

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

BEFORE THE COMMISSION ON WARTIME CONTRACTING IN IRAQ AND AFGHANISTAN

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

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Chairman Thibault, Chairman Green, commissioners, good afternoon. I am pleased to appear before the Commission today to testify on behalf of the Office of Inspector General (OIG) for the U.S. Agency for International Development (USAID) and to share some of our findings and observations as a result of our oversight of development work in Iraq and Afghanistan.

Background

Reconstruction and development efforts in Afghanistan and Iraq have been difficult, as has our oversight of these efforts.

USAID employees, as well as our OIG auditors and investigators, have been operating in what is often an unstable environment, where security is always of paramount concern.

Lack of security affects virtually every aspect of USAID's programs. In addition to causing increases in operating and program costs, the dangerous environment imposes significant constraints on USAID's ability to monitor programs. Officials are unable to make routine site visits, and their host country counterparts are often reluctant to be seen meeting with Americans. USAID's implementing partners have been the targets of threats, kidnappings, and murders by insurgents.

Security concerns likewise limit our ability to conduct routine audit and investigative work. Trips must be cleared through the Embassy in advance and can be canceled without notice, and armored vehicles and armed guards must accompany us on assignments.

The U.S. Government relies on private security contractors for a wide variety of security services, including the protection of individuals and facilities, and are vital to U.S. efforts in Iraq and Afghanistan. Nevertheless, the use of armed contractors to perform security tasks, coupled with prior incidents involving some of these contractors, has raised concerns about the level of accountability and oversight of these firms.

Recently, as a result of our investigative work in Afghanistan, a private security firm and four of its employees were charged with conspiracy and fraud for submitting inflated expenses for vehicles, fuel, and other items. USAID has suspended the security firm and its principals.

In our 2005 audit of Kroll Government Services International, a security firm with whom USAID contracted, we raised concerns about USAID's contracting processes and poor oversight in the purchase of armored vehicles. As a result of our work, USAID reeducated its contracting officers on numerous acquisition regulations and revised its policy on armored vehicle purchases.

Summary of OIG's Work in Afghanistan and Iraq

We have been providing audit and investigative oversight in Afghanistan since the start of USAID's programs in 2002. In Iraq, our oversight started almost immediately after the war began.

We have been able to conduct substantive oversight with a relatively small investment from U.S. taxpayers. Since 2003, we have expended approximately \$18 million to oversee the more than \$14 billion obligated by USAID for Afghanistan and Iraq development programs.

We pursue a vigorous program of performance audits, as well as an extensive program of financial audits of major contractors and grantees. To date in Afghanistan and Iraq, we have conducted 70 performance audits, issued 149 financial audits, and initiated more than 80 investigations. This work has resulted in 178 recommendations for program improvements, caused over \$26 million in questioned costs to be sustained, and saved or recovered \$26 million. Our investigations have resulted in 10 arrests, 8 indictments, 3 convictions, and 17 instances of administrative actions.

Because we were active in Afghanistan before the start of the Iraq war, we learned some lessons there that we then applied to Iraq. One such lesson is that audit oversight in high-risk situations needs to be planned at the outset of program implementation and carried out at the appropriate time. This is particularly true for financial audits. Conducting financial audits as program money is expended prevents minor issues from becoming major concerns—especially when significant funding is at stake—and it sets the tone for accountability that carries through the life of the project.

Our oversight work has paralleled the evolution of USAID's programs in Afghanistan and Iraq: from relief and stabilization, to reconstruction, to sustainable development and capacity building. Of the 16 audits we planned to conduct in Afghanistan and Iraq in fiscal year 2009, 8 involve capacity building programs.

In both Afghanistan and Iraq, we have seen problems with oversight of contract and program management, as well as with data quality and results documentation. We found oversight problems, as well as suspected fraud, in USAID/Iraq's \$544 million Community Stabilization Program. We could not determine whether the program was achieving its intended results—to generate jobs and reduce incentives for Iraqis to participate in the insurgency—because of the unreliability of reported data. Further, the audit found that potential fraud had not been reported timely. We recommended the suspension of program activities in a specific region of Baghdad.

