



**OFFICE OF INSPECTOR GENERAL**

**Testimony of Joseph Farinella, Acting Assistant Inspector General for  
Audit  
U.S. Agency for International Development**

**Submitted to the Committee on Government Reform  
Subcommittee on National Security, Emerging Threats, and  
International Relations  
U.S. House of Representatives**

**Iraq: Perceptions, Realities and Cost to Complete**

**October 18, 2005**

Mr. Chairman, Committee members:

Thank you for the opportunity to provide testimony on my office's program to review USAID operations in Iraq. My testimony will focus on Office of Inspector General (OIG) oversight relating to reconstruction and governance. My testimony will not focus on security since USAID does not work in that area. However, I will mention the impact of security on our work.

The USAID OIG's regional office in Baghdad performs audits and investigations of USAID activities in Iraq. Our Washington headquarters

staff also provides support to our audits and investigations of USAID's Iraq activities.

Our Baghdad office consists of 7 U.S. Direct hire auditors, one investigator and one local administrative support person. We conduct performance audits and investigations with our direct hire staff and use the services of the Defense Contract Audit Agency (DCAA) to conduct financial audits of USAID activities. We then issue the DCAA audits to USAID with OIG recommendations for corrective action. In addition to our audit and investigation services, we are providing fraud awareness training to USAID staff and its contractors on a regular basis. This training helps those implementing our programs to more easily recognize indications of fraud and to know what to do if they suspect illegal behavior.

Andrew Natsios, USAID's Administrator, is very supportive of OIG's field presence in Iraq and we appreciate the time and attention USAID's Senior Management pays to our work. We continue to work with USAID to help ensure that its programs are managed efficiently and effectively to yield results; and that taxpayer funds are well spent.

In Iraq, USAID has obligated about \$2.5 billion for reconstruction activities and about \$750 million for governance.

As of September 30, 2005, we have closed 17 investigations and have 2 open cases involving Iraq activities. The open cases involve allegations that USAID contractors either submitted false or fraudulent costs associated with their work in Iraq or solicited kickbacks in exchange for awarding subcontracts. The closed investigations included similar allegations as well as employee integrity issues. These investigations resulted in administrative actions being taken by either USAID and/or its contractors.

On the audit side, we have issued 26 performance audits and reviews on USAID activities in Iraq. In addition, we have issued 65 financial audits conducted by DCAA. Much of this work relates to reconstruction in some form or another—everything from reviews to determine if USAID followed applicable laws and regulations in awarding reconstruction contracts to audits of whether USAID achieved intended outputs in reconstructing schools, electrical, water and sanitation facilities.

While security concerns have often prevented us from performing as many site visits as we would normally prefer, we have been able to visit project reconstruction sites in the course of our audits. When we have not been able to travel due to security, we have performed alternate tests to accomplish our audit objectives including increasing our document review and testing of program and financial related material. We also utilize

photos, reports, and conduct interviews with U.S. Army Corp of Engineers and others who visit and often live at project sites. We obtain and review photos and reports, including site visit reports of subcontractors, contractors, and USAID staff. We have also obtained written statements from recipients, including local government officials, confirming that they have received and accepted finished projects and goods. In some cases, results do not require site visits. For example, if the planned result is the development of an information system or policy, we verify that the result is achieved by reviewing the policy or information system and documentation to determine if what was planned was actually completed.

I will now discuss some of the audits and recommendations we have made in the areas of contracting, education, infrastructure, electrical power, and water and sanitation.

Our May 2004 summary audit report on the contract award process found that USAID generally complied with federal regulations in the awarding of contracts using other than full and open competition. However, we recommended improvements in documenting the award process and preparing illustrative budgets and cost proposals so that bidders could be more readily compared.

Our March 2004 education audit found that for eight reported results we reviewed, six were under-reported. Thus, in fact, more was accomplished than USAID had reported. For example, numbers of textbooks printed and primary teacher kits delivered were under-reported. However, the number of schools rehabilitated was over-reported: specifically, while USAID had reported that 1500 schools had been rehabilitated, we were able to verify that only 1356 schools (a difference of about 10 percent) had been. We recommended that USAID develop verification procedures to improve the accuracy of the results it reports.

