

TESTIMONY OF
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BEFORE THE
SUBCOMMITTEE ON NATIONAL SECURITY, HOMELAND DEFENSE,
AND FOREIGN OPERATIONS OF THE
HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

“OVERSIGHT IN IRAQ AND AFGHANISTAN:
CHALLENGES AND SOLUTIONS”

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Chairman Chaffetz and Ranking Member Tierney, I am pleased to appear before you to testify on behalf of the Office of Inspector General (OIG) for the U.S. Agency for International Development (USAID). Today, I would like to share information about our oversight efforts in Iraq and

Afghanistan and what can be done to continue to enhance oversight in the future.

USAID OIG Oversight Efforts in Iraq and Afghanistan

At USAID OIG, we continuously adapt our oversight approach to changes in the risk profile and strategic priority of international development activities. Accordingly, as USAID began to engage in Iraq following the fall of Saddam Hussein's regime, we geared up our oversight activities. In 2003, while USAID was establishing assistance programs and operations amidst rapidly increasing expenditures, we began deploying personnel to Iraq on continuous temporary duty assignments. By June of the following year, we had formally established an office in-country. For a number of years thereafter, we maintained a staff of nine U.S. direct-hire auditors and investigators in Baghdad to provide concentrated, on-the-ground oversight that we supplemented with the efforts of our Washington-based personnel. Prompted by USAID program reductions in Iraq, however, we have begun to scale back our presence there to our present level of six U.S. direct hire personnel. We plan to continue to reduce the size of our Iraq office to four staff by the end of this fiscal year and will support their efforts with audit and investigative resources based in Cairo.

While USAID's engagement in Iraq slowed, its programs and activities in Afghanistan increased and remain robust today. To address the risks attendant on Agency efforts there, we initially provided oversight from our regional office in the Philippines and headquarters in Washington. After the Afghanistan oversight responsibilities of our Manila office had grown to absorb the work of more than eight audit staff a year, we opened a country office in Kabul. That office has now expanded to include 11 U.S. citizen auditors and investigators and 6 Foreign Service National personnel.

With OIG staff and resource surges in Afghanistan and Iraq came more intensive oversight. Drawing on a strong in-country presence in both nations, we were able to provide comprehensive performance and financial audit coverage of USAID programs and implement a vigorous investigative program. From fiscal year 2003 to 2011, we issued 103 performance audits and reviews related to USAID activities in Afghanistan and Iraq. The resulting reports provided Agency managers with sober, even-handed assessments of their programs and more than 400 concrete recommendations for ways to improve them, in addition to identifying \$95 million in questioned costs and funds recommended to be put to better use. Meanwhile, we supervised program-specific financial audits of \$5.7 billion that led us to question \$350 million in USAID expenditures. Over that span,

we also opened 258 investigations, 71 of which have been referred for prosecution. By the end of FY 2011, our investigative work had produced 24 indictments, 19 convictions, 123 administrative actions (such as employee terminations and contract cancellations), and more than \$285 million in savings and recoveries.

In addition to stepping up these core oversight activities, we have made other adjustments in response to the heightened risk environment in these countries. To spur greater awareness of fraud indicators, help mitigate risks, and increase knowledge of reporting requirements, we pursued an aggressive fraud awareness campaign, delivering more than 150 briefings in Afghanistan and Iraq to approximately 3,000 representatives of contractors and grantees, host government officials, and federal procurement and project management personnel.

We have also applied concentrated scrutiny to the aspects of assistance programs at greatest risk. We redoubled our monitoring of cash disbursements and examined core financial system components, exposing the failed development of a key financial information system for the Iraqi Government and deficiencies in oversight of bank supervision assistance activities that might have helped contain losses resulting from the collapse of Kabul Bank. We intensively examined security support for development

programs, reporting on the cost burden of these efforts, uncovering fraud on the part of U.S. based security firms operating in Afghanistan, and identifying indications of protection payments to insurgents. To address the increased risks of assistance channeled directly through the Afghan Government, we recommended improvements to ministerial assessments to increase their ability to detect and respond to significant control weaknesses before awards are made, and noted serious quality and sustainability deficiencies in health programs funded through an Afghan ministry.