We also recommended that USAID redirect \$8.5 million to other programs and review activities in other regions in Iraq for similar evidence of fraud.

USAID has addressed all of our audit recommendations, and investigations of fraud in the Community Stabilization Program are ongoing.

In a recent investigation of a USAID program implemented by the United Nations Development Program in Afghanistan, we uncovered many performance and financial-control problems and potential violations of law. Although the organization will not be prosecuted because of immunity issues, USAID has issued bills of collection to the organization totaling nearly \$7.5 million, has initiated systemic changes to increase program oversight, and has declined requests for additional funding.

In Afghanistan and Iraq, 153 of our 178 recommendations have been implemented, and 36 of the 178—or 20 percent—were closed by the time we issued our audit reports. There are no open audit recommendations that are more than a year old. USAID is in the process of resolving those that remain open.

The open recommendations generally involve working with host government organizations to promote sustainability of programs, collecting questioned costs, ensuring that construction projects comply with regulations, and improving data quality.

Through followup audits of USAID programs, we review the effectiveness of Agency actions taken.

In Afghanistan, for example, when we conducted a review of work on the Kabul–Kandahar Highway in November 2003, we found that the contractor lacked an updated implementation plan to facilitate the timely completion of activities. When we conducted a second review in March 2004, the implementation plan was in place, and construction activities were then on track to meet established deadlines. These periodic reviews are important to ensure that our recommendations are being implemented as intended and that the programs are achieving their goals.

In a September 2003 audit involving contract oversight, we found that USAID had not provided their contracting officers' technical representatives, or COTRs, enough training to acquire core competencies or to understand and perform the full range of tasks assigned to them. In addition, USAID lacked a process to formally hold their COTRs accountable for the performance of their tasks assigned to them and did not ensure that designation letters were obtained for all contracts. We made five recommendations to help address these problems. Our 2008 followup audit found that our previous recommendations had not been addressed, and I immediately brought the issue to the Administrator's attention.

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

Overall, our work has resulted in improvements in development operations and in program implementation. USAID has improved contracting procedures, strengthened contractor oversight, and ensured completion of monitoring plans and performance reports. We have identified defective work, and USAID has taken corrective action in such areas as highway completion and building construction. Moreover, we have identified instances in which Federal funds could be better spent.

Moving Forward in Afghanistan and Iraq

We support USAID's efforts to increase oversight and accountability of its development resources in a very difficult environment. Some of the changes the Agency has been making include:

- Hiring additional local staff, who can operate more easily in Iraq and Afghanistan than U.S. employees.
- Coordinating with military personnel, in some cases, when they may provide assistance in areas of poor security; and

- Employing virtual techniques, such as periodic digital photography, to document progress in infrastructure reconstruction.

Conclusion

Security problems in both Afghanistan and Iraq will continue to affect development efforts, and we understand that the risks constrain USAID's ability to manage activities. However, both OIG and USAID recognize the importance of carrying out U.S. assistance accountably. Aside from coping with security issues, USAID must have a substantial and well-trained corps of contract and activities managers to oversee programs.

The Agency must continue to find ways in these difficult and dangerous environments to improve the quality of its performance data. With sound data, USAID can measure its efforts successfully and demonstrate to the American people that tax dollars are being spent wisely and making a difference in countries that are of vital interest to our security at home.

Thank you for the opportunity to speak with you today about some of the challenges we have seen in implementing development programs in Afghanistan and Iraq.

We are committed to working through the challenges, along with USAID, to provide effective oversight and help improve development programs.

We appreciate the Committee's involvement as it works to further improve processes and ensure that funds for reconstruction and development efforts in these countries are spent appropriately. I would be happy to answer any questions the Committee might have. Also, Mr. Chairman, I have submitted a written statement and I ask that it be made a part of the record of today's hearing. Thank you.