



SIGAR

Statement for the Record

Committee on Appropriations, Subcommittee on
the Department of State, Foreign Operations, and
Related Programs
U.S. Senate

Reducing Waste, Improving
Efficiencies, and Achieving
Savings in U.S. Reconstruction of
Afghanistan

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Chairman Leahy, Ranking Member Graham, and Members of the Subcommittee,

Thank you for the opportunity to provide written testimony to aid in your consideration of the Department of State (State) Fiscal Year (FY) 2014 budget request for Afghanistan.

Congress has appropriated nearly \$93 billion since 2002 to rebuild Afghanistan.¹ For FY14, State and the U.S. Agency for International Development (USAID) have requested an additional \$3.4 billion—more than is requested for any other nation. If approved, this request will bring the total amount of appropriated funds that remain to be spent in Afghanistan to more than \$20 billion. It is the mission of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to ensure that these funds are spent as effectively and efficiently as possible and that they are protected from waste, fraud, and abuse.

This statement summarizes the impact of SIGAR's recommendations to date and details seven major reconstruction challenges U.S. decision makers must address in Afghanistan. It is based on several previously published SIGAR reports and our ongoing analysis of U.S. funded reconstruction programs.

SIGAR's Recommendations Have Improved Program Effectiveness and Efficiency and Achieved Monetary Savings

Since the end of 2008, when Congress created SIGAR, its auditors and inspectors have completed 75 audit and inspection reports and made 245 recommendations that have identified \$1.8 billion in questioned costs, funds that can be put to better use, and funds identified for potential recovery. Federal agencies have implemented many of these recommendations to strengthen their ability to develop and execute programs, improve program management and quality control, and realize cost savings. For example, in 2011, SIGAR found that U.S. Army Corps of Engineers (USACE) contracting officers were unaware of refunds due to the U.S. government in cases where contractors had overestimated their labor costs.² Pursuant to SIGAR's recommendations, USACE took immediate steps to have insurance refunds sent directly to the U.S. government. Thus far, the refund checks amount to \$11 million. Additionally, USACE implemented SIGAR's recommendation to establish a collection process to recover as much as \$58.5 million identified in the audit report as potential refunds due to the government.

However, SIGAR currently has 71 open recommendations, 31 of them directed to State, USAID, or both. If all of these 31 recommendations were accepted and fully implemented, they would result in more than \$131.6 million in funds saved or put to better use and would

¹ This figure does not include the final FY2013 allotment figures for State and USAID, which are still under negotiations based on the funding level appropriated by Public Law 113-6.

² SIGAR Audit 11-15, *Weaknesses in the USACE Defense Base Act Insurance Program Led to as Much as \$58.5 Million in Refunds Not Returned to the U.S. Government and Other Programs*, July 28, 2011.

strengthen the implementation of reconstruction projects in Afghanistan. For example, SIGAR reported in April 2012 that, although the majority of USAID's 305 major awards for Afghanistan had been completed or had expired as of September 30, 2011, most had not been closed due, in part, to delays in conducting close-out audits, as required.³ Therefore, SIGAR found that USAID lacked assurance over the use and disposition of its funds and property for completed or expired awards and had delayed the potential recovery of \$103 million in unliquidated obligations. SIGAR recommended that USAID expedite close-out audits for expired awards, especially for those awards with unliquidated obligations. USAID acknowledged the recommendation and stated that it was pursuing more aggressive means to audit and close out awards. However, USAID has not yet completed the process of closing the awards highlighted in SIGAR's report. SIGAR continues to monitor USAID's progress in implementing this recommendation.

Seven Key Questions for Decision Makers

While recommendations in individual audit and inspection reports are useful for strengthening reconstruction programs and recovering funds for the U.S. taxpayer, they are primarily retrospective. In other words, once SIGAR has conducted an audit or inspection, found one or more problems, and recommended steps to address them, those problems have already occurred. That is why, in its January 2013 Quarterly Report to Congress, SIGAR laid out seven key questions—based on common challenges identified through its body of work—that decision makers, including Congress, should ask as they consider whether and how best to use the remaining reconstruction funds:

1. Does the project or program make a clear and identifiable contribution to our national interests or strategic objectives?
2. Do the Afghans want it and need it?
3. Has it been coordinated with other U.S. implementing agencies, with the Afghan government, and with other international donors?
4. Do security conditions permit effective implementation and oversight?
5. Does it have adequate safeguards to detect, deter, and mitigate corruption?
6. Do the Afghans have the financial resources, technical capacity, and political will to sustain it?
7. Have implementing partners established meaningful, measurable metrics for determining successful project outcomes?

