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AFGHANISTAN

USAID Oversight of
Assistance Funds and
Programs

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G A O

Accountability * Integrity * Reliability



Highlights of [GAO-12-802T](#), a testimony before the Subcommittee on Oversight and Investigations, Committee on Foreign Affairs, House of Representatives

Why GAO Did This Study

Since 2002, the United States has appropriated nearly \$90 billion to help stabilize Afghanistan and build the Afghan government's capacity to provide security, enhance governance, and develop a sustainable economy. To assist Congress in its oversight, GAO has issued over 100 reports and testimonies related to U.S. efforts in Afghanistan, including those managed by USAID and the Departments of Defense and State. USAID provides assistance to Afghanistan through contracts and assistance instruments, such as grants and cooperative agreements, and in the form of direct assistance—funding provided through the Afghan national budget for use by its ministries. Direct assistance is provided (1) bilaterally to individual Afghan ministries or (2) multilaterally through trust funds administered by the World Bank and the United Nations Development Program. This testimony discusses findings from GAO reports issued primarily in 2010 and 2011 that cover USAID's (1) management of contracts and assistance instruments, (2) oversight of development-related program performance and results, and (3) accountability for direct assistance.

What GAO Recommends

GAO is not making new recommendations but has made numerous recommendations aimed at improving USAID's management and oversight of assistance funds in Afghanistan. USAID has generally concurred with most of these recommendations and has taken or planned steps to address them.

View [GAO-12-802T](#). For more information, contact John P. Hutton at (202) 512-4841 or huttonj@gao.gov, or Charles Michael Johnson, Jr. at (202) 512-7331 or johnsoncm@gao.gov.

June 6, 2012

AFGHANISTAN

USAID Oversight of Assistance Funds and Programs

What GAO Found

The U.S. Agency for International Development (USAID) has experienced systemic challenges that have hindered its ability to manage and oversee contracts and assistance instruments in Afghanistan. Key challenges include gaps in planning for the use of contractors and assistance recipients and having visibility into their numbers. For example, GAO reported in April 2010 that, absent strategic planning for its use of contractors, individual offices within USAID often made case-by-case decisions on using contractors to support contract or grant administration and risks, such as possible conflicts of interest, were not always addressed. While having reliable data on contractors and assistance recipients is a starting point for informing agency decisions and ensuring proper management, GAO has also reported on limitations in USAID's visibility into the number and value of contracts and assistance instruments in Afghanistan, as well as the number of personnel working under them. USAID, along with other agencies, has not implemented GAO's recommendation to address such limitations. USAID, however, has taken other actions to mitigate risks associated with awarding contracts and assistance instruments in Afghanistan. In June 2011, GAO reported on USAID's vendor vetting program, then in its early stages, which was designed to counter potential risks of U.S. funds being diverted to support criminal or insurgent activity. GAO recommended that USAID take a more risk-based approach to vet non-U.S. vendors and develop formal mechanisms to share vetting results with other agencies, both of which USAID agreed to do.

GAO has found systematic weaknesses in USAID's oversight and monitoring of project and program performance in Afghanistan. In 2010, GAO reported that USAID did not consistently follow its established performance management and evaluation procedures for Afghanistan agriculture and water sector projects. For example, only two of seven USAID-funded agricultural programs included in GAO's review had targets for all their performance indicators. Moreover, the USAID Mission was operating without a required performance management plan. In addition, GAO reported on a lack of documentation of key programmatic decisions and an insufficient method to transfer knowledge to successors. USAID has taken several actions in response to these findings, such as updating its performance management plan and establishing mandatory guidelines on file maintenance to help ensure knowledge transfer.

USAID has established and generally complied with various financial and other controls in its direct assistance agreements, such as requiring separate bank accounts and maintenance of records subject to audit. However, GAO found in 2011 that USAID had not always assessed the financial risks in providing direct assistance to Afghan government entities before awarding funds. For example, USAID did not complete preaward risk assessments in two of eight cases of bilateral assistance GAO identified. With regard to direct assistance provided multilaterally through the World Bank's Afghanistan Reconstruction Trust Fund (ARTF), GAO found in 2011 that USAID had not consistently complied with its own risk assessment policies, and USAID had not conducted a risk assessment before awarding \$1.3 billion to ARTF in March 2010. In response to GAO reports, USAID revised and expanded its guidance on preaward risk assessments for the World Bank and other public international organizations.

