

TESTIMONY OF
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BEFORE THE
SUBCOMMITTEE ON NATIONAL SECURITY, HOMELAND DEFENSE,
AND FOREIGN OPERATIONS OF THE
HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

“ASSESSMENT OF THE TRANSITION FROM A MILITARY TO A
CIVILIAN-LED MISSION IN IRAQ”

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Chairman Chaffetz and Ranking Member Tierney, I am pleased to appear before you to testify on behalf of the Office of Inspector General (OIG) for the U.S. Agency for International Development (USAID). Today, I would like to share information about our oversight efforts in Iraq, our observations regarding the progress of USAID programs and activities in

Iraq, and our progress in transitioning to a civilian-led mission. Our oversight in Iraq began in 2003 following the ramp-up of USAID programs in the wake of the fall of Saddam Hussein's regime. We quickly deployed auditors and investigators into Iraq, first through frequent and continuous temporary duty assignments (TDYs) of USAID OIG personnel and later with the establishment in June 2004 of a USAID OIG in-country office in Baghdad that included seven auditor and two investigator positions as USAID reconstruction and stability assistance peaked.

In recent years, USAID has scaled back its activities in Iraq and transitioned from a stabilization and reconstruction focus to more traditional development assistance and has requested \$231 million for fiscal year 2013. Other USAID assistance programs in the region such as those in Jordan and West Bank/Gaza now receive more assistance funding than those in Iraq.

As USAID has reduced its programs and activities in Iraq, the OIG has also shifted resources to address other priorities in the region. However, due to the continuing risks associated with USAID programs in Iraq we are maintaining an in-country staff of two auditors and one investigator supplemented by staff and leadership from our nearby Regional Inspector General (RIG) office in Cairo. We currently have three Iraq-related performance audits and surveys and 23 financial audits in progress. In fiscal

year 2013, we intend to conduct three performance audits, two reviews, and five financial audits in Iraq. These are currently planned to include audits of USAID/Iraq's Financial Sector Development Program, USAID/Iraq's Primary Healthcare Program, USAID/Iraq's Administrative Reform Program, and a review of the sustainability of USAID/Iraq's past activities.

OIG staff and resources in Iraq support intensive oversight. Drawing on our strong in-country presence, we have been able to provide comprehensive performance and financial audit coverage of USAID programs and implement a vigorous investigative program. From fiscal year 2003 through May 2012, we issued 60 performance audits and reviews related to USAID activities in Iraq. The resulting reports contained more than 200 recommendations to improve USAID programs in Iraq, in addition to identifying nearly \$40 million in questioned costs and funds recommended to be put to better use. Meanwhile, we supervised program-specific financial audits of over \$5 billion that led us to question \$255 million in USAID expenditures. Over that span, we also opened 105 investigations, 45 of which have been referred for prosecution. By the end of May 2012, our investigative work had produced 13 indictments, 10 convictions or pleas, 27 administrative actions (such as employee terminations and contract cancellations), 10 suspensions and debarments,

and over \$86 million in savings and recoveries. For every dollar invested in OIG operations in Iraq, we have returned \$4.67 in sustained questioned costs, funds to be put to better use, and investigative savings and recoveries.

This work has not been without its challenges. OIG operations were impacted when the Embassy in Baghdad severely restricted U.S. government movements during the period coinciding with the departure of the U.S. military. During the transition period of November 2011 through May 2012, three of the seven movements we requested in Iraq were denied by the Embassy due to a lack of available protective security detail resources. We ultimately were able to conduct site visits where required and there are now fewer restrictions than in the past on movement both within and outside the International Zone. We have also supplemented our work with the use of local audit firms for site visits to mitigate travel restrictions. Overall, changes in security conditions following the military transition have not significantly affected our ability to perform needed oversight work.

Our investigators in Iraq continue to face challenges finding viable partners in the Iraqi government with which to coordinate prosecutions. As USAID continues to shift towards increased host country participation in development programs, there will be a greater emphasis on local implementation of USAID programs. For law enforcement, this means a

greater reliance on local prosecutions. While we have had some limited success in pursuing local prosecutions, we have not been fully successful in identifying partners within the Iraqi government to support our investigative efforts. We have developed a plan to address this and continue to work towards a resolution.

Corruption in the public sector continues to be a problem in Iraq. In 2011, Iraq ranked 175th out of 183 countries in the Transparency International Corruption Perception Index (CPI). In 2010, Iraq ranked 175th out of 178 countries.

The U.S. government created two anticorruption entities (the Inspector General and the Commission on Integrity) within the Government of Iraq. These are struggling to maintain their existence, better define their roles vis-à-vis the standing ministries and provincial powers, and to contribute to stronger rule of law in Iraq. The Council of Ministers is currently considering the future of the Inspector General and the proper role of the Commission on Integrity especially as it relates to the judiciary (specifically the conflict with investigative judges) and the Ministry of Interior (which similarly has redundant investigative powers). There are proponents of expanding the training and skills of the Inspector General's and the Commission on Integrity's employees as well as increasing the

ability of the Government of Iraq ministries to improve transparency through public reporting. The Board of Supreme Audit, an old and established entity that is also key to the fight against corruption, would also benefit from increased training in technical fields.

