

Testimony by Arnold Fields

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Before the State, Foreign Operations Appropriations Subcommittee

“Oversight of U.S. Civilian Assistance for Afghanistan”

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Chairwoman Lowey, Ranking Member Granger, and distinguished members of the Committee:

Thank you for inviting me to discuss a critical part of SIGAR’s mission—providing oversight of the U.S. civilian assistance for Afghanistan. We at SIGAR are very grateful for your continuing interest in and support of our work.

The committee has posed important questions to shape today’s discussion. In the course of this testimony I will try to address your concerns by outlining some key issues that we believe must be dealt with to prevent reconstruction dollars from being squandered through corruption, waste, or fraud.

From fiscal year 2002 through fiscal year 2010 (excluding the fiscal year 2010 supplemental request), the Congress has appropriated a total of \$51.5 billion dollars to rebuild Afghanistan. More than half of this has gone to support building the Afghan security forces. The two largest foreign assistance programs—the Economic Support Fund, disbursed by the U.S. Agency for International Development, and the State Department’s International Narcotics Control and Law Enforcement (INCLE) account—have received \$9.74 billion and \$2.69 billion respectively. In his most recent budget requests, the President has asked for an additional \$20 billion, nearly \$5

billion of which would go towards civilian development programs financed through the Economic Support Fund.

Recent press reports have alleged that billions of dollars in cash has been transported out of Afghanistan via the Kabul Airport. These reports have suggested that some of this currency may be from U.S. reconstruction and other donor funding. We do not know whether any of this currency represents funds that have been appropriated for the reconstruction of Afghanistan. Moreover, at the moment, there is no evidence to indicate these exports are the proceeds of illegal activity.

It is important to recognize that Afghanistan has a primarily cash-based economy and there are numerous possible explanations for these movements of cash. For example, the large sums of legally declared currency exports could conceivably be the result of Afghanistan's high reliance on cash to conduct legitimate trade with the international community. It could also be money generated by criminal activity, such as corruption and the drug trade. Since we don't know, we share concerns about the large sums of cash being exported through the Kabul Airport and SIGAR investigators are working with other federal agencies to determine the source of these bulk shipments.

Since March of this year, our investigators have been closely involved in a U.S. Immigration and Customs Enforcement (ICE) initiative to track bulk currency smuggling. At the end of March, ICE, with the assistance of multiple federal law enforcement agencies, launched a three-day operation to examine cash leaving via the airport. During this period seven passengers declared \$8.2 million in cash that they were legally taking out of the country.

During April and May, SIGAR investigative teams made three trips to Dubai to support ongoing investigations, which include looking at the flow of cash between Afghanistan and Dubai.

SIGAR has provided relevant information concerning fraud and bulk cash shipments to ICE in Kabul and Dubai. SIGAR's investigations on this matter are ongoing and the details cannot be publicly disclosed at this time.

The lack of visibility into the movement of money and financial transactions in Afghanistan is one of many issues that put reconstruction dollars at risk. SIGAR has identified significant problems in four key areas of the U.S. reconstruction effort. These include:

- Lack of accountability and insufficient oversight by implementers
- Inadequate attention to sustainability
- Inadequate attention to metrics
- Insufficient capacity-building in Afghan institutions

Before I address each of these issues, I'd like to explain SIGAR's approach to oversight. My experience in Baghdad, where I served as Chief of Staff of the Iraq Reconstruction and Management Office, taught me that building in a war zone poses special challenges to providing effective oversight. It is not enough to simply conduct audits of contracts and program management after money has been spent—although this is certainly an important part of our work. In a rapidly changing environment, where the United States is trying to simultaneously provide security, build governing institutions, and foster economic development, part of the oversight mission must be to identify systemic problems that prevent us from achieving our strategic goals. This is especially true in Afghanistan where our strategy has been changed or modified several times over the last two years.

SIGAR is therefore conducting a broad range of audits and fielding a robust team of investigators to look into allegations of waste, fraud, and abuse. Our work to date has shown that there is insufficient attention given to accountability, sustainability, metrics, and building Afghan capacity to govern effectively.

