

TESTIMONY OF
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INSPECTOR GENERAL,
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
BEFORE THE
APPROPRIATIONS SUBCOMMITTEE ON STATE, FOREIGN
OPERATIONS, AND RELATED PROGRAMS
“OVERSIGHT OF U.S. CIVILIAN ASSISTANCE FOR AFGHANISTAN”

JULY 15, 2010

Chairwoman Lowey, Ranking Member Granger, and distinguished members of the Subcommittee, thank you for inviting me here today to testify on the oversight of USAID programs in Afghanistan.

Introduction

Afghanistan's reputation for corruption and fraud is well known. A January 2010 report from the United Nations states that it is almost impossible to obtain a public service in Afghanistan without paying a bribe.¹ The latest Transparency International's Corruption Perceptions Index ranks Afghanistan at 179 out of 180 countries—the second worst in the world.²

The U.S. Agency for International Development (USAID) has obligated over \$9 billion in Afghanistan, and currently has more than 400 U.S. civilian and Foreign Service National personnel overseeing approximately 100 ongoing grants and contracts worth more than \$7 billion.

Since fiscal year 2003, we have conducted 34 performance audits and made 128 recommendations for improvements, and issued 33 financial audits with nearly \$100 million in sustained questioned costs.

We have also initiated more than 70 investigations, with recoveries and savings of approximately \$150 million. Moreover, in the past 2 years alone, we have referred 10 individuals for prosecution in the United States or Afghanistan.

¹ "Corruption in Afghanistan, Bribery as Reported by the Victims," United Nations Office on Drugs and Crime, January 2010.

² http://www.transparency.org/policy_research/surveys_indices/cpi/2009/cpi_2009_table

Fraud Investigations

We have a great deal of experience conducting fraud investigations in Afghanistan, and we work collaboratively with the Special Inspector General for Afghanistan Reconstruction, the Federal Bureau of Investigation, the Major Crimes Task Force, and other law enforcement agencies, as well as with local Afghan police officials and prosecutors.

Although the Afghan Government has not interfered with any of our investigations, we sometimes have difficulty pursuing a case because of concerns for the security of informants and witnesses. Individuals who provide us with information are often reluctant to continue to participate in investigations out of fear for their safety. In these instances, we share relevant information with the appropriate U.S. Government agencies within Embassy Kabul.

With regard to the Subcommittee's concerns about funds being transported out of Afghanistan, we have no evidence linking USAID assistance programs to the large quantities of U.S. dollars that are reportedly being shipped.

Although Afghanistan is largely a cash economy, most USAID funds are provided to contractors and grantees through electronic transfers. In some situations, sums of money—generally under \$25,000—are paid in cash, as in the cash-for-work programs. In these situations, controls have been put in place to ensure that funds have been used for their intended purpose.

Control Systems

USAID has the following systems in place to prevent fraud and abuse:

- Preaward surveys of contractors and grantees.
- Annual financial audit requirements for contracts, grants, and subawards.
- Financial reporting requirements for contractors who receive advance payments and
- Program monitoring by USAID or third parties.

Despite these controls, oversight is not as robust as it should be, and USAID does not have a sufficient number of qualified personnel on the ground to monitor projects effectively. However, the Agency is developing a more effective monitoring and evaluation process, to include increasing staffing and training.

Our office supplements USAID's oversight by performing financial audits and reviewing public accounting firms to determine whether they are eligible to audit Agency funds. Financial auditors pay particular attention to controls over cash.

We also conduct concurrent financial audits of the highest-risk program areas, such as infrastructure projects, to provide early detection of potential problems.

Oversight Challenges

As part of the U.S. Government's commitment to the Paris Declaration principles, USAID is channeling increasing levels of development funding directly to the government of Afghanistan.

By leading the resulting development projects, the Afghanistan government can build public confidence in its ability to deliver programs that improve the welfare of the people. However, Afghanistan is still developing the capacity to manage projects and monitor and account for associated resources. This places federal dollars at greater risk of waste, fraud, and abuse. USAID must develop an approach to building Afghanistan's capacity that balances the imperative for local engagement in the development process with effective stewardship of taxpayer dollars.

The effective stewardship of taxpayer dollars is also critical for budget support provided to the Afghan Government through trust funds or other instruments managed by international organizations. My office does not have audit rights to these funds, and oversight of these funds becomes the responsibility of the implementing entity or Afghanistan's Control and Audit Office.

Moving Forward

The following steps could be considered to minimize risk associated with funding assistance programs in Afghanistan:

- Require that direct assistance to the Government of Afghanistan be committed through specific projects, so that USAID funds can be traced to end uses.

- Require concurrent audits of USAID's direct assistance to the Government of Afghanistan and

- Adopt specific contracting practices for Afghanistan and other conflict settings that limit the tiers of subcontractors and subgrantees.

In addition to the options I have mentioned, my office can take the following actions, as resources permit, to further mitigate risk:

- Review USAID's preaward survey and certification process to determine whether further strengthening is required.

- Conduct a review of cash disbursement practices employed by program implementers and

- Increase participation with other federal agencies that are following the trail of expenditures in Afghanistan.

We share the Subcommittee's concerns that funding appropriated to foreign assistance programs in Afghanistan not be wasted or channeled to those who wish to do us harm. I would be happy to answer any questions you may have at this time.