

Testimony by Arnold Fields
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Before the Commission on Wartime Contracting

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Chairman Thibault, Chairman Shays, and members of the Commission:

Thank you for inviting me this morning to discuss SIGAR's work and the issues we believe must be addressed to improve the effectiveness of the expanding reconstruction effort in Afghanistan.

Since 2002, Congress has appropriated more than \$51 billion to rebuild Afghanistan. This figure will grow in FY 2011 and, in all likelihood, surpass the \$53 billion that has been provided for Iraq's reconstruction. While this amount may appear small compared with the trillion dollars the United States has spent on the military campaigns in both Iraq and Afghanistan, it is by any other measure a lot of money. And, the success of the U.S. strategy in Afghanistan depends to a large degree on the effective use of these funds to build the Afghan security forces, improve governance, and lay the foundation for sustained economic development. Ultimately, the future of Afghanistan will be determined by the people of Afghanistan and their confidence in their government.

I am often asked why we need a Special Inspector General for Afghanistan Reconstruction. After all, each implementing agency has its own inspector general and we also have the Government Accountability Office (GAO) that reports to Congress. What does a special inspector general bring to an oversight table that some might consider already crowded?

My answer is this: In Afghanistan, SIGAR is bringing focused oversight to reconstruction activities that are funded through and implemented by multiple agencies. We not only look at individual projects and contracts, but at how these projects and contracts fit into larger programs and work together to support U.S. strategic goals in a country deemed critical to U.S. national security. We look at how U.S. agencies coordinate with each other and at how these agencies have integrated U.S.-funded programs with those of the international donor community to realize reconstruction objectives. At the end of every quarter, we provide a report to Congress that summarizes current and historical data on reconstruction activities: no other agency has this broad legal mandate.

SIGAR—through its audits and investigations—seeks to improve the effectiveness of U.S. programs and deter fraud, waste, and abuse by fostering a culture of accountability that permeates every aspect of the reconstruction effort in Afghanistan. What do we mean when we talk about accountability? Obviously, the first thing is knowing where the money is going. However, my auditors are looking at much more than whether agencies and their implementing partners are keeping good records of expenditures. We want to know if they have the controls in place to mitigate against fraud. Is the money going for activities to achieve objectives that support the larger U.S. goals? Are there metrics in place to measure progress? Are projects and activities coordinated with others to prevent duplication of effort? Is our money being used for

activities that will have a lasting effect? Does the Afghan government have the ability to operate and maintain infrastructure? What are we doing to help the Afghan government build capacity to sustain education, health, and rule of law programs so that our money is not wasted?

We believe that everyone involved in reconstruction—from the U.S. government agencies and contractors to the Afghan government, which is the beneficiary of our assistance—has a responsibility to provide good stewardship of public funds. SIGAR’s work to date has shown that all these groups need to do much more to be accountable for the reconstruction money the United States is spending in Afghanistan.

Implementing Agencies

The primary obligation for oversight must, in my view, rest with the agencies administering funds. The Department of Defense, the Department of State, and USAID have been allocated the majority of reconstruction funds for Afghanistan, but the Departments of the Treasury, Justice, Homeland Security, and Agriculture also have significant roles in helping to rebuild that country. Each of these agencies is responsible for spending taxpayer dollars carefully and wisely.

These agencies fund a number of activities not only through contracts with the private sector, but also through cooperative agreements and grants with entities such as non-profit organizations and offices of the United Nations. It might surprise some observers to learn that less than half (2.5 billion) of the \$5.4 billion obligated by USAID for reconstruction in Afghanistan between FY 2002 and FY 2009 went to private sector contractors. USAID spent nearly \$3 billion through cooperative agreements (\$1.67 billion) and grants (\$1.29 billion). Contracting is important, but in the context of reconstruction in Afghanistan, it is also essential to assess other mechanisms, such as these cooperative agreements and grants, that are being used to fund reconstruction activities.

The ability of an agency to oversee its programs depends to an extent on its financial management system. At the end of November last year, President Obama issued an executive order to intensify efforts to eliminate payment error, waste, fraud, and abuse in the major programs administered by the Federal Government. This directive targets high dollar Federal programs and requires federal agencies to develop methodologies to identify and measure improper payments associated with these priority programs. This is a good step toward making agencies more accountable, but it does not address reconstruction funding.