U.S. continued support for targeted anti-corruption programs will help address critical issues that affect the entire system. The U.S. has a competitive advantage in providing training, as a high level of regard is given by the Government of Iraq for the types of governmental investigative, audit, and internal control mechanisms administered by the U.S. government.

According to the USAID mission, the security situation has hampered its ability to monitor programs. Mission personnel are only occasionally able to travel to the field for site visits. To address this limitation, the mission is in the process of hiring and training 25 Iraqi field monitors. These field monitors report to contracting and agreement officer representatives and provide additional monitoring capability.

Other personnel and security challenges have also affected USAID implementation of its development programs in the post-transition period. As the Government of Iraq encourages USAID and its implementing partners to increase their reliance on Iraqi employees, it has become more

difficult for implementing partners to obtain visas for their expatriate employees. Meanwhile, the USAID mission has faced increasing delays in obtaining visas for third-country national personnel. The Iraqi government is also increasingly wary of foreign private security contractors, many of whom provide security assistance to USAID implementers.

USAID program results in Iraq have been mixed and continue to face monitoring and evaluation issues. With the civilian transition and increasing focus on development assistance, project sustainability is also a concern.

OIG audits of Iraq-based programs continue to highlight issues in this area. In some cases, absence of host-nation support or preparedness to continue supporting USAID-funded programs resulted in questioned long-term sustainability of programs and failures to meet program objectives. For example, in our March 2012 audit of the sustainability of USAID/Iraq Information Technology (IT) Systems we determined that IT systems valued at \$62.1 million were not completed, not functional when delivered, or not used by the Government of Iraq as intended. Between 2003 and 2011, the mission in Iraq funded at least 24 IT systems, totaling \$73.2 million, through awards to various contactors and grantees. These USAID-financed IT systems were intended to be delivered to and used by Government of Iraq entities to allow them to operate more efficiently and effectively. Nearly all

of these IT programs ended prior to the transition to the civilian-led mission. In some cases, the awards included IT systems as specific deliverables; in other cases, the mission implemented programs using IT systems to achieve broader goals such as increasing transparency and accountability or reducing fraud and corruption. However, 10 of the 24 IT systems were found not to have been used as planned because the Government of Iraq either did not support the systems, the mission's implementing partners did not deliver complete or functional systems, USAID stopped funding the systems, or the Government of Iraq was not prepared to use the systems. Had USAID employed more cost-sharing approaches in funding the IT projects or provided more extensive, sustained training, Iraqi government units may have been more invested in using and maintaining these systems.

In our July 2010 audit of USAID/Iraq's implementation of the Iraq Financial Management Information System (IFMIS), we determined that IFMIS was implemented without the consent, assessment, or buy-in of the Government of Iraq. The USAID implementer did not obtain input from the Iraqi system users to determine best fit, concept design, and users' requirements and the resulting configuration of IFMIS did not meet the user requirements of the Iraqi Government Ministry of Finance. Our audit found that Iraqi system users were disappointed with the insufficient training

provided by USAID implementers and Iraqi users also identified numerous functionality issues with the system. The Government of Iraq did not accept IFMIS in part because it did not successfully perform accounting tasks.

In other cases, USAID programs did not achieve goals related to enhancing the capacity for sustainable host-nation systems. For example, in our March 2012 audit of USAID/Iraq's Electoral Technical Assistance Program we found that the program did very little to achieve the main objective to build capacity for a sustainable electoral system. To help strengthen the Iraqi electoral system, USAID entered into a \$40 million cooperative agreement with the International Foundation for Electoral Systems to implement the Electoral Technical Assistance Program. The program provided technical assistance to Iraq's High Electoral Commission in support of elections conducted in Iraq between January 2005 and September 2011. After receiving more than 6 years of technical assistance and support under the program, OIG auditors found that the Electoral Commission still lacked a reliable voter registration system, permanent staff, up-to-date computer equipment, plans for training and outreach, financial transparency, and political independence – all prerequisites for sustainability. Moreover, despite the fact that the long-term success of the Electoral Commission also depends on its ability to prepare Governorate

Electoral Offices for electoral administration, the program did not develop sustainable governorate-level operations and instead focused only on the Electoral Commission's management of electoral events from headquarters.

