

Prepared Statement of

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“U.S. Foreign Assistance: What Oversight Mechanisms are in Place to Ensure Accountability?”

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Chairman Issa, Ranking Member Cummings, and members of the Committee, thank you for inviting SIGIR to testify today.

As SIGIR nears the completion of its mission, I am grateful for this opportunity to present our views on the oversight mechanisms necessary to ensuring accountability in the use of foreign assistance and to offer lessons learned from Iraq that might lead to their strengthening.

**Introduction**

Every government manager has oversight responsibilities. The U.S. Government’s Code of Ethics charges all persons in federal service to “[s]eek to find and employ more efficient and economical ways of getting tasks accomplished” and to “[e]xpose corruption wherever discovered.”<sup>1</sup>

In the same vein, the United States must plan foreign assistance programs to ensure their efficient and economical administration and oversight by program managers, by oversight agencies (such as Inspectors General and the GAO), and by the Congress. That was not achieved in the Iraq program; and it is not at all clear that the United States has systems in place now to ensure that it would be achieved in future stabilization and reconstruction operations.

The U.S. Government employed five principal funds in Iraq to provide direct assistance. There are important lessons about oversight to be learned from each of them. I will address each individually, although many of the problems arising from each relate across multiple programs.

Let me underscore one important consideration for oversight that is engendered by the fact that our programs consisted of gifts of buildings, equipment, and services. We lacked leverage over Iraq. We could withhold aid for a particular object but once money was spent, it was spent. Very little was required of Iraq. We had great difficulty enforcing what few conditions we tried to imposed on the use of our aid. For these reasons, spending time tracking Iraqi performance was hardly something U.S. officials saw as worth the effort. Aside from SIGIR, no U.S. agency ever made it a practice to go out and check on the status of a project after it was turned over to Iraqi control. The attempts in

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<sup>1</sup> Pub. L. 96-303 (July 3, 1980).

recent years to get Iraq to make financial contributions and match our aid, or indeed to contribute financially in any meaningful way, were feeble at best.

The first three funds developed for Iraq were the Iraq Relief and Reconstruction Fund (IRRF), totaling \$20.3 billion in obligations, the Commander's Emergency Response Fund (CERP), with \$3.7 billion in total obligations, and the Iraq Security Forces Fund (ISFF), with \$19.6 billion in total obligations.<sup>2</sup>

These funds supported programs fraught with management problems. They were new programs undertaken in a war zone with limited established support. They were largely not created pursuant to authorization provisions but rather came into being through relatively brief passages contained in appropriations measures.

IRRF was guided and administered by temporary organizations under the Defense Department's general contracting aegis and, after May 2004, the State Department's policy direction. This meant that there were no established institutions, with established procedures, to run the programs. Instead, an adhococracy quickly evolved, with much dissonance between Defense and State.

ISFF was administered by a specially created Defense organization called the Multi-National Security Transition Command- Iraq. It operated for over seven years and provided substantial training and equipment for Iraq's Army and police. It did not suffer from the same operational dissonances that burdened the IRRF.

CERP was administered by military commanders but was referred to, in the first statute mentioning it, as "the ... Program established by the Administrator of the Coalition Provisional Authority."<sup>3</sup> The program completed thousands of projects, most of them comparatively small, to meet the urgent and humanitarian needs of the Iraqi people.

The problematic precedent of having funds supporting programs unanchored in institutions should be of particular concern as the United States plans for future stabilization and reconstruction operations. Institutionalizing what worked in Iraq through integrated planning and doctrine development is crucial to obviating the recurrence of Iraq-size problems in future operations.

The two other funds that supported large programs in Iraq were the Economic Support Fund (ESF), with obligations of \$4.6 billion, and the International Narcotics Control and Law Enforcement Fund (INCLE), with obligations of \$1.2 billion. These funds and the programs they supported, especially INCLE, had the advantage of arising from established institutions and mechanisms that, in principle, should have allowed for reasonable oversight and program success. However, effective management

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<sup>2</sup> At SIGIR's inception – as the Inspector General of the Coalition Provisional Authority – our task was to oversee the IRRF and the activities of the CPA (including its administration of Iraqi funds to which it gained access under the authority of the United Nations Security Council). Our responsibility to review the other U.S. funds came, in stages, some years later.

