007 President's Budget for USAID OIG is \$38 million, which includes \$2.5 million for funding our audit and investigative efforts in Iraq.

OIG anticipates operating under a full-year continuing resolution for FY 2007.

As of February 5, 2007, OIG had issued 33 performance audits and reviews of USAID activities in Iraq. The audits and reviews covered much of USAID's \$5.4 billion Iraq program and followed the agency's efforts as they moved from reconstruction into development. Highlights of some performance audits include the following:

- USAID's agriculture program sought to increase production levels and incomes significantly and to strengthen the private sector in crop production, livestock, high-value agriculture, soil and water resource management, government-to-market transition, and marshland rehabilitation. An audit completed in January of this year selected 29 agricultural activities for review and found that 16 (55 percent) achieved their intended outputs, 12 (41 percent) were on schedule for doing so, and one was not likely to achieve its intended outputs.

- The Support to Iraqi Basic Education Program works closely with the Ministry of Education and local Directors General of Education throughout Iraq. The program seeks to build the capacity and increase the quality of the country's educational system. A 2005 audit looked at the basic education activities to determine if they had progressed toward their 82 intended outputs. The audit found that basic education activities had progressed toward 33 (40 percent) of the planned 82 outputs. Work had not started on 22 (27 percent) and the remaining 27 (33 percent) were deleted from the plan because of lack of funding, which resulted from security costs almost doubling and the Iraq Reconstruction Management Office reprogramming some of the funds originally planned for this project.
 - The audit noted that the Ministry of Education did not have appropriate computer equipment for operating an educational management information system. As a result, OIG recommended that USAID develop a plan for ensuring that the Ministry of Education receives the computer equipment required to operate the education

management information system being developed. USAID addressed the recommendation by identifying the needed hardware and developing an implementation plan.

- A 2007 follow-up audit found that the actions taken to address the recommendation from the 2005 audit were not satisfactory. The computer equipment had not been installed and the education management information system was not operational. Additionally, the audit found that 7 out of 16 selected outputs (44 percent) were achieved. The status of 2 outputs (12 percent) could not be determined because of the lack of supporting documentation. The remaining 7 intended outputs (44 percent) were not achieved. OIG again recommended that the Mission coordinate with its implementing partner to ensure that the servers are installed and the education management information system is operational.

- During its first year, USAID's local governance program focused on restoring basic services, developing transparent and accountable local governments, and strengthening civil society organizations. During the second year, the program focused on facilitating Iraq's transition to a sovereign state. In an audit report issued in 2006, OIG noted that it could not determine if the local governance activities achieved their intended outputs, because USAID did not require the contractor to submit all reporting and monitoring documents specified in the contract. Furthermore, USAID did not properly approve all rapid-response grants, prepare contractor performance-evaluations, or review payment vouchers submitted by the contractor. The audit made five recommendations to address these problems. OIG has two on-going audits in local governance and community activities, and another one is planned for later this year.
- An audit of the electrical power sector conducted in 2005 found that 7 of 22 power sector projects (32 percent) were not achieving intended outputs. For example, a \$381 million project for developing a new power-generating facility using

natural gas was cancelled and funds were reprogrammed into other areas. Several other projects were delayed because of deteriorating security and a lack of host government cooperation.

- OIG recommended that steps be taken to ensure that the newly refurbished infrastructure will be operated and maintained properly after being turned over to the Iraqis. Our FY 2007 annual plan includes an audit of the sustainability of the Iraqi power sector.

- An audit conducted in 2005 of water and sanitation rehabilitation activities found that 30 of 34 water and sanitation projects, or 88 percent, were achieving intended outputs. For example, the Sweet Water Canal project in Basra improved the quality of water being delivered to about 1.8 million Iraqis. However, four projects were not achieving intended outputs because they were hampered by security concerns and a lack of cooperation from the local government, which would not provide safe access to some locations.

- OIG also found barriers to capacity building on the water and sanitation projects, including a lack of skilled local personnel. USAID took steps to address these problems with additional operation and maintenance support and training, so OIG did not make any recommendations. Our FY 2007 annual plan includes an audit of the sustainability of water and sanitation rehabilitation activities.

To summarize, OIG made 55 recommendations in connection with the 33 performance audits and reviews issued as of February 5, 2007. USAID has taken final action on all but four, and has made management decisions to address those that remain.

Several themes have surfaced from OIG's performance audit work in Iraq: (1) USAID generally complied with the *Federal Acquisition Regulation* in authorizing the expedited award of contracts using other than full and open competition; (2) Security has affected the implementation of many projects from a cost and safety perspective; (3) Reprogramming of funds

has affected the accomplishment of planned outputs; and (4) USAID or its implementing partners did not always maintain documentation either to support claimed achievements or to reflect adequate monitoring.

As of January 31, 2007, OIG had issued 87 financial audits completed by DCAA. The audits covered approximately \$1.5 billion in USAID funds and found more than \$57 million in questioned costs, of which \$20 million was determined by USAID to be unallowable.

Security conditions inside Iraq have prevented OIG from conducting as many site visits as it would like. Travel outside the International Zone requires considerable planning and coordination with the Department of State's Regional Security Office and the assignment of armed security details for protection. Traveling by helicopter, fixed-wing aircraft, and armored vehicle, OIG auditors made 11 site visits outside the International Zone in FY 2006.

Currently, OIG is conducting audits of Iraq programs involving local governance, provincial reconstruction teams, and telecommunication. Our

FY 2007 audit plan includes work in areas such as economic governance, local governance, and infrastructure.

As of January 31, 2007, OIG had closed 26 investigations involving Iraq activities and had 13 cases pending. Completed investigations have resulted in two terminations, one resignation, a credit of approximately \$4.6 million, and refunds of approximately \$390,000. Four cases are being reviewed by the Department of Justice for potential prosecution.

The \$4.6 million credit was for equipment supplied to USAID for infrastructure programs. The investigation determined that the equipment did not meet contract specifications. Another contractor was required to refund \$388,262 after an investigation revealed that equipment purchased with USAID funds was not used to fulfill the contract.

To date, OIG has conducted 11 fraud-awareness training sessions for 250 participants associated with USAID's programs in Iraq.

Madame Chairwoman, thank you for offering me this opportunity to discuss USAID OIG's role in the reconstruction of Iraq with your committee. I am willing to answer any questions the Committee may have. Thank you.