³ SIGAR Audit 12-9, *USAID Has Disbursed \$9.5 Billion for Reconstruction and Funded Some Financial Audits as Required, But Many Audits Face Significant Delays, Accountability Limitations, and Lack of Resources*, April 25, 2012 (reissued May 2, 2012).

These questions are simple, but SIGAR has found that implementing agencies consistently fail to consider them fully before obligating funds. The remainder of this testimony will elaborate upon these seven questions and outline SIGAR's proposal for applying them to new reconstruction programs and projects.

Does the project or program make a clear and identifiable contribution to our national interests or strategic objectives?

The United States' primary goal in Afghanistan has been to prevent Afghanistan from becoming, once again, a safe haven for al-Qaeda or other terrorist groups to launch attacks against the U.S. One central tenet of the U.S. campaign to achieve this goal has been the counterinsurgency or "COIN" approach, with its three primary phases of "clear," "hold," "build."

SIGAR's work has found instances in which reconstruction programs have failed to achieve this intended benefit and, in some cases, may have actually resulted in adverse effects. In April 2012, for example, SIGAR released an audit report on the Local Governance and Community Development program (LGCD), which the USAID described as its "flagship COIN program."⁴ The program's primary goal was to help create—in partnership with the Afghan government—a stable environment for long-term political, economic, and social development. However, SIGAR found that the program had not met its primary goal of extending the legitimacy of the Afghan government, brought the government closer to the people, or fostered stability. In fact, SIGAR's auditors found that each of the eight provinces with the most LGCD activity experienced dramatic increases in the level of violence between 2006 and 2010. Although the effects of LGCD on security levels cannot be isolated, violence data is a useful indicator of stability. And this data suggested that the LGCD program was not achieving its intended results.

More recently, SIGAR reported on weaknesses in the U.S. government's efforts to avoid contracting with entities or individuals determined to be actively supporting an insurgency or otherwise opposing U.S. or coalition forces in Afghanistan. Specifically, SIGAR found that, although the Department of Defense has established a process to implement Section 841 of the National Defense Authorization Act (which permits the Department of Defense to authorize contracting authorities to restrict, terminate, or void a contract with these entities or individuals), weaknesses in the process prevent the department from having reasonable assurance that it is identifying all contracts held by persons or entities determined to be actively supporting the insurgency and opposing U.S. or coalition forces. As a result, millions of U.S. contracting dollars could be diverted to forces seeking to harm U.S. military and civilian personnel in Afghanistan and derail the multi-billion dollar reconstruction effort. Further, SIGAR reported that because the Section 841 legislation does not apply to other

⁴ SIGAR Audit 12-8, *USAID Spent Almost \$400 Million on an Afghan Stabilization Project despite Uncertain Results, but Has Taken Steps to Better Assess Similar Efforts*, April 25, 2012.

agencies—most notably State and USAID—there could be a present or future risk that these two agencies could have active prime or subcontracts with those designated by the Department of Defense under Section 841.

Therefore, some questions that might be proposed are:

- Do State and USAID have a clearly articulated understanding of how their reconstruction programs and projects relate to the U.S. government’s overarching goals in Afghanistan?
- Will State and USAID commit to restricting, terminating, or voiding any contracts, grants, or cooperative agreements to individuals or entities that have been designated under Section 841?

Do the Afghans want the project or program and need it?

Best practice in offering assistance should include determining that the intended recipient actually wants and needs the project. SIGAR has not always found that to be the case in Afghanistan. For example, today SIGAR is issuing a report warning of poor project management that includes purchases that the Afghan government did not want for its national power utility, Da Afghanistan Breshna Sherkat (DABS).⁵ Specifically, SIGAR determined that USAID wasted nearly \$700,000 to implement a billing system in Kandahar that the Afghan government did not want. Although USAID required its contractor to implement a billing system in Kandahar that was consistent and coordinated with systems in Kabul, USAID did not enforce these contractual requirements, allowing a different system to be installed in Kandahar that was later deemed a failure by USAID and DABS.