Let me begin with accountability.

Accountability

Accountability is the cornerstone of good governance. Without it, we risk losing our investment in Afghanistan to waste, corruption, or fraud. Everyone involved in the reconstruction effort—the U.S. implementing agencies, private contractors, non-government organizations, and the Afghan government—must be held accountable for public funds at their disposal.

SIGAR's work has found several areas where implementing agencies could improve their ability to monitor projects and better account for reconstruction dollars. One of our earliest audits identified the continuing lack of a common information platform that would provide an overview of what each agency was doing in Afghanistan. The United States has been involved in the reconstruction Afghanistan for more than eight years but there is still no integrated management information system to provide complete and accurate information of all completed, ongoing, and planned reconstruction activities. Such a system, particularly given the high turnover of personnel, would help decision-makers and stakeholders to better plan, coordinate, monitor, evaluate, and report on U.S. projects and activities.

In addition, U.S. agencies have no comprehensive data base on reconstruction contracts.

Without complete and reliable information about contracts and subcontracts, it is difficult for U.S., donor, and Afghan stakeholders to properly oversee the performance of contracted

activities. Using data from the Departments of Defense, State, and the U.S. Agency for International Development SIGAR is compiling a list of primary vendors and the reconstruction contracts, grants, and cooperative agreements they are implementing. This has been a time consuming undertaking, but it will enable SIGAR to identify the principal firms, nongovernmental organizations, and other entities involved in reconstruction programs in Afghanistan.

We have a continuing concern about the ability of implementing agencies and their prime contractors to monitor contracts. One of our early audits found that the Combined Security Transition Command-Afghanistan (CSTC-A), which was responsible for training the Afghan security forces, did not have enough contracting officers and program managers to oversee major contracts. As a result of this audit, CSTC-A has made efforts to expand its monitoring of contracts. As part of our audit work, we are examining the ability of other implementing agencies to oversee their projects.

SIGAR audits have also found oversight weaknesses in the construction of facilities built to house and train the Afghan security forces. These weaknesses include a lack of trained contracting officers, insufficient program management, and improper documentation of quality assurance and quality control.

Many of the contractors – international and Afghan – utilize subcontractors to implement significant portions of their contracts. Given the large number of reconstruction projects in Afghanistan and the use of subcontracts to complete the work, the U.S. government faces significant challenges in ensuring proper oversight of subcontractors. More needs to be done to ensure the mechanisms are in place and that proper steps are taken to account for the U.S. funds

provided to contractors and subcontractors. We are looking into this issue in our ongoing audits of private security and reconstruction contracts.

SIGAR shares the concerns of this committee about the potential for fraud in the U.S. reconstruction effort. Therefore, we have initiated a forensic audit program, as mandated, which is using data mining and anomaly detection techniques to identify potential fraud and waste indicators in U.S. expenditures. Our forensic team is currently focusing on transaction data for Afghanistan reconstruction appropriations undertaken by the Departments of State, Defense, and USAID from 2002 to the present. This program will analyze symptoms of fraud such as duplicate payments, payments to fictitious vendors, and payments for goods or services that have not been received. As this work progresses, it may also lead to specific investigations or audits. It will also help us shed more light on how funds are being dispersed in Afghanistan and identify control weaknesses.

Our forensic audit program relies on the availability, accuracy, and completeness of financial transaction data. I believe that each implementing agency should have the systems in place to analyze its own financial data and identify payment anomalies on a regular basis to detect potential fraud and waste. This is not the case today, but it should be an integral part of each agency's oversight of its own programs.

Let me turn to an issue of sustainability.

Sustainability

We must give much greater thought to how programs are going to be sustained over the long term. SIGAR has identified operations and maintenance issues in every audit it has conducted of an infrastructure project, whether it is the \$300 million Kabul Power Plant, a \$100 million

garrison, or a \$1.75 million bridge. For example, SIGAR has completed three reviews of recently built Afghan National Army garrisons. These audits found that the Afghan government was not able to maintain and operate completed facilities. As a result, the U.S. Army Corps of Engineers is currently in the process of awarding two operations and maintenance contracts totaling \$800 million for up to 5 years for over 650 Afghan National Army and Afghan National Police facilities. According to the CSTC-A 2008 campaign plan, future costs for sustainment may continue through 2025. Since the Afghan government does not have the technical or financial capacity to operate and maintain these facilities, the United States is adding more to the U.S. taxpayer burden by awarding operations and maintenance contracts to safeguard the U.S. investment and ensure service delivery.