Mr. Chairman, Ranking Member Carnahan, and
Members of the Subcommittee:

We are pleased to be here to discuss accountability and oversight of funds provided by the U.S. Agency for International Development (USAID) to assist Afghanistan. Since 2002, the United States has appropriated nearly \$90 billion to help secure, stabilize, and rebuild Afghanistan. To assist Congress in its oversight, we have issued over 100 reports and testimonies related to U.S. efforts in Afghanistan, including those managed by USAID and the Departments of Defense and State.¹ Our reviews have focused on the U.S. strategy for Afghanistan, as well as on specific U.S. efforts that build the Afghan government's capacity to provide security, enhance governance, and develop a sustainable economy.² While drawing on our past work that identified numerous challenges faced by U.S. agencies in Afghanistan, our statement today focuses on USAID, which, among other things, has assisted Afghanistan in the construction of roads, expansion of health and education, and development of water and agricultural sectors. Specifically, we will discuss findings from reports that cover USAID's (1) management of contracts and assistance instruments, such as grants and cooperative agreements; (2) oversight of development-related program performance and results; and (3) accountability for direct assistance—funding provided through the Afghanistan national budget for use by its ministries.

Detailed information on the scope and methodology for our prior work can be found in the reports we have cited throughout this statement. We conducted the underlying performance audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and

¹See the publicly released GAO reports and testimonies on Afghanistan listed and linked here: <http://www.gao.gov/docsearch/featured/afghanistan.html>.

²For example, GAO, *The Strategic Framework for U.S. Efforts in Afghanistan*, [GAO-10-655R](#) (Washington, D.C.: June 15, 2010); *Afghanistan Security: Department of Defense Effort to Train Afghan Police Relies on Contractor Personnel to Fill Skill and Resource Gaps*, [GAO-12-293R](#) (Washington, DC: Feb. 23, 2012); *Afghanistan Governance: Performance-Data Gaps Hinder Overall Assessment of U.S. Efforts to Build Financial Management Capacity*, [GAO-11-907](#) (Washington, D.C.: Sept. 20, 2011); and *Afghanistan's Donor Dependence*, [GAO-11-948R](#) (Washington, D.C.: Sept. 20, 2011).

conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our statement today.

USAID assists Afghanistan through the issuance of contracts and assistance instruments and also by providing direct assistance. Contracts and assistance instruments are awarded to USAID's implementing partners, who in turn carry out development programs and otherwise support USAID's mission in Afghanistan. For fiscal year 2011, USAID reported that it obligated \$2.9 billion on contracts and had assistance instruments with a value of \$705.9 million with performance in Afghanistan. In contrast, direct assistance is provided through the Afghan budget either (1) bilaterally to individual Afghan ministries or (2) multilaterally through trust funds administered by the World Bank and the United Nations Development Program. In 2010, international donors agreed to increase the portion of their development aid that is delivered through the Afghan government if the Afghan government showed progress in reducing corruption and strengthening its public financial management systems. Following that agreement, the United States shifted more funding toward direct assistance, more than tripling such awards—from \$665 million in fiscal year 2009 to \$2 billion in fiscal year 2010. USAID was the largest contributor of that direct assistance, with its awards growing from \$470 million in fiscal year 2009 to more than \$1.4 billion in fiscal year 2010, largely through the Afghanistan Reconstruction Trust Fund (ARTF) administered by the World Bank. In 2012, USAID reaffirmed its commitment to increase the amount of development assistance provided through the Afghan budget.

USAID Faces Challenges in Managing Contracts and Assistance Instruments

In carrying out its Afghan assistance efforts, USAID has experienced a number of systemic challenges that have hindered its ability to manage and oversee contracts and assistance instruments, such as grants and cooperative agreements. These challenges include gaps in planning for the use of contractors and assistance recipients and having visibility into their numbers. While this statement focuses on the challenges confronting USAID in Afghanistan, our work involving the Departments of Defense and State has found similar issues not only in Afghanistan but also in other countries, such as Iraq. The need for visibility into contracts and assistance instruments to inform decisions and perform oversight is critical, regardless of the agency or the country, as each agency relies extensively on contractors and assistance recipients to support and carry out its respective missions. While USAID has faced challenges, it has also taken actions to help mitigate some of the risks associated with awarding contracts and assistance instruments in Afghanistan. Most

notably, through its vendor vetting program, USAID seeks to counter potential risks of U.S. funds being diverted to support criminal or insurgent activity.