Our June 2004 infrastructure audit found that 64 of the 72 (89 percent) infrastructure projects we reviewed were on schedule to achieve planned outputs at that time, such as a dredging project, a bridge bypass, satellite and wireless telecommunications projects, a water pumping station and a sewage treatment plant. For the eight activities that were behind schedule, we found that USAID was taking steps to resolve performance problems. We did, however, make four recommendations to improve project management, such as ensuring that environmental reviews were conducted and that specific job orders were prepared.

Our June 2005 Electrical Power Sector audit found that 15 of 22 (68 percent) power sector projects were achieving intended outputs. The

remaining projects were not. For example, a \$381 million project to develop a new power generating facility using natural gas was cancelled and funds reprogrammed into other areas. The underlying reasons behind delays and cancellations included open hostilities, deteriorating security, and a lack of host government cooperation. We recommended that steps be taken to ensure that newly refurbished infrastructure is properly operated and maintained after being turned over to the Iraqis.

Lastly, our June 2005 Water and Sanitation audit found that 30 of 34 (88 percent) water and sanitation projects were achieving intended outputs. For example, the Sweet Water Canal project in Basrah, Iraq has improved the quality of the water being delivered to about 1.8 million Iraqis. However, four projects were not achieving intended outputs primarily due to ownership issues and security concerns. As in the Power Sector audit, we found barriers to capacity-building, including a lack of skilled local personnel. Nevertheless, for water and sanitation projects, USAID was taking steps to address this with additional operational and maintenance support and training.

We see two major challenges regarding USAID's future reconstruction efforts. The first—lack of security—is endemic and largely outside of USAID's control. The second challenge—and one USAID can do

something about—is to help ensure sustainability. The problems involved in doing so are numerous and complex. Our Power Sector audit recommended that USAID needs to develop a multi-year strategy to strengthen the Iraqi Ministry of Electricity’s capacity to ensure the proper operation and maintenance of a rebuilt power sector. This strategy should address adhering to prescribed maintenance and operational systems, developing plant-level accountability, maintaining inventory systems, and developing a rational fuel strategy.

Our continuing oversight of USAID infrastructure activities includes an audit of USAID’s Telecommunications Activities in fiscal year 2006. We are also conducting additional audit work on USAID’s basic education activities which we will report on before the end of this calendar year. This audit is examining progress toward the achievement of outputs such as rehabilitating schools, capacity building within the Iraqi Ministry of Education and teacher training.

To date, two of our audits have addressed, at least in part, USAID governance activities.

First, our September 2004 audit of USAID’s Economic Reform Program determined that only 10 of the 38 planned activities had been completed—and another 6 were cancelled. Completed activities included

drafting 12 commercial laws, developing an intergovernmental policy framework, and establishing a government-wide information technology strategy. Regarding activities not completed, the contractors' ability to implement them and USAID's ability to monitor were severely restricted due to hostilities in Iraq. Security costs were also much higher than anticipated, rising from \$894,000 in the contractor's original proposal to a later estimate of \$37 million, which represented 49 percent of total contract costs. In turn, these conditions and increased costs led to the cancellation of some activities and delays in others. To improve monitoring, we recommended that USAID improve record management procedures and contractor reporting requirements.

Second, our January 2005 Community Action Program audit found that 98 percent of intended outputs were achieved, including citizen participation in their own governance, inter-community cooperation, local government cooperation, generation of local employment, and consideration of environmental issues. We did, however, make one recommendation for USAID to develop and implement a plan of action to improve the reliability of the data it collects on each project, such as the number of beneficiaries reached.



Future challenges in the area of governance do not differ significantly from those encountered by USAID in any other field. Continuing its work with local community organizations and all levels of the Iraqi government will depend on the support USAID and its implementers receive from their Iraqi counterparts as well as the security situation on the ground.

We plan to continue OIG oversight of programs in this area and have included an audit of USAID's Local Governance activities in our fiscal year 2006 audit plan to determine if the program is achieving objectives to (1) provide technical and other assistance to strengthen local entities and (2) establish and strengthen the legal framework for a coordinated democratic local governance system.

Again, thank you for the opportunity to testify today. All of the audit reports that I have mentioned are available for viewing on our website. I am happy to respond to any questions you may have.