Our November 2011 audit of USAID Community Action Program activities implemented by International Relief and Development also highlighted sustainability issues. While the implementing partner effectively formed community action groups and developed initial community action plans, completed projects, and used a process for project development, OIG auditors determined that projects completed under the program did not target identified, prioritized needs of Iraqi communities. Of the 146 completed projects we surveyed, 34 percent did not match any needs identified by the corresponding community and an additional 31 percent did not match the needs communities identified as top priorities. We also found that USAID's decision to accelerate the spending of program funds had negative consequences for the program. These consequences included a significant overreliance on supply-type projects (e.g., student desks, office equipment, or medical supplies), cancelled projects, revisions to many community action plans, and a concentration of projects in some neighborhoods. The overreliance on small, supply-type projects instead of community infrastructure and essential service projects reduced program impact and

sustainability. The dangerous security environment also impacted the field operations of this program with the assassination of several local Iraqi council officials with whom the implementing partner had worked closely.

Looking forward, USAID OIG will continue to provide intensive oversight to ensure accountability in USAID programs and address key efforts in sustainability, monitoring, and evaluation. While several of our recent audits have covered activities in the pre-transition time period, we have audits in progress that will address the post-military period, including an audit of USAID monitoring and evaluation programs in Iraq. Project monitoring and evaluation activities are critical to effective implementation of development activities. Since security conditions in Iraq continue to hamper monitoring and evaluation of program activities by mission staff, the USAID mission uses contract support to supplement its monitoring and evaluation efforts. The mission recently sought OIG assistance in examining a current 2-year, \$14 million monitoring and evaluation contract to assist it in determining what type of monitoring and evaluation mechanism it should have in place in the future. OIG auditors are currently evaluating the contractor's activities with the aim of assessing whether the mission's use of the contractor has improved program management and oversight of USAID

programs in Iraq. Once it is finalized, our audit findings and recommendations will be made available publicly.

This audit, which is nearing completion, is a follow-on to a similar performance audit we completed in 2008. In the 2008 audit of USAID/Iraq's Monitoring and Evaluation Performance Program we found that the monitoring and evaluation reports were generally timely, relevant to the programs being reviewed, and useful for performance management. However, we also determined that the mission could use the results more effectively by systematically documenting its responses to findings and recommendations and by granting the USAID/Iraq Program Office authority to initiate monitoring and evaluation activities. In addition, ensuring that evaluation reports are shared with implementing partners and that awards specifically require monitoring and evaluation plans would also enhance the effectiveness of the plan. We also found in the 2008 audit that the frequency of monitoring high risk activities should be increased.

We are also currently conducting a survey of security contractor services employed by USAID/Iraq contractors and grantees. Measured in terms of both funding and personnel, security is an increasing challenge in Iraq. From July 1, 2007, to June 30, 2009, USAID maintained a portfolio of contracts and grants with 12 implementing partners that, in turn, held 17

subcontracts for private security services in Iraq. According to information provided by USAID's implementing partners, these subcontracts were associated with expenditures of \$483 million as of December 31, 2009, or approximately 23 percent of the implementing partners' total costs. This survey will examine differences among the respective security arrangements and their effects on costs. In addition, we will follow up on significant OIG recommendations from a related FY 2011 report to ensure that USAID is providing effective oversight of private security contractors.

With the resource drawdown of the Special Inspector General for Iraqi Reconstruction (SIGIR) and transition of its oversight responsibilities to statutory Inspectors General, I have met with SIGIR leadership to discuss the future of oversight operations in Iraq. Our new RIG in Cairo and our field staff in Iraq have also held extensive coordination meetings with their SIGIR counterparts to ensure continued vigorous oversight coverage of USAID programs in Iraq going forward. USAID OIG will continue to work closely with SIGIR during this process to provide for a seamless transition and continuing levels of appropriate oversight.

Thank you for this opportunity to address the Subcommittee. We appreciate your interest in our work and continuing commitment to effective oversight. I look forward to learning more about your interests and

priorities and would be happy to answer any questions you may have at this time.



Office of Inspector General

Deputy Inspector General

Michael G. Carroll



Michael G. Carroll was appointed Deputy Inspector General at the U.S. Agency for International Development, Office of Inspector General (USAID/OIG) effective February 6, 2006. Mr. Carroll is a member of the Senior Executive Service with more than 30 years of government service.

Prior to this appointment, Mr. Carroll served as the Director of Administration for the Bureau of Industry and Security (BIS) in the Department of Commerce. BIS works to advance U.S. national security, foreign policy, and economic interests. As the Director of Administration, he was responsible for managing BIS resources, including personnel, budget, and financial management, as well as policy and administrative matters. Before joining BIS, Mr. Carroll served as the Assistant Inspector General for Management at USAID, the Deputy Executive Director of the U.S. Nuclear Waste Technical Review Board, and in several management positions at the U.S. Information Agency.

Born in New York City, Mr. Carroll spent a great deal of his youth in Turkey, Guam, the Philippines, and Cuba. He holds a bachelor's degree in transportation management from St. John's University, New York, and is a graduate of the Federal Executive Institute and of George Washington University's Executive Development Program. He and his wife, Nancy, have a son, Matthew, and live in Fairfax, Virginia.