<sup>3</sup> See Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004, Public Law 108-106 (Nov. 6, 2003), Sec. 1110.

oversight often did not occur, chiefly because of the unprecedented size of the contracts (for the State Department).

In the case of ESF, the USAID Office of Inspector General made very significant oversight contributions. A variety of factors, however, made overall program success and thorough program oversight difficult to achieve.

### **Five Oversight Lessons from the Five Major Iraq Funds**

#### **The Iraq Relief and Reconstruction Fund**

The IRRF was the chief source of funding for the largest taxpayer-funded projects undertaken in Iraq, providing substantial support for rebuilding Iraq's oil, electrical, and water systems. *The key lesson to draw from the IRRF experience is that a lack of security severely impedes oversight and prevents adequate program administration.*

In reviewing a series of contracts for the construction of security and justice facilities, SIGIR concluded that government managers needed to include reconstruction risk-guidance specific to the operation at hand. Managers should avoid initiating projects unless the strategic objective outweighed the risks of project failure. If government oversight and management of project activities are impeded by security concerns, senior management should be notified and previous decisions should be revisited.<sup>4</sup>

Because of instability in Iraq, neither government quality assurance nor contractor quality control staff was able to visit projects as often as necessary. Even SIGIR personnel were occasionally prevented from visiting sites because of security concerns. In our recent (and final) audit, we found that the U.S. government could not fully identify projects we financed with the IRRF and other funds; given that fact, it could scarcely have conducted appropriate oversight of their development, not to mention their outcomes.<sup>5</sup>

One of our concerns was the degree to which U.S.-funded infrastructure was being maintained, as agreed by the Iraqis, after we transferred projects to them; security conditions made sustainment reviews difficult. Thus, SIGIR could not fully conclude what was accomplished with U.S. rebuilding funds.

#### **The Iraq Security Forces Fund**

The ISFF was perhaps the most successful of the U.S. funds used to support the Iraq assistance program. Iraq now has an Army and police force better than any in its modern history. At the same time, SIGIR's audits found a lack of adequate data on the impact of our security assistance programs, making it difficult to track, as the programs progressed, which aspects were working and which were

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<sup>4</sup> *Outcome, Cost, and Oversight of the Security and Justice Contract with Parsons Delaware, Inc.* (SIGIR 08-019), July 28, 2008, at viii.

<sup>5</sup> *Government Agencies Cannot Fully Identify Projects Financed with Iraq Relief and Reconstruction Funds* (SIGIR 13-006), March 6, 2013.

not. *The key lesson to draw from the ISSF is that you must have a robust in-county contract oversight and management staff to ensure transparency and accountability in the use of funds expended on the security and rule of law sectors.*

SIGIR found that the \$7.3 billion program to help Iraq train, staff, and equip Iraqi police forces suffered because no assessment of total force capabilities was accomplished.<sup>6</sup> This certainly was a failure of oversight, because, while inputs (expenses) and outputs (numbers of police nominally trained) were tracked, there were no adequate outcome measures.

Oversight of the ISFF program was further compromised by a decision to use a Department of State contract with DynCorp to furnish much of the police training funded by ISFF, even though the program was managed by the Department of Defense. State failed to devote sufficient resources to oversee the contract and ensure that the government received the services at the specified performance standards.<sup>7</sup>

State and Defense should have realized the weaknesses inherent in this split responsibility and acted to remedy the situation, particularly after we began calling attention to the issue. We noted in our audit that the Defense Contract Audit Agency reviewed DynCorp's billing, labor accounting, and information control systems, finding significant internal control deficiencies.<sup>8</sup> State's Office of Inspector General also flagged contract administration problems at INL, when the entire Police Training Program was still a State responsibility (in 2005).<sup>9</sup> Not enough was done to address these problems once identified.