Questions for consideration include the following:

- How do State and USAID ensure that the Afghan government wants and needs each U.S. funded program or project funded?
- Has State or USAID terminated any planned or ongoing programs or projects because the Afghan government did not want or need them and, if so, which ones?

Has the program or project been coordinated with other U.S. implementing agencies, with the Afghan government, and with other international donors?

In 2011, SIGAR conducted a thorough assessment of U.S. efforts to strengthen the financial sector in Afghanistan and to safeguard U.S. funds as they flow through the Afghan economy.⁶ SIGAR found that, even though the Department of Defense and the Department

⁵ SIGAR Audit 13-7, *Afghanistan’s National Power Utility: Commercialization Efforts Challenged by Expiring Subsidy and Poor USFOR-A and USAID Project Management*, April 18, 2013.

⁶ SIGAR Audit 11-13, *Limited Interagency Coordination and Insufficient Controls over U.S. Funds in Afghanistan Hamper U.S. Efforts to Develop the Afghan Financial Sector and Safeguard U.S. Cash*, July 20, 2011.

of Homeland Security were working with the same commercial banks to strengthen controls over funds held in those banks, neither agency was aware of the other's efforts. In addition, the Department of Homeland Security had not been included in an important interagency working group designed to coordinate efforts to gain visibility over cash flows. As SIGAR reported, limited interagency coordination puts U.S. agencies at risk of working at cross purposes or, at a minimum, missing opportunities to leverage existing relationships and programs. To help leverage limited resources and expertise and avoid duplication of agency efforts on financial sector issues, SIGAR recommended that the U.S. Ambassador to Afghanistan instruct the members of an embassy Financial Sector Working Group to develop an interagency strategy to coordinate efforts to work with Afghan banks. In March 2012, SIGAR received a letter from the embassy stating that, although U.S. government officials regularly meet internally and with other donors, the working group no longer exists⁷ and a formal written strategy has not been developed.

Possible related questions for State and USAID include:

- Do State and USAID have a centralized database of all reconstruction programs and projects funded by the U.S. government and the international community to ensure coordination of these efforts and prevent duplication?
- What policies and procedures do State and USAID have in place to strengthen inter-agency and inter-governmental coordination for reconstruction?

Do security conditions permit effective implementation and oversight?

Poor security poses a major challenge to every aspect of the reconstruction effort—from executing programs to providing oversight. SIGAR remains particularly concerned about two aspects of security relating to development projects.

- Because of the dangerous environment, contractors and nonprofit organizations must rely more and more on private security services. But, as of a year ago, they have been required by Afghan law to contract with the government-run Afghan Public Protection Force (APPF) instead of private security companies. Last year, a SIGAR audit of the transfer of security services of USAID-funded projects to the APPF found that the cost of security services could increase because of the APPF fee structure.⁸ SIGAR has an ongoing second audit to identify the cost of security services for selected USAID projects and determine the impact of the APPF transition on reconstruction projects.

⁷ The group's last meeting was held on September 25, 2011.

⁸ SIGAR Audit 12-10, *Increases in Security Costs Are Likely under the Afghan Public Protection Force; USAID Needs to Monitor Costs and Ensure Unlicensed Security Providers Are Not Used*, June 29, 2012.

- As U.S. and coalition forces withdraw, it will become steadily more difficult for both the implementing and oversight agencies to monitor projects. With the military drawdown and transition to the Afghan security forces, it has already become harder for implementing agencies to effectively manage projects and for oversight agencies such as SIGAR to visit and inspect projects. This is because U.S. forces in Afghanistan have a policy of only providing security in areas within an hour by road or air travel of a medical facility. For example, recently SIGAR was unable to visit \$72 million in infrastructure projects in northern Afghanistan because they are located outside the security “bubble.” This will only get worse as more bases close or are handed over to Afghan units that lack medical-evacuation capability.

SIGAR is examining ways to continue providing vigorous oversight in this evolving security environment, including expanding the use of satellite imagery and hiring Afghans or other third-country nationals to conduct site visits. SIGAR also recently initiated an audit of the U.S. government’s plans for transferring reconstruction efforts to the Afghan government as the end of 2014 approaches. This audit will closely examine how State and USAID are assessing and planning for the likely impact of security conditions on their ability to oversee reconstruction projects post-2014.