SIGAR has begun a forensic analysis, which will use data mining and anomaly detection techniques to identify potential fraud and waste in the billions of dollars spent for Afghanistan reconstruction. This analysis is intended to identify targets for focused audits and criminal investigations. However, SIGAR believes that each implementing agency should have the financial management systems in place to analyze its own data and identify payment anomalies on a regular basis to detect 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.

In Afghanistan, several agencies are often involved in designing and implementing projects that are part of larger programs. In Afghanistan, unlike Iraq, the international community is also making significant contributions to some programs. This is true for the nearly \$27 billion the United States has allocated to develop the Afghan National Security Forces. The Departments of Defense and State as well as the international community, through our NATO partners, have contributed human and financial resources to this effort. Multiple U.S. agencies and international partners are also involved in many other activities, including our justice and counter-narcotics programs and for the recently announced initiative to strengthen the agricultural sector in Afghanistan. Successful reconstruction in Afghanistan requires significant inter-agency cooperation and coordination with the international community.

SIGAR is conducting a variety of audits to assess 1) the ability of individual agencies to manage and oversee their programs, and 2) the degree to which agencies coordinate programs with each other and with the international community. Eight months ago SIGAR issued an audit that found that the Combined Security Transition Command-Afghanistan (CSTC-A), which is responsible for training the Afghan National Security Forces, did not have the contracting officials it needed to properly monitor a \$400 million contract. U.S. Commanders in Afghanistan welcomed this audit and used it to make their case for recruiting more contracting officers. Nevertheless, during my visit to Afghanistan last month U.S. commanders told me that they still do not have the contracting officers needed to oversee the large training contracts. The Defense Department has not provided CSTC-A with the full measure it needs to implement and oversee our most critical programs.

Experience in Iraq and elsewhere has shown that taxpayer dollars may be wasted because projects are measured by outputs rather than outcomes. This is because it is easier to establish output metrics than outcome metrics. For example, let us say we have a training program for 20 judges or prosecutors or teachers. The question we must ask ourselves is not how many judges, prosecutors and teachers we have trained, but rather what is the consequence of this training. What do these judges, prosecutors, and teachers do as a result of the training? Implementing agencies need to be more focused on outcomes.

The United States has committed more than half of all U.S. reconstruction dollars in Afghanistan to developing the Afghan National Security Forces. The current goal of the United States, the international community, and the Afghan government is to increase the Afghan National Army to 134,000 and the Afghan National Police to 109,000 by September this year. A rating system is used to measure the capabilities of these forces. We are conducting an audit to evaluate the reliability of this rating system as a true measure of the capabilities of the security forces. Numbers may be important. The real question is not how many troops we have trained, but rather whether our programs are developing national security forces capable of protecting the Afghan people and defending the Afghan state so that U.S. forces can withdraw.

We believe that it is necessary to conduct a broad spectrum of audits. Our auditors are therefore conducting reviews of individual contracts, agency oversight, and programs to assess whether the reconstruction program is helping the U.S. achieve its strategic goals in Afghanistan. Last month, SIGAR issued two audits in the energy sector that demonstrate our approach to oversight. One assessed a single USAID project—the \$300 million Kabul Power Plant—which has

experienced serious delays and cost overruns. The other audit reviewed U.S. and international projects across the energy sector. Taken together, these two audits identified systemic problems at both the project and program level that need to be addressed if the United States, its international partners, and the Afghan government are going to achieve their objective of expanding Afghan citizens' access to electricity. Our reports highlighted the absence of an updated national energy plan for Afghanistan, the lack of common electrical standards for projects, inadequate coordination between the international community and the Afghan government, poor contract management, and questions about sustainability.

Contracts and Contractors

Since I am here with the Wartime Contracting Commission, let me spend a couple of minutes talking specifically about contractors in Afghanistan and their changing role as the U.S. begins to implement its new development strategy in the country.

The United States depends on private sector contractors to perform a wide variety of reconstruction activities. These include everything from billion-dollar infrastructure contracts to multi-million dollar contracts to train the Afghan National Army and the Afghan National Police. Implementing agencies have contracted with the private sector to build everything from power plants and roads to schools, clinics, courthouses, and prisons. Contractors are developing alternative agriculture projects, running a wide variety of training and capacity-building programs, and providing security for reconstruction activities.

These contractors must be held accountable. They need to have systems in place to ensure that they complete projects in compliance with their statements of work on time and within budgets. The contractors, no less than implementing agencies, must properly track expenditures and provide quality assurance. The onus is on the prime contractors to monitor subcontractors to ensure they deliver a quality product.

