

OVERSIGHT OF U.S. CIVILIAN ASSISTANCE FOR AFGHANISTAN

Congressional testimony before the U.S. House of Representatives, Committee on Appropriations Subcommittee on State, Foreign Operations, and Related Programs

**BY INSPECTOR GENERAL
DONALD GAMBATESA**

July 15, 2010 - Madam Chairwoman Lowey, Ranking Member Granger, and distinguished members of the subcommittee, thank you for inviting me here today to testify on fraud and corruption in Afghanistan. I know you are concerned about recent media reports describing allegations of corruption among Afghan officials, funds being diverted to the Taliban, and large amounts of currency being exported from Afghanistan. The subcommittee understandably wants assurances that U.S. foreign assistance funding is being protected from fraud, waste, and abuse. I would be happy to share our views with the subcommittee on these important issues.

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. The country's ranking in Transparency International's Corruption Perceptions Index has continued to drop dramatically since 2005. The latest report for 2009 ranks Afghanistan at 179 out of 180 countries—the second worst in the world. Furthermore, the environment is extraordinarily dangerous. Since 2002, approximately 400 people, mostly



Afghan nationals working on USAID projects, have been killed and approximately 500 injured and disabled in attacks.

The U.S. Agency for International Development currently has over 260 U.S. civilian personnel and more than 150 foreign service nationals working in Afghanistan. These employees oversee approximately 100 ongoing grants and contracts worth over \$7 billion. Since 2002, the agency has invested more than \$9 billion in foreign assistance programs in Afghanistan.

The Office of Inspector General has provided oversight of USAID programs in Afghanistan since fiscal year 2003. Because of the unusually high risks and large commitment of foreign assistance funds in Afghanistan, we have

devoted substantial oversight to programs in that country. Since 2003, we have conducted 34 performance audits and made 128 recommendations to correct deficiencies and make program improvements. We have issued 33 financial audits, which have resulted in nearly \$100 million in sustained questioned costs. I should mention that USAID has been extremely responsive in implementing our performance audit recommendations: 80 percent have been addressed, and the agency is taking corrective actions in response to those that remain open.

We have initiated more than 70 investigations, which have resulted in recoveries and savings of approximately \$150 million; and nine administrative actions such as employee and contractor

terminations, and suspensions and debarments. In the past 2 years alone, we have referred 10 individuals to the Department of Justice for prosecution and 4 individuals to local Afghan prosecutors. During the same time period, five have been convicted on criminal charges such as bribery, major fraud, and conspiracy.

Before I discuss the specifics of some of our work and the internal controls that are in place to safeguard program funds, I should tell you that we have no evidence linking USAID assistance programs to the large quantities of U.S. dollars that are reportedly being shipped from Afghanistan. Although Afghanistan is largely a cash economy, USAID seeks to provide funds to contractors and grantees through electronic transfers and local currency.

FRAUD INVESTIGATIONS

Our criminal investigators understand USAID programs and have a great deal of experience conducting fraud investigations in Afghanistan. To leverage our resources, we work collaboratively with the Special Inspector General for Afghanistan Reconstruction, the Federal Bureau of Investigation, the International Contract Corruption Task Force, and other law enforcement agencies. We also work with local Afghan police officials and prosecutors. Our investigations focus on allegations of fraud and serious mismanagement by individuals and organizations. When the allegations involve host country nationals, we assist Afghan police and prosecutors in conducting certain investigative activities, such as surveillance of suspects, executing search warrants, and effecting arrests. These efforts have resulted in successful prosecution in Afghan courts.

For example, an ongoing investigation of a USAID contractor has resulted in the termination of 10 em-

ployees. The contractor was responsible for implementing a \$349 million local governance project intended to address causes of instability and support for the insurgency and to encourage local communities to take action in promoting their own stability and development. Employees of the contractor had approached owners of various companies bidding for subcontracts, offering to help the companies win awards in exchange for a percentage of the contracts' value. Our office has referred the case to an Afghan prosecutor, and we will recommend that the terminated employees be barred from future U.S. government awards.

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Another recent investigation resulted in the arrest and prosecution under Afghan law of an employee working on a USAID community development project. The individual was accused of embezzling nearly \$193,000 while working as a finance coordinator on a \$229 million local governance program. He was responsible for depositing the contractor’s monthly tax payments to the Af-

ghan Ministry of Finance, but the ministry reported that it had not received the payments. Local Afghan law enforcement officials, with our investigators’ assistance, discovered that the bank deposit slips the subject had submitted to the contractor as proof of payment were not legitimate. The individual has now been charged with forgery violations under Afghan law and is in jail in Kabul awaiting trial.

Although the Afghan government has not interfered with any of our investigations, we sometimes have difficulty pursuing investigations 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. When we cannot pursue investigations for this reason, we share relevant information with the appropriate U.S. government agencies within the Kabul Embassy.

In addition to our investigative efforts, our auditors also identify suspected fraud. A recent audit of an agricultural program in Afghanistan found widespread irregularities in the records showing distribution of seed and fertilizer, as well as in timesheets for employees in cash-for-work programs. In both cases, recipients were required to mark beneficiary rolls with their fingerprints as evidence that they had received commodities or cash under the program, but the auditors found numerous instances in which fingerprints appeared to be identical. A program subcontractor told the audit team about other cases in which program commodities had not been received by the targeted farmers and the names of allegedly nonexistent people had appeared in beneficiary rolls. Our investigators are looking into these irregularities. We will continue to conduct performance audits

of USAID programs so that we can identify other possible fraud and mismanagement. Our oversight in Afghanistan for the remainder of 2010 will include audits and reviews of programs related to economic development, roads, health and education, availability of technology, electoral support processes, and alternative development. We will also complete an ongoing review of security contracts to determine whether bribes were paid to the Taliban or other groups in exchange for protection.