Because most of USAID's development programs are implemented by external recipients, we have also expanded efforts to ensure that individuals and firms that are not presently responsible do not continue to receive U.S. Government grants and contracts. We have been working closely with Agency suspension and debarment officials to apply these tools in all appropriate cases. As a result of this collaboration, USAID has substantially increased its use of suspension and debarment and currently has 71 such exclusions in effect. Of this total, 72 percent stem from OIG investigations in Afghanistan and Iraq.

Last year, we presented USAID officials with evidence of serious corporate misconduct, mismanagement, and a lack of internal controls on the part of one of its largest funding recipients, the Academy for Educational

Development (AED). In response, the Agency terminated the firm's contracts in Afghanistan and Pakistan and took the extraordinary step of suspending it from future federal procurements. This significant step followed on a settlement with another major firm in November 2010. After years of investigative work, OIG established that high-level Louis Berger Group (LBG) employees had conspired to charge the U.S. Government falsely inflated overhead costs in Iraq and Afghanistan. Confronted with our evidence, LBG entered into an agreement with the Department of Justice to settle related civil and criminal charges and pay the U.S. Government \$69.3 million in settlement charges, penalties, and restitution.

These events have helped reset the accountability environment in foreign assistance. We have capitalized on this new momentum by increasing our engagement with implementing partners. We are intensifying outreach efforts and reinforcing opportunities for fraud reporting while emphasizing implementing partners' Federal Acquisition Regulation reporting requirements to the OIGs. We aggressively pursue all major investigative leads and carefully monitor contractors' and grantees' internal investigations of small scale allegations to ensure that they are conducted in a thorough but expeditious manner. When our investigations reveal

evidence of criminal or civil violations, we work closely with both U.S. and local prosecutors to bring subjects to justice.

Combatting Fraud and Waste in the Future

The Commission on Wartime Contracting recently recommended the establishment of a Special Inspector General for Overseas Contingency Operations (SIGOCO). Because the establishment of such an organization could have significant cost and operational implications, we believe that this proposal should be submitted to careful examination.

To this end, it is helpful to first consider the history of Special Inspectors General in the international arena. The Special Inspectors General trace their origins to the Coalition Provisional Authority (CPA) in Iraq. Established as a caretaker government until a civilian government could be formed, U.S. Government officials served as Administrators for the CPA and it received its operating budget from the U.S. Congress. Given these facts, Congress endowed the CPA with an oversight apparatus similar to that of a cabinet-level agency within the U.S. Government and established an Inspector General (IG) to oversee this discrete unit of government.

By the time a CPA IG was appointed, USAID OIG had already begun operating in-country. More USAID and CPA OIG personnel followed shortly thereafter, and Congress appreciated the hands-on engagement that

our organizations provided. Consequently, when plans for the dissolution of the CPA moved forward in 2004, Congress determined to keep CPA OIG's oversight presence on the ground. Rechristened the Special Inspector General for Iraq Reconstruction (SIGIR), the CPA OIG received a modified mandate to oversee programs and operations associated with the Iraq Relief and Reconstruction Fund.

The history of oversight in Afghanistan stands in stark contrast to the oversight experience in Iraq. We started reporting on assistance efforts in Afghanistan in early 2003 and all of the other statutory inspectors general had solid oversight programs in place prior to the Special Inspector General for Afghanistan Reconstruction's (SIGAR's) establishment. In fact, almost a full year before SIGAR came into being, we were actively engaged in an Afghanistan Working Group with representatives of the Government Accountability Office (GAO) and the State and Defense OIGs. This working group developed a strategic approach to oversight of U.S. Government activities in Afghanistan and worked to coordinate oversight plans and activities among the offices so that it could provide a comprehensive, objective perspective on U.S. Government efforts there.