Our work has identified gaps in USAID's planning efforts related to the role and extent of reliance on contractors and grantees. For example, we reported in April 2010 that USAID's workforce planning efforts, including its human capital and workforce plans, do not address the extent to which certain types of contractors working outside the United States should be used.³ We further reported in June 2010 that USAID's workforce plan for fiscal years 2009 through 2013 had a number of deficiencies, such as lacking supporting analyses that covered the agency's entire workforce, including contractors, and not containing a full assessment of the agency's workforce needs, including identifying existing workforce gaps and staffing levels required to meet program needs and goals.⁴ Such findings are not new. We noted, for example, in our 2004 and 2005 reviews of Afghanistan reconstruction efforts, when USAID developed its interim development assistance strategy, it did not incorporate information on the contractor and grantee resources required to implement the strategy. We determined that this hindered USAID's ability to make informed decisions on resource allocations for the strategy.⁵ Further, as mentioned earlier, such findings have not been unique to USAID. For example, in our April 2010 report, we noted that the Department of State's workforce plan generally does not address the extent to which contractors should be used to perform specific functions, such as contract and grant administration.

In the absence of strategic planning for its use of contractors, we found that it was often individual offices within USAID that made case-by-case decisions on the use of contractors to support contract or grant

³GAO, *Contingency Contracting: Improvements Needed in Management of Contractors Supporting Contract and Grant Administration in Iraq and Afghanistan*, [GAO-10-357](#) (Washington, D.C.: Apr. 12, 2010).

⁴GAO, *Foreign Assistance: USAID Needs to Improve Its Strategic Planning to Address Current and Future Workforce Needs*, [GAO-10-496](#) (Washington, D.C.: June 30, 2010).

⁵GAO, *Afghanistan Reconstruction: Deteriorating Security and Limited Resources Have Impeded Progress; Improvements in U.S. Strategy Needed*, [GAO-04-403](#) (Washington, D.C.: June 2, 2004) and *Afghanistan Reconstruction: Despite Some Progress, Deteriorating Security and Other Obstacles Continue to Threaten Achievement of U.S. Goals*, [GAO-05-742](#) (Washington, D.C.: July 28, 2005).

administration functions. In our April 2010 report, we noted that USAID used contractors to help administer its contracts and grants in Afghanistan, in part to address frequent rotations of government personnel, as well as security and logistical concerns. Functions performed by these contractors included on-site monitoring of other contractors' activities and awarding and administering grants. The Departments of Defense and State have also relied on contractors to perform similar functions in both Afghanistan and Iraq. While relying on contractors to perform such functions can provide benefits, we found that USAID did not always fully address related risks. For example, USAID did not always include a contract clause required by agency policy to address potential conflicts of interest, and USAID contracting officials generally did not ensure enhanced oversight in accordance with federal regulations for situations in which contractors provided services that closely supported inherently governmental functions.

Over the last four years, we have reported on limitations in USAID's visibility into the number and value of contracts and assistance instruments with performance in Afghanistan, as well as the number of personnel working under those contracts and assistance instruments. Having reliable, meaningful data on contractors and assistance recipients is a starting point for informing agency decisions and ensuring proper management and oversight. In 2008, in response to congressional direction, USAID along with the Departments of Defense and State designated the Synchronized Predeployment and Operational Tracker (SPOT) database as their system of record to track statutorily required information on contracts and contractor personnel working in either Iraq or Afghanistan, a designation which the agencies reaffirmed when the requirement was expanded to include assistance instruments and associated personnel.⁶ However, we found that as of September 2011, SPOT still did not reliably track this information.⁷ As a result, USAID relied on other data sources, which had their own limitations, to prepare a 2011 report to Congress. Specifically, we found USAID's reporting to be incomplete, particularly in the case of personnel numbers that were based on unreliable data. For example, for the number of contractor and

⁶Pub. L. No. 111-84, § 813 (amending Pub. L. No. 110-181, § 864).

⁷GAO, *Iraq and Afghanistan: DOD, State, and USAID Cannot Fully Account for Contracts, Assistance Instruments, and Associated Personnel*, [GAO-11-886](#) (Washington, D.C.: Sept. 15, 2011).

assistance personnel in Afghanistan, USAID developed estimates that, according to a USAID official, were based in part on reports submitted by only about 70 percent of its contractors and assistance recipients. Further, USAID acknowledged that it had limited ability to verify the accuracy or completeness of the data that were reported. Similarly, we found that the Department of Defense underreported the value of its contracts in Iraq and Afghanistan by at least \$3.9 billion, while the Department of State did not report statutorily required information on assistance instruments and the number of personnel working on them in either country.