Therefore, the following questions might be posed:

- Do State and USAID have plans in place that carefully consider whether security conditions will permit adequate levels of management and oversight for individual reconstruction programs and projects and what are those plans?
- Are State and USAID prepared to terminate planned programs and projects if they cannot effectively manage and oversee them, due to security constraints?

Do reconstruction projects include adequate safeguards to detect, deter, and mitigate corruption?

Corruption threatens the entire reconstruction effort in Afghanistan. It siphons funds away from vital programs, undermines the rule of law, and reduces popular support for the Afghan national government. For this reason, SIGAR has conducted a number of audits that assessed Afghanistan’s anti-corruption bodies, has evaluated efforts to monitor bulk cash flows through the Kabul International Airport, and has deployed investigators to field offices in six locations in Afghanistan to identify individuals engaged in bribery and extortion. SIGAR’s audit work has highlighted serious shortcomings in Afghan capacity and lack of political will to combat corruption.

More than two years ago, SIGAR recommended that the United States develop an integrated anti-corruption strategy.⁹ Although the U.S. Embassy in Kabul produced a draft strategy, it was not adopted. SIGAR's Office of Special Projects is now conducting a review to evaluate the current U.S. anti-corruption strategy and its implementation, and the progress the United States has made in meeting its anti-corruption goals in Afghanistan. In addition, SIGAR's Audit and Inspection Directorate is currently reviewing a major State Department rule of law program.

Possible questions include:

- Has the U.S. Embassy made any progress in developing a comprehensive U.S. government anti-corruption strategy for the reconstruction effort in Afghanistan and, if so, when will this strategy be released?
- If it has not developed a strategy, what are the reasons for failing to do so?

Do the Afghans have the financial resources, technical capacity, and political will to sustain the reconstruction program or project?

Through its audit and inspection work, SIGAR has identified numerous examples in which the United States created a program or built a facility without consideration as to whether the Afghan government could sustain it.

In a 2010 audit of reconstruction in Nangarhar, Afghanistan, for example, SIGAR found that the Afghan government was severely limited in its ability to operate and maintain U.S. completed development projects in that province.¹⁰ (Nangarhar had received over \$112 million in development assistance from State, USAID, and the Department of Defense.) As a result, SIGAR identified many projects that had become dilapidated or were in disrepair.

In an upcoming audit report on hospitals and health services in Afghanistan, SIGAR will again illustrate the negative consequences that can occur when the cost of sustainability is not taken into consideration.

SIGAR was among the first to highlight the sustainability risk to the reconstruction effort. The United States is building infrastructure and launching programs that the Afghan government has neither the financial nor technical ability to operate and maintain. In FY 2011, the most recent year for which the World Bank has complete data, Afghanistan's budget included about \$335 million—or 10 percent of its core expenditures—for operation and maintenance (O&M). But, as the United States and other donors transfer these assets to the Afghans,

⁹SIGAR Audit 10-15, *U.S. Reconstruction Efforts in Afghanistan Would Benefit from a Finalized Comprehensive U.S. Anti-Corruption Strategy*, August 5, 2010.

¹⁰ SIGAR Audit 11-01, *Weaknesses in Reporting and Coordination of Development Assistance and Lack of Provincial Capacity Pose Risks to U.S. Strategy in Nangarhar Province*, October 26, 2010.

future requirements are expected to rise to \$4.8 billion for total civilian and security O&M.¹¹ The shortfall is expected to grow to \$70 billion during the transformation decade of 2015–2024, with the U.S. government likely to shoulder a large part of that burden.

Questions that might be posed regarding sustainability include:

- Which programs and projects funded by State and USAID are least likely to be sustained by the Afghan government?
- How much of the estimated \$70 billion shortfall is the U.S. government committed to providing during the period of 2015-2024?

Have implementing agencies established real metrics for measuring success? And, if so, are they applying them to these programs?

Too often, SIGAR finds that agencies are focused on outputs, not outcomes. These metrics give part of the picture, but do not truly provide meaningful assessments of whether programs achieved their goals. For example, in 2011, SIGAR assessed efforts to build the capacity of the Afghan Ministry of Agriculture to better serve farmers and promote private sector development. SIGAR found that the U.S. Embassy could not determine how much progress had been made in building ministry capacity, in part because it largely measured the products of capacity-building efforts (such as the number of national research stations and labs built or rehabilitated), rather than the results achieved by their construction.