The sustainability issues are far more serious than whether the Afghan government is able to maintain facilities. The World Bank recently published a public expenditure review that found that Afghanistan is a long way from achieving fiscal sustainability. Although the Afghan government has increased its revenue collection for every year since 2006, its expenditures have also been rising. For the current year ending in March 2010, the Afghan government took in an estimated \$1.4 billion in revenues. Afghanistan's national budget is about \$8 billion and foreign assistance currently covers approximately 85 percent of it. According to World Bank projections, spending on the security sector alone, which now accounts for more than 40 percent of government employees, will likely exceed the total revenue collected by the government of Afghanistan for the foreseeable future. To assist in building and retaining a capable civil workforce, the international community is paying most of the salaries of both the civil service and the security forces.

SIGAR is conducting two audits that examine the salary support provided by the United States. The first assesses the salary support for Afghan government employees and technical advisors. The second evaluates the Afghan National Police personnel management system. As part of this audit, we are identifying the salary support provided to the Afghan National Police and evaluating the systems in place to account for the payments. The Government Accountability Office is conducting a similar assessment of the Afghan National Army.

Metrics

We also must establish better metrics and then use them to help us determine if a program is making progress and is sustainable.

Our work has identified serious problems with establishing and tracking metrics for reconstruction activities. For example, in January 2010, SIGAR reported that USAID did not have an effective means for assessing overall progress in achieving U.S. strategic objectives in the energy sector. It was not tracking relevant metrics for its energy projects.

Recently, SIGAR issued an audit of the Capabilities Milestone rating system, which has been the primary metric for measuring the development of the Afghan security forces. Data from this system, which had been in place since 2005, had been used to brief both the Congress and the President. Last October, SIGAR auditors began the first independent evaluation of the Capabilities Milestone rating system. We found that it could not provide a reliable or consistent assessment of Afghan national security forces capabilities. In late April ISAF Joint Command replaced this system with a new unit-level assessment. It is too early to assess the new system but SIGAR's findings and recommendations pertain to any system designed to evaluate the operational effectiveness of Afghan security units.

I can assure you that SIGAR will continue to pay attention to the metrics implementing agencies have established for monitoring progress in other development programs.

SIGAR is also concerned about some aspects of reconstruction planning in Afghanistan. For example, our auditors have found that the Combined Security Transition Command-Afghanistan (CSTC-A) does not have an up-to-date master plan for building infrastructure and facilities needed to house and train the Afghan National Army. As I noted earlier in this testimony, SIGAR has completed three reviews of Afghan National Army garrisons. In each case, our auditors found that the plans provided by CSTC-A did not specifically address Afghan National Army garrisons and referred to out of date end-strength projections for the Afghan National Army, among other issues. As a result, SIGAR is initiating an audit of the planning procedures used by CSTC-A to justify the number and types of Afghan National Army and Afghan National Policy facilities and the rationale for their locations and infrastructure requirements.

Afghan Capacity

The new U.S. reconstruction strategy places much greater emphasis on building Afghan capacity, not only in the security sector, but across the government.

The Department of State, in coordination with many U.S. departments and agencies, is implementing its new reconstruction strategy by 1) deploying more civilian experts across Afghanistan to work in partnership with Afghan officials and 2) by channeling more reconstruction dollars through Afghan institutions. The success of this strategy depends on two things. First, our civilians must be able to meet and work with their Afghan counterparts on a regular basis to design, implement, and oversee reconstruction projects. Second, Afghan institutions must be able to account for the proper use of international donor funding.