Given the repeated limitations we have found in SPOT and the ability of USAID, Defense, and State to provide statutorily required information, we recommended in 2009 and then subsequently reiterated that the three agencies develop a joint plan with associated time frames to address limitations and ensure SPOT's implementation to fulfill statutory requirements.⁸ In response to our 2009 recommendation, USAID did not address the recommendation, while the Departments of Defense and State cited on-going interagency coordination efforts as sufficient. However, we concluded that based on our findings, coordination alone is not sufficient and have continued to call for the agencies to develop a plan. We have recently begun reviewing the three agencies' April 2012 report to Congress on their contracts, assistance instruments, and associated personnel in Iraq and Afghanistan and the actions they are taking to improve their database.

In addition to our work on these matters, the congressionally established Commission on Wartime Contracting in Iraq and Afghanistan examined waste, fraud, abuse, accountability, and other issues in contingency contracting. In its final report, which was issued in August 2011, the Commission made a number of recommendations, several of which were directed toward USAID as well as the Departments of Defense and State.⁹ Recommendations include those related to using risk factors to decide what functions are appropriate to contract for in contingency

⁸GAO, *Contingency Contracting: DOD, State, and USAID Continue to Face Challenges in Tracking Contractor Personnel and Contracts in Iraq and Afghanistan*, [GAO-10-1](#) (Washington, D.C.: Oct. 1, 2009).

⁹Commission on Wartime Contracting in Iraq and Afghanistan, *Transforming Wartime Contracting: Controlling Costs, Reducing Risks* (Arlington, Va.: Aug. 2011).

settings, ensuring the government can provide sufficient acquisition management and contractor oversight, and taking actions to mitigate the threat of additional waste due to a lack of sustainment by host governments. We are currently reviewing what actions USAID and the Departments of Defense and State are taking to address the Commission's recommendations.

In response to continued congressional attention and their own concerns about actual and perceived corruption and its impact on U.S. and international activities in Afghanistan, U.S. government agencies have established efforts to identify malign actors, encourage transparency, and prevent corruption. Under the auspices of its Accountable Assistance for Afghanistan initiative, USAID is seeking to address some of the challenges associated with providing assistance in Afghanistan. One element of the initiative is the vendor vetting program. In January 2011, in order to counter potential risks of U.S. funds being diverted to support criminal or insurgent activity, USAID created a process for vetting prospective non-U.S. contractors and assistance recipients (i.e., implementing partners) in Afghanistan. This process is similar to the one USAID has used in the West Bank and Gaza since 2006. USAID's process in Afghanistan was formalized in a May 2011 mission order, which established a vetting threshold of \$150,000 and identified other risk factors, such as project location and type of contract or service being performed by the non-U.S. vendor or recipient. The mission order also established an Afghanistan Counter-Terrorism Team that can review and adjust the risk factors as needed.

At the time our June 2011 report on vetting efforts was issued, USAID officials said that the agency's vendor vetting process was still in the early stages, and that it would be an iterative implementation process, some aspects of which could change—such as the vetting threshold and the expansion of vetting to other non-U.S. partners.¹⁰ We recommended that USAID consider formalizing a risk-based approach that would enable it to identify and vet the highest-risk vendors and partners, including those with contracts below the \$150,000 threshold. We also made a recommendation to promote interagency collaboration to better ensure that non-U.S. vendors potentially posing a risk are vetted. Specifically, we

¹⁰GAO, *Afghanistan: U.S. Efforts to Vet Non-U.S. Vendors Need Improvement*, GAO-11-355 (Washington, D.C.: June 8, 2011).

recommended that USAID, the Department of Defense (which had a vendor vetting program), and the Department of State (which did not have a vendor vetting program comparable to USAID's or Defense's) should consider developing formalized procedures, such as an interagency agreement, to ensure the continuity of communication of vetting results and to support intelligence information, so that other contracting activities may be informed by those results. USAID concurred with our recommendations and noted that the agency had already begun to implement corrective measures to ensure conformity with our recommendations and adherence to various statutes, regulations, and executive orders pertaining to terrorism. Specifically, under the May 2011 mission order, the Afghanistan Counter-Terrorism Team is to work to establish an interagency decision-making body in Afghanistan to adjudicate vetting results, establish reporting metrics for USAID's vetting process, and work with the vetting unit to modify as needed the criteria used to establish risk-based indicators for vetting.