In 2009, SIGIR reported that the U.S. Army Contracting Command was performing inadequate invoice reviews of Defense's Global Maintenance and Supply Services contract with AECOM. Our review of selected contract invoices showed AECOM potentially overbilled or could not support more than \$4.2 million in costs, or 14% of the \$30.6 million we examined. Given the billing issues identified during SIGIR's review, the weaknesses in invoice review procedures, and the size of the contract, we concluded the U.S. government was highly vulnerable to having paid other questionable costs.<sup>10</sup>

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<sup>6</sup> *Iraqi Security Forces: Police Training Program Developed Sizeable Force, but Capabilities Are Unknown* (SIGIR 11-003), Oct. 25, 2010. Most funding came from ISFF, some came from IRRF, and a very small amount came from CERP.

<sup>7</sup> *Long-standing Weaknesses in Department of State's Oversight of DynCorp Contract for Support of the Iraqi Police Training Program* (SIGIR 10-008), Jan. 25, 2010.

<sup>8</sup> *Long-standing Weaknesses in Department of State's Oversight of DynCorp Contract for Support of the Iraqi Police Training Program* (SIGIR 10-008), Jan. 25, 2010, at 13, citing Defense Contract Audit Agency, *Report on Audit of Billing System*, Audit Report No. 03181-2009D11010001, 4/23/2009. *Report of Labor Accounting System and Internal Controls*, Audit Report No. 03181-2007D13010001, 3/18/2009. *Report on Audit of Contractor Information Technology (IT) General Internal Controls*, Audit Report No. 3311-2006Q11510001, 4/17/2007.

<sup>9</sup> Department of State, *OIG Report No. ISP-I-05-14, Bureau of International Narcotics and Law Enforcement Affairs*, July 2005, pp. 35-38.

<sup>10</sup> See *Iraq Security Forces Fund: Weak Contract Oversight Allowed Potential Overcharges by AECOM To Go Undetected* (SIGIR 10-005), Oct. 30, 2009

In 2011, our audit of Anham, LLC's contract for warehouse and distribution services showed that U.S. government personnel either did not review or only conducted limited reviews of Anham's invoices. The audit further found that the Defense Contract Audit Agency had not completed a review of Anham's incurred costs and that, in general, had a significant backlog in conducting such reviews. These incurred costs reviews determine if costs claimed for reimbursement are reasonable, allowable, applicable to the contract, or are in keeping with generally accepted accounting principles. Because of delays in conducting these reviews, Anham's unreasonable charges for items purchased under the contract (such as an \$80 PVC elbow that a competitor was selling for \$1.41) went undetected until our audit.<sup>11</sup>

Delays in such reviews in a contingency environment are potentially problematic. Whereas the government may be able to pursue remedies against Anham, if what we feel are unreasonable charges are finally determined to be so, the government will have trouble finding, much less obtaining satisfaction from some of the contractors we contracted with under our "Iraqi First" policies.

### **The Commander's Emergency Response Program**

CERP was a highly decentralized program that operated almost entirely in cash, thus posing significant oversight challenges. *The key lesson to draw from the CERP experience is: don't flood an unstable zone with millions of dollars in cash, unless you have in place a well-trained cadre of personnel to oversee the funds, sufficient controls that ensure the money's careful handling, and staff that have experience in managing small, well-targeted projects that can be accomplished in a rapid fashion*

CERP suffered from several weaknesses. It lacked a program office; training was haphazard; and controls were lacking early on.<sup>12</sup> To some degree, these weaknesses were inevitable, given that the program was developed "on the fly" with funds initially treated as "walking-around money" for military commanders. As the program expanded, the opportunities for fraud and waste multiplied, while Defense lagged in implementing remedial measures. The Congress ultimately was required to crack down on CERP's excesses, e.g., restricting the size of any single project to less than a million dollars.

Large cash-based programs require close and carefully implemented controls, especially when they occur in unsecure environments. The CERP-funded the "Sons of Iraq" program (\$370 million) is a case in point. It was intended to take potential insurgents off the street and put them to work providing security. SIGIR's audit found scarce documentation of who in fact was employed, what happened to the funds once they were paid out to Sheiks, and what impact could objectively be

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<sup>11</sup> See *Poor Government Oversight of Anham and Its Subcontracting Procedures Allowed Questionable Costs To Go Undetected* (SIGIR 11-022), July 30, 2011.