Because our organizations already had well-established, coordinated programs and activities in Afghanistan, SIGAR did not have a natural niche

to fill. Confronted with a challenging operating environment and oversight of such a wide array of programs, it initially had difficulty meeting recognized standards for audits and investigations and duplicated the work of others.

The prospects of a successful civil-military campaign in Afghanistan have not been improved by multilayered reporting requirements and oversight institutions. Rather, in our judgment, the resulting intensified need for coordination and deconfliction has diverted valuable time from audit and investigative work and program management tasks. With these observations in mind, it is reasonable for taxpayers to question whether the generous support they provided for an additional oversight body in Afghanistan would have been better invested in the agency-specific inspectors general already operating in-country.

We believe that a move to form a Special Inspector General for Overseas Contingency Operations would only serve to reprise past mistakes. Rather than addressing a gap in oversight coverage, such an organization would serve an entirely redundant function. Existing statutory inspectors general already have oversight authority over the full scope of U.S. Government activities in current contingency settings and GAO provides an overarching view of multiagency initiatives.

Moreover, a SIGOCO would not bring any new tools or capability to oversight efforts. The inspectors general for USAID, State, and Defense have all developed capabilities to operate and perform in contingency environments. Indeed, oversight in contingency settings is and has been a core feature of our work for many years. About one in every five of our performance audits and reviews last year related to Afghanistan and Iraq, and approximately a third of our current investigations stem from allegations in those countries. In fact, Afghanistan and Iraq are only two of the countries where we have mobilized in response to disasters, conflicts, uprisings, and humanitarian crises. We have offices in eight other locations around the world including Egypt, Haiti, and Pakistan, and routinely perform oversight work in Sudan. We are always prepared to deploy our experienced Foreign Service auditors and investigators to the next contingency. We supplement their work with the efforts of reemployed annuitants that we retain using the enhanced personnel authorities that Congress has temporarily granted our organization.

Agency inspectors general also have a strong track record of working together to ensure comprehensive oversight of multiagency matters. OIGs routinely participate in joint investigations and frequently conduct joint audits and reviews of interagency programs and activities. In order to

promote the early detection, prevention, and prosecution of procurement and grant fraud, for example, our office actively participates in the National Procurement Fraud Task Force and International Contract Corruption Task Force along with other law enforcement counterparts. At Congress's direction, inspectors general across the government came together to provide oversight of stimulus spending and established the Recovery Operations Center to help coordinate and focus investigative work and leads across offices. Similarly, following Hurricane Katrina, the inspector general community rallied to provide coordinated oversight across 13 federal departments and agencies. In international settings, OIGs develop coordinated annual oversight plans for Southwest Asia and for HIV/AIDS, malaria, and tuberculosis programs. And with respect to Pakistan, we coordinate the preparation of a quarterly report with the State and Defense OIGs on the progress of the civilian assistance program and related oversight plans and activities. These arrangements work well because each of the participating organizations has clearly distinguishable lines of authority and accountability for oversight of a specific agency or department.

Provided adequate funding and authorities, agency-specific inspectors general can respond effectively to future contingency operations in our respective areas of responsibility and provide necessary oversight. We have

unmatched knowledge of and experience working with the organizations that we oversee and also have a deeply ingrained institutional understanding of past management challenges and lessons learned from previous contingency operations.

Instead of improving oversight, a SIGOCO is likely to blur jurisdictional lines and confuse Agency counterparts and implementing partners about reporting procedures and lines of authority. By needlessly adding a layer of bureaucracy, a SIGOCO will contribute to inefficiencies and distract program staff from key management and monitoring functions by adding to their already extensive reporting requirements.

Finally, it is worth considering the opportunity cost of diverting scarce financial resources to the establishment and maintenance of a new bureaucratic entity. If more oversight is the aim, then we submit that there has been no better investment in international assistance oversight than with us. Our office has provided oversight in Afghanistan and Iraq for more than 9 years for significantly less money than has been appropriated to the Special Inspectors General in a single year. For every dollar taxpayers have entrusted to our office in these settings, we have returned more than \$11 in the form of sustained questioned costs and investigative savings and recoveries.