USAID Has Taken Some Action to Strengthen Oversight of Program Performance

We have previously reported on systematic weaknesses in USAID's oversight and monitoring of the performance of projects and programs carried out by its implementing partners in Afghanistan. In 2010, we reported that USAID did not consistently follow its established performance management and evaluation procedures with regard to its agriculture and water sector projects in Afghanistan.¹¹ There were various areas in which the USAID Mission to Afghanistan needed to improve. We found that the Mission had been operating without an approved Performance Management Plan to guide its oversight efforts after 2008. In addition, while implementing partners had routinely reported on the progress of USAID's programs, we found that USAID did not always approve the performance indicators these partners were using and did not ensure, as its procedures require, that implementing partners establish targets for each performance indicator. For example, only two of seven USAID-funded agricultural programs that were active during fiscal year 2009 and included in our review had targets for all of their indicators. Within the water sector, we found that USAID collected quarterly progress

¹¹GAO, *Afghanistan Development: Enhancements to Performance Management and Evaluation Efforts Could Improve USAID's Agricultural Programs*, [GAO-10-368](#) (Washington, D.C.: July 14, 2010) and *Afghanistan Development: U.S. Efforts to Support Afghan Water Sector Increasing, but Improvements Needed in Planning and Coordination*, [GAO-11-138](#) (Washington, D.C.: Nov. 15, 2010).

reports from five of the six water project implementers for the projects we reviewed, but it did not analyze and interpret this information as required. We also found that USAID could improve its assessment and use of performance data submitted by implementing partners or program evaluations to, among other things, help identify strengths or weaknesses of ongoing or completed programs.

In addition, USAID officials face a high risk security environment and the USAID Mission to Afghanistan has experienced high staff turnover, which hinder program oversight. For example, in July 2010, we reported that the lack of a secure environment has challenged the ability of USAID officials to monitor construction and development efforts.¹² Also, USAID personnel are assigned 1-year assignments with an option to extend assignments for an additional year—which USAID acknowledged hampered program design and implementation. The Department of State’s Office of the Inspector General noted in its 2010 inspection of the entire embassy and its staff, including USAID, that 1-year assignments coupled with multiple rest-and-recuperation breaks limited the development of expertise and contributed to a lack of continuity.¹³ We also found that a lack of documentation of key programmatic decisions and an insufficient method to transfer knowledge to successors had contributed to the loss of institutional knowledge—a challenge that we reported USAID should address.

In the absence of consistent application of its existing performance management and evaluation procedures and the lack of mechanisms for knowledge transfer, USAID programs are more vulnerable to corruption, waste, fraud, and abuse. In 2010, we recommended, among other things, that the Administrator of USAID take steps to (1) address preservation of institutional knowledge, (2) ensure programs have performance indicators and targets, and (3) consistently assess and use program data and evaluations to shape current programs and inform future programs.

¹²[GAO-10-368](#).

¹³United States Department of State and the Broadcasting Board of Governors Office of Inspector General, *Report of Inspection: Embassy Kabul, Afghanistan*, Report Number ISP-I-10-32A (Washington, D.C.: Feb. 2010).

USAID concurred with these recommendations and identified several actions the agency is taking in Afghanistan to address them, including the following:

- In 2011, USAID established mandatory technical guidance for program monitoring officials on how to establish and where to maintain files, in addition to key responsibilities of the office director to ensure that files are maintained before officials leave their positions.
- In 2010, USAID approved a new performance management plan for its agriculture programs and worked with its implementing partners to align their existing indicators with those in the new plan.
- In 2011, USAID delegated more authority to field program officers to serve as activity managers of agriculture programs, making them responsible for conducting regular project monitoring and reporting on program performance, verifying data reported by implementing partners, and assuring the quality of data being reported through regular site visits. In addition, USAID has taken steps to increase the use of third-party monitoring to ensure data integrity and quality.

USAID Has Taken Some Action to Improve Accountability of Direct Assistance

Risk assessments and internal controls to mitigate identified risks are key elements of an internal control framework to provide reasonable assurance that agency assets are safeguarded against fraud, waste, abuse, and mismanagement. Although USAID conducted preaward risk assessments for most of its bilateral direct assistance to the Afghan government, we found that USAID's policies did not require preaward risk assessments in all cases. For example, we reported in 2011 that USAID did not complete preaward risk assessments, such as determining the awardees' capability to independently manage and account for funds, in two of the eight cases of bilateral direct assistance.¹⁴ USAID made those two awards after the USAID Administrator had committed to Congress in July 2010 that USAID would not proceed with direct assistance to an Afghan ministry before it had assessed the institution's capabilities. We recommended that USAID update its risk assessment policies to reflect the USAID Administrator's commitment to Congress. USAID has since