<sup>12</sup> See *Lessons Learned on the Department of Defense's Commander's Emergency Response Program in Iraq* (SIGIR 13-005), Jan. 24, 2013.

attributed to the program.<sup>13</sup> The goals of the SOI program were sensible; but that does not obviate the need to exert strong oversight.

### **The Economic Support Fund**

The ESF is a standard foreign aid account that was executed in an unprecedented environment in Iraq. It funded capacity-building for Iraqi ministries, community development, and other programs whose effects generally are difficult to measure in an objective sense, even under the best of circumstances. *The lesson to draw from the use of the ESF in Iraq is to start small and ensure that controls are in place before expending larger sums.*

SIGIR reviewed the Department of State's use of the ESF in its "Quick Response Fund" program, which was created by State in Iraq as an analog to Defense's CERP. We found weaknesses in State's management controls over the QRF, which State subsequently resolved in part, but project outcome reporting and fund-use documentation remained weak. We also found that the program was vulnerable to fraud, waste, and abuse. USAID used an "implementing partner" to administer its QRF program and generally demonstrated good management controls.<sup>14</sup>

### **The International Narcotics Control and Law Enforcement Fund**

INCLE obligated about \$600 million of the total obligations of \$1.2 billion for the now-cancelled Police Development Program.<sup>15</sup> The PDP anticipated spending billions of taxpayer dollars over five years. SIGIR audits revealed that Iraq's Ministry of Interior did not want the program that State designed. Thus, State wisely cancelled the PDP. *The lesson to draw from the INCLE is to always consult fully with, and obtain authoritative buy-in from, the host country before embarking on ambitious and expensive capacity-building programs.*

Since 2003, State's Bureau of International Narcotics and Law Enforcement worked with the Department of Justice to help Iraq establish an effective corrections system, spending about \$209

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<sup>13</sup> "[T]here was no comprehensive plan for SOI with specific goals, metrics or milestones from which to measure the individual or collective impact of the effort. Additionally, there was no requirement for commanders to document what SOI groups achieved or for any other organization to assess overall program impact ... . SIGIR is unable to draw reliably supportable empirical conclusions about the full extent of SOI contributions in this area. "Overall, SIGIR found the MNF-I exercised weak financial controls over its cash payments to the SOI. ... [P]ayments were often made directly to the SOI leader rather than to individual SOI members. In addition, in some files, the pay agent simply provided the same amount of money each month without determining how many SOI were actually working and for how many hours they ostensibly worked during the month." *Sons of Iraq Program: Results Are Uncertain and Financial Controls Were Weak* (SIGIR 11-010), Jan. 28, 2011, summary page.

<sup>14</sup> *Quick Response Fund: Management Controls Have Improved but Earlier Projects Need Attention* (SIGIR 11-011), Apr. 27, 2011; see also *Final Review of State Department's Management of Quick Response Funds in 2007 and 2008* (SIGIR 13-002), Oct. 26, 2012 ("While DoS took some measures to enhance its oversight and documentation of activities toward the end of the program, earlier activities appear to have suffered from a lack of sufficient internal controls. Specifically, DoS may never know what it got out of those micropurchases made in the early years because of the lack of documentation showing that the goods or services were delivered. Consequently, it is highly possible that some portions of QRF funds were not used as intended")

<sup>15</sup> *Iraq Police Development Program: Lack of Iraqi Support and Security Problems Raise Questions about the Continued Viability of the Program* (SIGIR 12-020), July 30, 2012.

million. Justice's end of mission report provided an extensive summary of its effort, documenting what was accomplished. SIGIR's interview with the Iraqi Deputy Minister responsible for the Iraqi Corrections Service corroborated Justice's assertions.<sup>16</sup>

INL spent about \$297 million during the same period to develop the Iraqi judiciary system, establish security for the judicial sector, and reform court administration. We found some evidence that INL programs contributed to a reasonably well-functioning judicial system. However, it produced no end-of-mission report like the one from Justice. There were no documented means to assess the success of the U.S. initiatives, such as the extent to which U.S. agencies completed the tasks they were given, how the funding was used, and what successes and challenges were documented as the program progressed. As a result, we were unable to conduct any meaningful analyses to determine the effectiveness of these programs.<sup>17</sup>

### **Corruption and the Iraq Assistance Program**

Mr. Chairman, I understand that the Committee is interested in hearing about the impact of corruption on our assistance programs in Iraq.