Many have been struck by the Commission on Wartime Contracting's estimate of \$31 to \$60 billion in waste and fraud in Afghanistan and Iraq. Confronted with figures of this magnitude, the temptation is to respond by vastly expanding or reconfiguring oversight of U.S. Government activities in these countries. While we believe that the commitment of additional resources to oversight would yield reductions in fraud and waste, we believe that specific, targeted program interventions could also produce significant gains.

As an oversight entity, we strive to identify corrective actions for remedying management and performance issues as soon as possible, and our recommendations help save millions of dollars a year. However, more effective planning and implementation of program efforts by the agencies operating in these areas could help reduce more waste upfront. Better application of program management principles would help ensure that stabilization and development interventions support intended goals. Assigning greater priority to project monitoring and evaluation could help Agency managers identify problem areas sooner. The training and deployment of additional contract and procurement personnel could improve choices about procurement mechanisms and help increase contractor compliance with the terms of their agreements. Finally, programs and

initiatives to strengthen the independence and professionalism of host country law enforcement, prosecutors, and courts, and reinforce the role of indigenous oversight institutions could improve the overall operating environment for our assistance programs.

It is our belief that establishing a SIGOCO would not be an effective use of resources and that better options are available for reducing fraud and waste in contingency environments. If Congress and the President, nevertheless, determine to form such an entity, we would build on our long legacy of collaboration and work with it to advance our shared goals of reducing fraud, waste, and abuse and improving the economy, efficiency, and integrity of U.S. Government programs and activities.

Finally, at a recent hearing before this Committee, former members of the Commission on Wartime Contracting suggested that the statutory inspectors general charged with oversight of contingency operations were not sufficiently independent from the agencies they oversee. We strongly disagree with this characterization. While it was in operation, the Commission never expressed any concern regarding the integrity or quality of our work. Now that its mandate has ended and the Commission has been dissolved, we believe that it is inappropriate to make such claims at hearings intended to present the Commission's conclusions.

I can assure you that during the full course of my 10-year tenure with USAID OIG, nobody has ever presented any facts to suggest that we have provided anything less than the most vigorous, independent oversight in contingency environments. USAID OIG has a robust culture of integrity and we maintain the highest standards of independence in planning and executing our work. We have always assiduously pursued oversight of the agencies that we oversee and have never curtailed any oversight activities to foster better relations with any outside office or agency. We are proud of our tradition of fairness and objectivity, and our personnel, many of whom risk their lives in conflict settings, demonstrate their profound commitment to these values every day.

Thank you for this opportunity to address the Subcommittee. We appreciate your interest in our work and your continuing commitment to effective oversight. I look forward to learning more about your interests and priorities and would be happy to answer any questions you may have at this time.



Office of Inspector General

Acting Inspector General

Michael G. Carroll



Michael G. Carroll was appointed Acting Inspector General at the U.S. Agency for International Development, Office of Inspector General (USAID/OIG) effective October 16, 2011. Mr. Carroll is a member of the Senior Executive Service with more than 29 years of government service.

Mr. Carroll also served as the Deputy Inspector General and Assistant Inspector General for Management at USAID/OIG. In addition, Mr. Carroll served as the Director of Administration for the Bureau of Industry and Security (BIS) in the Department of Commerce. BIS works to advance U.S. national security, foreign policy, and economic interests. Before joining BIS, Mr. Carroll was the Deputy Executive Director of the U.S. Nuclear Waste Technical Review Board and served in several management positions at the U.S. Information Agency.

Born in New York City, Mr. Carroll spent a great deal of his youth in Turkey, Guam, the Philippines, and Cuba. He holds a bachelor's degree in transportation management from St. John's University, New York, and is a graduate of the Federal Executive Institute and of George Washington University's Executive Development Program. He and his wife, Nancy, have a son, Matthew, and live in Fairfax, Virginia.