¹⁴GAO, *Afghanistan: Actions Needed to Improve Accountability of U.S. Assistance to Afghanistan Government*, [GAO-11-710](#) (Washington, D.C.: July 20, 2011).

updated its policies to require preaward risk assessments for all bilateral direct assistance awards, periodic reassessment, and risk mitigation measures, as appropriate. Since October 2011, USAID has awarded \$35 million in direct assistance funds to two Afghan ministries and, in compliance with its updated policies, completed risk assessments prior to awarding the funds in both cases.

We also found that USAID established general financial and other controls in its bilateral direct assistance agreements with Afghan ministries, including requiring that the ministries:

- establish separate noncommingled bank accounts,
- grant USAID access rights to the bank accounts,
- have a monitoring and evaluation plan,
- comply with periodic reporting requirements, and
- maintain books and records subject to audit.

In addition to these general financial controls, USAID is required to establish additional monitoring and approval controls in its direct bilateral assistance agreements that provide USAID funds to Afghan ministries to contract for goods and services.¹⁵ USAID had agreements with two Afghan ministries that allowed them to contract out. However, we previously found that USAID did not always document its approval of these ministries' procurements prior to contract execution. We recommended that USAID ensure compliance with the monitoring and approval requirements. We are now following up with USAID to ensure it is implementing our recommendation.

With respect to direct assistance provided multilaterally through public international organizations such as the World Bank, USAID's policy is to generally rely on the organization's financial management, procurement, and audit policies and procedures. We found, however, that USAID has not consistently complied with its multilateral trust fund risk assessment

¹⁵These agreements provide funds to Afghan ministries to enter into contracts for goods and services and require USAID to monitor and approve certain steps of the procurement process for contracts over \$250,000, as appropriate.

policies in awarding funds to the World Bank's ARTF. For example, in 2011, we reported that USAID did not conduct a risk assessment before awarding an additional \$1.3 billion to the World Bank for ARTF.¹⁶ We also found that USAID did not conduct preaward determinations for 16 of 21 modifications to the original World Bank grant agreement. In response to our findings and a prior GAO report, USAID revised and expanded its guidance on preaward risk assessments for the World Bank and other public international organizations.¹⁷ Under the revised guidance, USAID is required to determine the World Bank's level of responsibility through consideration of several factors, including the quality of the World Bank's past performance and its most recent audited financial statements.

The World Bank has established financial controls over donor contributions to the ARTF. For example, the World Bank hired a monitoring agent responsible for monitoring the eligibility of salaries and other recurrent expenditures that the Afghan government submits for reimbursement against ARTF criteria. The World Bank also reports that it assesses projects semi-annually as part of regular World Bank supervision in accordance with its policies, procedures and guidelines based in part on project visits. However, we found examples that the financial controls established by the World Bank over the ARTF face several challenges:

- The World Bank and international donors have expressed concern over the level of ineligible expenditures submitted by the Afghan government for reimbursement. While ineligible expenditures are not reimbursed, the bank considers the level of ineligible expenditures to be an indicator of weaknesses in the Afghan government's ability to meet agreed-upon procurement and financial management standards.
- Afghanistan's Control and Audit Office conducts audits of Afghan government programs, including those funded by the ARTF, but lacked qualified auditors and faced other capacity restraints, according to the Special Inspector General for Afghanistan Reconstruction and USAID. As a result, the office used international

¹⁶[GAO-11-710](#).

¹⁷GAO, *UN Office for Project Services: Management Reforms Proceeding but Effectiveness Not Assessed and USAID's Oversight of Grants Has Weaknesses*, [GAO-10-168](#) (Washington, D.C.: Nov. 19, 2009).

advisers and contracted auditors, funded by the World Bank, to help ensure that its audits of ARTF complied with international auditing standards.

- Security conditions prevented Afghanistan's Control and Audit Office auditors from visiting most of the provinces where ARTF funds were being spent. The office was able to conduct audit tests in 10 of Afghanistan's 34 provinces from March 2009 to March 2010 and issued a qualified opinion of the financial statements of ARTF's salary and other recurrent expenditures.

Mr. Chairman, Ranking Member Carnahan, and Members of the Subcommittee, this concludes our statement. We would be happy to answer any questions you may have at this time.

Contacts and Acknowledgments

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