Therefore, questions for consideration are:

- Why have State and USAID-funded reconstruction programs and projects in Afghanistan predominantly focused on using output, rather than outcome measures?
- What assurance do State and USAID have that their reconstruction programs and projects have been effective, given the overwhelming absence of outcome metrics?

SIGAR's Proposal for Reducing Waste, Improving Efficiencies, and Achieving Savings in U.S. Reconstruction of Afghanistan

Organizations like the U.S.-led International Security Assistance Force, State, and USAID are posing similar questions in their reviews of programs and projects during the security-transition period. That is a good thing, because Congress and Executive Branch agencies have a unique opportunity to conduct a strategic reexamination of reconstruction issues as the transition accelerates between now and 2015. That reexamination might reaffirm existing State and USAID plans, or lead to postponed, reduced, cancelled, reinforced, redesigned, or repurposed projects. To the extent such analysis and action produce projects more likely to function and succeed in post-2014 Afghanistan, they can deliver real benefits

¹¹ The World Bank, *Afghanistan in Transition: Looking Beyond 2014*, 2013, p. 6

to U.S. military and civilian personnel, American taxpayers, the Afghan people, and U.S. national interests.

SIGAR believes the seven questions outlined above should serve as a basis for this project-by-project analysis and strategic review. To the extent that agencies can answer these seven questions in the affirmative, SIGAR believes that a project or program has a better chance of reducing waste, improving efficiencies, and achieving savings.

For example, SIGAR recently issued an inspection report on a medical clinic in Kabul province.¹² This project demonstrates the good that can come when a project is well planned, well executed, and effectively coordinated with the Afghan government. SIGAR reported that the local community had supported the clinic's construction, a villager had donated the land, and the facilities are being used daily. Since the clinic opened in September 2011, it has seen over 1,500 outpatients, 62 prenatal patients, and the birth of 63 newborns. The clinic is also being well sustained, likely due, in part, because the Ministry of Public Health signed an agreement as part of the project approval process to sustain the clinic upon completion. It has fulfilled its commitment to do so. SIGAR's inspection found that the heating system worked, floors were clean, bedding was plentiful and well kept, and the pharmacy was well stocked.

SIGAR will continue to look for success stories like this one and report on them. However, SIGAR will also continue to carefully examine programs and projects that were not as carefully planned out or effective as this one. This oversight is needed to fully inform Congress and the American public about how their unprecedented investment is being used. But, SIGAR's work is only one way to influence agencies to strengthen their reconstruction planning, programming, and management.

Therefore, SIGAR suggests that congressional appropriators, including the appropriators on this subcommittee, require State and USAID to answer, in writing, these seven questions before obligating appropriated funds to new programs. If State or USAID cannot answer the questions in the affirmative, SIGAR also proposes that they be required to provide a written justification explaining the purpose for proceeding with the obligation of appropriated funds.

SIGAR will also be considering these seven fundamental questions through its audits, investigations, and inspections, and urges others to do the same, because nothing is more wasteful at this critical juncture than an unwarranted project or one that realistically has no chance of success.

¹² SIGAR Inspection 13-7, *Qala-I Muslim Medical Clinic, Serving the Community Well, But Construction Quality Could Not Be Fully Assessed*, April 17, 2013.

Conclusion

Over the last decade, the United States has provided enormous sums of money to rebuild Afghanistan. This reconstruction effort is now in transition as U.S. combat forces withdraw and the Afghan authorities assume responsibility for security. In its FY 2014 budget request, State described this transition period as “perhaps the most critical phase in our engagement in Afghanistan.”¹³ The success of the U.S. effort in Afghanistan, which includes the most costly rebuilding program for a single nation in U.S. history, depends to a great degree on U.S. funds being used wisely, efficiently, and effectively.

Thank you for the opportunity to provide written testimony to assist your oversight of U.S. funded reconstruction efforts in Afghanistan. SIGAR is happy to answer any questions you have and provide whatever assistance you need to protect U.S. funds from fraud, waste, and abuse.

¹³ Department of State, Executive Budget Summary, Function 150 & Other International Programs, Fiscal Year 2014, p. 92.