

**OVERSIGHT OF RECONSTRUCTION CONTRACTS
IN AFGHANISTAN AND THE ROLE OF THE
SPECIAL INSPECTOR GENERAL**

HEARING

BEFORE THE

AD HOC SUBCOMMITTEE ON CONTRACTING
OVERSIGHT

OF THE

COMMITTEE ON
HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

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**OVERSIGHT OF RECONSTRUCTION
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AFGHANISTAN AND THE ROLE OF THE
SPECIAL INSPECTOR GENERAL**

THURSDAY, NOVEMBER 18, 2010

U.S. SENATE,
AD HOC SUBCOMMITTEE ON CONTRACTING OVERSIGHT,
OF THE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 3:35 p.m., in room SR-428A, Russell Senate Office Building, Hon. Claire McCaskill, Chairman of the Subcommittee, presiding.

Present: Senators McCaskill and Brown.

OPENING STATEMENT OF SENATOR MCCASKILL

Senator MCCASKILL. First, let me apologize to the witnesses and the people who are attending this hearing. This has been an incredibly busy week, and I got caught up in a meeting and could not get out, so I apologize for being a few minutes late.

The Subcommittee on Contracting Oversight of the U.S. Senate Committee on Homeland Security will come to order, and I will briefly have an opening statement about the hearing today and then defer to my colleague Senator Brown for his opening statement, and then we will have three panels of witnesses to get at the issue that we want to cover this afternoon.

This is a hearing on the role of the Special Inspector General (SIG) in oversight of contracts in Afghanistan. This Subcommittee was created at the beginning of the Congress to provide oversight of government contracting. Over the last 18 months, we have focused on two key areas: Improving the government's oversight and reducing waste, fraud, and abuse. Four of the Subcommittee's 15 hearings, including today's, have examined contracting in Afghanistan and how to ensure that the government is getting the best possible value for the billions of dollars we spend there.

Today's hearing on the Special Inspector General for Afghanistan Reconstruction (SIGAR), brings these issues together. The origin of this hearing began in March 2009 when I joined with Senator Lieberman, Senator Collins, Senator Coburn, and Senator Grassley to introduce legislation to give SIGAR better hiring authority. At that time, General Fields had been the SIGAR for more than 7 months, and SIGAR had not yet completed any original audit or investigative work. This raised serious concerns about SIGAR's effec-

tiveness at protecting against waste, fraud, and abuse in Afghanistan.

Even though SIGAR received additional money and new hiring authorities in the summer of 2009, the organization did not improve. SIGAR continued to have difficulties in recruiting adequate experienced staff. We learned that SIGAR performed only one contract audit prior to December 2009 while devoting time and resources to reviews of subjects outside of its mission, like a 2009 review of the role of women in the Afghan election.

We were particularly concerned that SIGAR was failing to establish the right priorities for its work, and so in December 2009, Senator Collins, Senator Coburn, and I asked the President to conduct a thorough review of SIGAR. In July 2010, the Council of the Inspectors General for Integrity and Efficiency (CIGIE), completed their review. This review confirmed many of the problems that my fellow Senators and I had been concerned about. SIGAR did not have a plan and was not doing risk assessment. They had not put the right investigative team in place. Their audits were more focused on quantity than quality. And their management and leadership had failed to create an efficient, effective organization.

The focus of today's hearing is how SIGAR, under the leadership of General Arnold Fields, whom I hold in high regard as a decorated retired general in the United States Marine Corps and one of our Nation's heroes, has fallen so short of the mark. CIGIE found SIGAR's Investigations Division failed to meet minimum standards and referred its findings to the Attorney General to consider revoking SIGAR's law enforcement authority. CIGIE also found that SIGAR's Audit Division had no less than five major deficiencies. Today we will ask General Fields how this happened on his watch.

In the course of today's hearing, we will also examine General Fields' decision to award a \$96,000 sole-source contract to Joseph Schmitz, the former Defense Department Inspector General, who did resign in 2005 and did have allegations made against him. General Fields hired Mr. Schmitz to act as a "independent monitor" of SIGAR's compliance with the CIGIE review and to report SIGAR's progress to the Department of Justice (DOJ).

We have learned that SIGAR understood that by awarding the contract to Mr. Schmitz, they would also be obtaining the services of Louis Freeh, the former FBI Director, whom SIGAR thought would act as an advocate for them at the Justice Department. Interestingly, we have learned that Mr. Freeh's organization spoke only briefly with Mr. Schmitz about this contract and quickly decided that they were not interested in participating. We will ask General Fields why he thought that this contract was in the best interests of the taxpayer.