SIGAR is conducting a number of focused contract audits. We have ongoing reviews of construction contracts to build army and police facilities in three different provinces. We are also assessing the U.S. Army Corps of Engineers' contract with a private security firm to determine if the Corps is receiving the services it requires at a reasonable cost. This focused contract audit is related to a review we are conducting to identify the number and volume of contracts in place to provide security services in Afghanistan.

While U.S. agencies will continue to rely on private contractors to implement many of their reconstruction programs in Afghanistan, the new U.S. strategy in Afghanistan and elsewhere is to work in greater partnership with host governments. At the latest international conference on Afghanistan, which was held in London last month, the United States and other donors pledged to increase the proportion of development aid delivered through the Afghan government to 50 percent in the next two years. This support depends on the Afghan government making progress in several areas, including strengthening its public financial management systems, improving budget execution, and reducing corruption.

Afghan Government Capacity

We believe that the Afghan government should be much more involved in every aspect of reconstruction. However, Afghan institutions must have the capacity and desire to manage the funds and protect them from waste, fraud, and abuse, and other forms of corruption.

Everyone—the donors, international organizations, and the Afghan government—is justifiably concerned about widespread corruption in Afghanistan. No one is more upset than the Afghan people themselves. A recent survey of 12 provinces by the United Nations Office on Drugs and Crime found that the average Afghan is more concerned about corruption (59 percent) than insecurity (54 percent) or unemployment (52 percent). Half of the Afghans surveyed said they had to pay at least one kickback to a public official during the preceding 12 months. The average amount was \$160—this in a country where the per capita GDP is only \$425 per year.

The UN estimates that Afghans paid \$2.5 billion in bribes to their government officials and members of the police force in 2009. That is about 25 percent of Afghanistan's GDP and almost as much as is generated by the illicit drug trade. As the UN pointed out, the shocking reality is that drugs and bribes are the largest income generators in Afghanistan, amounting to about half the country's recorded GDP.

Bribery robs the poor, causes misallocation of resources, and destroys trust in the government. It is understandably hard for people who earn less than \$2 a day, but must bribe officials to obtain basic services, to have confidence in their government. Because corruption corrodes the government's legitimacy and undermines international development efforts, strengthening the Afghan government's capability to fight corruption must be an integral part of the U.S. reconstruction effort.

It is my firm belief that Afghan government institutions, no less than U.S. agencies and contractors, must be held accountable for all monies at their disposal. It is for this reason that SIGAR launched an anti-corruption initiative last year to 1) assess 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) determine the extent to which various national and local institutions have systems in place to account properly for donor funds.

In December SIGAR issued an audit on the High Office of Oversight (HOO), Afghanistan's principal organization responsible for overseeing and combating corruption. We found that this key office needs significantly more authority, independence, and donor support to become an effective anti-corruption institution. President Karzai, who has vowed to tackle corruption across his government, told the international conference in London last month that he would, through a presidential decree, empower the High Office of Oversight to investigate and sanction corrupt officials, and lead the fight against corruption. If President Karzai does as he has promised, he will be implementing one of SIGAR's key recommendations.

SIGAR has two ongoing audits as part of our anti-corruption initiative. The first is reviewing U.S. and other donor efforts to strengthen the capabilities of Afghanistan's Control and Audit Office (CAO). The second is assessing the Afghan government's ability to account for U.S. government payments of salaries to Afghan government officials and advisors. Our anti-corruption initiative will help identify institutions we can work with as partners; it will also help identify areas where we can use our reconstruction dollars to improve accountability. We are

expanding this program and plan to have more than 20 auditors working at the national and provincial levels by the end of the year.

When you talk to U.S. and international officials about Afghanistan, they say that the future depends on one thing: improved governance. And that in turn depends on reducing corruption. Neither our military might nor all the reconstruction dollars in the world—no matter how well projects are designed and executed—can produce a secure and stable Afghanistan if the people of that country do not believe in their government. This is why we must strive to work with our Afghan partners to transform a culture of corruption into a culture of accountability. This must be at the very heart of our reconstruction effort and if we fail, we will have surely wasted scores of billions of our taxpayers' dollars.

My personal goal and the goal of my entire staff is to see our implementing agencies and the governing institutions in Afghanistan improve their capacity to conduct the oversight needed to be accountable to U.S. and Afghan citizens. Accountability is at the core of good governance.

I appreciate the opportunity to share with you our observations on the reconstruction effort in Afghanistan and look forward to continuing to work with this commission as you pursue your important mission.