CONTROL SYSTEMS

USAID has several systems in place to prevent fraud and abuse. For example, USAID conducts preaward surveys of contractors and grantees to ensure that they have the necessary accounting systems and experienced personnel to manage USAID funds responsibly.

In addition, accounting and audit provisions are in place that require annual financial audits of contracts and grants, and mandate that contractors and grantees maintain records showing how USAID funds were used. These provisions must also be included in any subawards.

USAID has also imposed financial reporting requirements for contractors who receive advance payments. Specialists examine the contractors' vouchers to determine acceptability of the charges before forwarding them to a certifying officer for payment.

Assistance projects are overseen by USAID employees or by third parties, who conduct site visits and review program progress reports. However, our audits have noted that the oversight is not as robust as it should be and that USAID does not have a sufficient number of qualified personnel on the ground to effectively monitor projects. In response, USAID 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 we provide policy direction and quality control for financial audits of contractors and grantees performed by public accounting firms that we have found to be eligible to audit USAID funds. The audits focus on determining whether USAID funds have been used for agreed-upon purposes, and the auditors also provide reports on cost-sharing contributions, internal controls, and compliance with contract and grant terms and applicable laws and regulations. Auditors pay particular attention to controls over cash, since cash payments are considered to be more vulnerable to fraud and misuse.

We conduct concurrent audits of the highest-risk program areas, such as infrastructure projects, to provide early detection of potential problems. As I mentioned earlier, we also conduct performance audits that focus on whether USAID programs are achieving their intended goals.

Finally, we conduct fraud education activities to inform USAID staff, contractors, and grantees (including subcontractors and subgrantees) about

fraud indicators and to encourage them to contact OIG if they encounter any indications of fraud or misconduct. In the past 90 days alone, we have provided these briefings to more than 500 people.

OVERSIGHT CHALLENGES

Oversight in Afghanistan is complicated by a multitude of factors: security concerns, language limitations, cultural differences, and lack of jurisdiction over certain funds.

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 shape more development activities, promote project sustainability, and build public confidence in the government's 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 Afghan-

istan'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. USAID/OIG does not have audit rights to these funds. Therefore, oversight of these funds becomes the responsibility of the implementing entity.

MOVING FORWARD

Considering the reported problems of corruption and the lack of capacity in Afghan institutions for safeguarding resources, we believe that USAID funding is at significant risk of waste, fraud, and abuse. Several steps could be considered to minimize these risks:

- Require that direct assistance to the government of Afghanistan be committed through specific projects, so that USAID funds can be traced to end uses, as opposed to being commingled with other sources of funding.

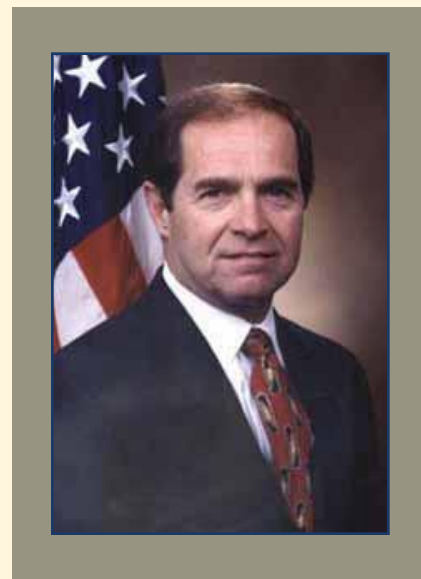


- Require concurrent audits—conducted or supervised by USAID/OIG—of USAID's direct assistance to the government of Afghanistan.
- Adopt specific contracting practices for Afghanistan and other conflict settings that limit the tiers of sub-contractors and subgrantees.

In addition to the options I have mentioned, OIG 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 of the criteria for approving organizations for awards.
- Conduct a review of cash disbursement practices employed by USAID contractors and grantees.
- Increase participation with other federal agencies that are following the trail of expenditures in Afghanistan.

We appreciate the subcommittee's interest in our work. To help OIG meet its oversight challenges, we ask for favorable consideration of proposals to expand our personnel authorities that are provided in versions of H.R. 4899. These authorities would allow us to increase our oversight presence in Afghanistan by supplementing existing staff with other highly qualified and experienced personnel. We would also use these authorities to retain personnel with the language skills and cultural understanding that would enhance our audit and investigative activities. We share the subcommittee's concerns about ensuring that funding appropriated to foreign assistance programs in Afghanistan is not wasted or channeled to those who wish to do us harm, and we are making every effort to respond to associated reports and allegations. I would be happy to answer any questions you may have at this time. ☞



Donald A. Gambatesa

Donald A. Gambatesa began his tenure as inspector general at USAID on January 17, 2006, after more than 30 years of service in federal law enforcement. Mr. Gambatesa serves concurrently as the inspector general for the Millennium Challenge Corporation, the United States African Development Foundation, and the Inter-American Foundation. From 2001 to 2005, Mr. Gambatesa served as the deputy director of the United States Marshals Service, where he was responsible for judicial security and all administrative and investigative operations of that agency. Previously, he served as the special agent in charge of the Special Investigations Division in the Office of Inspector General at the USAID, and over 24 years as a special agent of the United States Secret Service.

Mr. Gambatesa has received numerous awards for outstanding performance and achievements during his law enforcement career. He is a graduate of John Carroll University and the Federal Bureau of Investigation's National Executive Institute. He is also a member of the International Association of Chiefs of Police and the National Executive Institute Associates.