In responding to this issue, I am going to set aside the problem of American criminality for a moment, because, as deplorable as it is, it was not the key problem on the American side: waste was. We estimate that at least \$8 billion in U.S. funds were wasted in the Iraq program.

Our past reporting notes Iraqi officials' views of the scale of corruption, money laundering, and looting of government assets derived from the sale of Iraq's petroleum wealth. This is consistent with the familiar "oil curse" that seems to daunt every government that exclusively manages major oil and gas resources. The resultant corruption produces a concentration of wealth and power in those running the government. That happened in Iraq.

A significant degree of corruption is part of everyday life in Iraq. First of all, there is a weak attachment to the rule of law. People seem relatively willing to convert government assets to private use. For example, equipment we supplied through the rebuilding program was sometimes stolen after we completed our work, e.g., a CERP project to develop a business center at the Baghdad International Airport had most of its movable assets removed.<sup>18</sup> Given what we were learning in Iraq, we needed to improve management oversight mechanisms to ensure that our efforts could be sustained. That was not done.

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<sup>16</sup> *Sustaining the Progress Achieved by U.S. Rule of Law Programs in Iraq Remains Questionable* (SIGIR 13-001), Oct. 25, 2012, summary page.

<sup>17</sup> *Sustaining the Progress Achieved by U.S. Rule of Law Programs in Iraq Remains Questionable* (SIGIR 13-001), Oct. 25, 2012, summary page.

<sup>18</sup> *See Commander's Emergency Response Program: Projects at Baghdad Airport Provided Some Benefits, but Waste and Management Problems Occurred* (SIGIR 10-013), April 26, 2010.

Second, contracts were not adhered to. Our inspectors found countless examples of work not being completed to specifications. The government's quality assurance efforts were simply inadequate to the task of contractor oversight. Given this failure, these mechanisms need to be rethought and redesigned for future SROs. Even if we never have another Iraq-sized SRO, we certainly should expect to find ourselves in an SRO where the kinds of problems encountered in Iraq are replicated.

Third, SIGIR regularly heard that Iraqi governmental positions and government contracts were allocated among the supporters of various political factions by secret committees. This limits our efforts to improve the operations of Iraqi ministries.

People who want hold government jobs are, as I mentioned, often nominated by political patrons. Given the need to maintain the ties with political or other groups responsible for their gaining their positions, they have less time and interest in doing their official jobs. This reduces the attachment of the population of to the government, and the cycle continues.

These problems are not so different, I would venture to say, from those found in other countries where foreign assistance is provided, but we saw insufficient effective attention devoted to dealing with endemic corruption in Iraq. *The lesson to draw on corruption in Iraq is that the United States must plan new systems that have the potential to improve a host country's capacity to fight its endemic corruption: don't under-invest in this area as we did in Iraq or you pay for it dearly in the long run.*

### Conclusion

SIGIR's oversight work on the five major funds used to support Iraq's reconstruction elicited these five important lessons:

1. *The key lesson to draw from the IRRF experience is that a lack of security severely impedes oversight and prevents adequate program administration.*
2. *The key lesson to draw from the ISSF is that you must have a robust in-county contract oversight and management staff to ensure transparency and accountability in the use of funds expended in the security and rule of law sectors.*
3. *The key lesson to draw from the CERP is don't flood an unstable zone with millions of dollars in cash, unless you have in place a well-trained cadre of personnel to oversee the funds, sufficient controls to ensure the money's security, and staff that have experience in managing small, well-targeted projects that can be accomplished in a rapid fashion*
4. *The lesson to draw from the use of the ESF in Iraq is to start small and ensure that sufficient controls are in place before expending larger sums.*
5. *The lesson to draw from the INCLE is to always consult fully with the host country before embarking on ambitious and expensive capacity-building programs.*

Thank you Mr. Chairman, Ranking Member Cummings, and members of the committee for this opportunity to present SIGIR's views on the important issue of ensuring effective oversight mechanisms for foreign assistance. I look forward to your questions.