SIGAR has two audit initiatives underway that are directly related to the new U.S. reconstruction strategy. First, we are conducting an audit of the civilian surge to identify the number and types of personnel who are being deployed across Afghanistan and to assess the extent to which these civilians are being utilized to achieve U.S. strategic goals. We began this work last April and plan to complete it in the fall. Second, we have initiated a series of audits to determine 1) what the United States and other donor countries are doing to build the capacity of Afghan institutions to deter corruption and strengthen the rule of law, and 2) the extent to which Afghan institutions have the systems in place to account for donor funds.

SIGAR has completed seven audits, including two of key Afghan oversight bodies, as part of our program to assess Afghan institutional capacity. We found that both the High Office of Oversight (HOO), the principal agency responsible for overseeing and coordinating national efforts to combat corruption in Afghanistan, and the Control and Audit office (CAO), the institution responsible for auditing Afghanistan's public finances, suffered from a lack of capacity and independence. Despite the important role Afghan oversight institutions should have in combating corruption and providing accountability over billions of U.S. dollars provided to rebuild the country, the United States and donors had done very little to help develop the capacity of these organizations.

However, I am pleased to report that the U.S. Embassy in Kabul and USAID have each recently taken steps to help Afghans deter corruption and strengthen the rule of law. The Embassy told SIGAR that it is working with the CAO, Afghan government stakeholders, and international donors to formulate and implement a capacity development plan for the CAO. The U.S. Agency for International Development reported that it plans to provide up to \$30 million over three years to support the HOO. The Embassy has also established a rule of law and law enforcement

directorate to develop and coordinate a U.S. civilian-military effort to strengthen Afghan capacity to deter corruption and strengthen the rule of law. I believe these are positive and important steps.

SIGAR recently completed a review of U.S. assistance programs designed to help the Afghan government develop its anti-corruption capabilities. This report has been sent to the agencies for review and comment and will be issued in early August. Broadly speaking, we found that while multiple agencies have anti-corruption assistance programs, the U.S. government has provided the majority of U.S. assistance to Afghans without the benefit of a comprehensive anti-corruption strategy. Although a draft strategy exists, a finalized and approved strategy is urgently needed to guide and direct U.S. anti-corruption assistance.

We understand that the civilian assistance is occurring in a war zone and that we face numerous and difficult challenges in our effort to rebuild Afghanistan. This is not easy. But, we have been engaged in providing security, governance, and development assistance to Afghanistan for more than eight years and I am concerned that we have lost valuable time by not paying enough attention to developing Afghans' capacity to manage their government and their economy in order to sustain and maximize the U.S. investment.

In the past, our reconstruction dollars bypassed the government, in part to prevent a loss to corruption but also due to limitations in Afghan capacity. We fully recognize that capacity and institution building take more time and dedication than it does to build physical infrastructure. However, as the new U.S. strategy recognizes, for the Afghan government to be effective, it must be in more control of its public finances. Our challenge now is to help Afghans develop the capacity to manage and account for those funds. This capacity is also critical to ensuring that the

investments of the U.S. and donor community are sustainable. U.S. implementing agencies must include serious capacity building measures in everything they do. A key component of our oversight objectives for all audits includes identifying and assessing the efforts underway by U.S. agencies to ensure sustainability of U.S. projects, including capacity building efforts.

The U.S. taxpayer needs to know that U.S. funds are not being wasted or stolen in Afghanistan. When Americans read that billions of dollars are being shipped out of the country, they deserve to have clear answers about the nature of that money. While I cannot provide those answers at this hearing, I can tell you that my auditors and investigators are studying this issue. SIGAR investigators are working cases to pursue the fraudulent use of U.S. funds. In addition, SIGAR auditors will soon begin work to determine what the U.S. government is doing to help Afghans build capacity to regulate and control the financial sector. I will keep you informed on the progress of our work.

Chairwoman Lowey, you pointed out last month that this committee has an obligation to all Americans to ensure that their hard earned tax dollars are not squandered through corruption and graft. I believe that everyone involved in the reconstruction effort in Afghanistan—our implementing agencies, contractors, the Afghan government, and SIGAR—share that responsibility. I am delighted to have the opportunity to be here today to talk about our concerns and what SIGAR is doing to foster a culture of accountability in Afghanistan.