We will also be hearing from four experts on conducting oversight in a war zone: The Inspectors General for the Defense Department, the State Department, United States Agency for International Development (USAID), and the Special Inspector General for Iraq Reconstruction. They will share their lessons learned and what needs to happen going forward.

The government's record on contracting in Iraq and Afghanistan has not been pretty. That is why it is so important that we have

aggressive, independent, quality oversight. With hundreds of billions of dollars at stake, there is no room for error and no time to delay.

We are having this hearing today because a frank, open, and on-the-record discussion is imperative to adequately oversight going forward and to make sure that we protect the men and women in uniform in the contingency theater and also protect the American taxpayer.

I look forward to hearing the testimony of our witnesses today and providing General Fields the opportunity to address the Subcommittee's concerns. And I will now defer to my colleague Senator Brown.

OPENING STATEMENT OF SENATOR BROWN

Senator BROWN. Thank you, Madam Chairman. Well said.

Today as Ranking Member of the Subcommittee, I would like to specifically thank you, Madam Chairman, for scheduling this afternoon's hearing on this very important topic. And since I joined the Subcommittee, this is the second hearing I have participated in on this very important topic: The oversight of contracts in Afghanistan.

As General Petraeus recently stated in his contracting guidance, "The scale of our contracting efforts in Afghanistan represent both an opportunity and a danger. With proper oversight, contracting can spur economic development and support the Afghan Government's and International Security Assistance Forces (ISAFs) campaign objectives. However, we spend large quantities of money on international contracting funds quickly, and with insufficient oversight it is likely that some of these funds will unintentionally fuel corruption, finance insurgent organizations, strengthen criminal activities and networks, and undermine our efforts in Afghanistan." And, Madam Chairman, I agree with General Petraeus, his guidance that if our soldiers are willing to pay the ultimate sacrifice for the success of the mission, the least we can do in Congress is to ensure that the American taxpayers' funds go to the right people for the right purpose.

Since the United States and its coalition partners began operations in Afghanistan on October 7, 2001, the United States has invested approximately \$56 billion in Afghanistan, which is more than the \$53.8 billion invested in Iraq. Despite this substantial commitment on the part of the American taxpayers, problems continue to persist, such as waste, fraud, and the fueling of corruption. By far, the most troubling finding is that American taxpayer money has been flowing to Taliban insurgents, which I find unconscionable.

Today we will examine whether the oversight in Afghanistan is meeting the necessary level to accomplish the mission and protect the taxpayers and use it how our soldiers expect it to be used so they can be provided with the tools and resources to do the job.

On January 28, 2008, Congress created SIGAR to provide leadership in preventing and detecting waste, fraud, and abuse of taxpayer funds used in the Afghanistan conflict. To date, Congress has appropriated \$46.2 million for this mission. While I fully appreciate the difficult circumstances in which SIGAR must work, I am con-

vinced that we are not receiving the necessary return on our investment in our oversight activities. As noted, we will soon, hopefully, find out more about those numbers.

The recent council, noted as CIGIE, as you noted, Madam Chairman, report on SIGAR found that it did not have the robust, ongoing program of risk assessment and that it was not looking in the right places for fraud, waste, and abuse. The oversight army in Afghanistan includes the Department of Defense (DOD), State, Agency for International Development, Inspectors General (IG), and SIGAR. Yet the accountability of the American taxpayers funds in Afghanistan remains limited.

In this hearing today, I plan to ask the Inspectors General how we can better strategically align these oversight resources to maximize the return on taxpayer investment and achieve the accountability our mission requires and our soldiers deserve.

Thank you, Madam Chairman.

Senator McCASKILL. Thank you, Senator Brown.

Let me introduce the first panel. Jon T. Rymer has served as the Inspector General for the Federal Deposit Insurance Corporation (FDIC) since July 2006. He is also the Chairman of the Audit Committee of the Council of the Inspectors General on Integrity and Efficiency, which we have been referring to as CIGIE. Mr. Rymer has served for 30 years in the active and reserve components of the U.S. Army. Prior to his confirmation as Inspector General, Mr. Rymer served as a Director at KPMG LLP.

Richard W. Moore has served as the Tennessee Valley Authority's (TVA's) Inspector General since May 2003. He is also the Chairman of the Investigations Committee of the Council of the Inspectors General on Integrity and Efficiency, known as CIGIE. Prior to joining TVA, Mr. Moore served as an assistant U.S. Attorney for the Southern District of Alabama for 18 years.

It is the custom of this Subcommittee to swear in all witnesses that appear before us, so if you do not mind, I would ask you to stand. Do you swear that the testimony that you will give before this Subcommittee will be the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. RYMER. I do.

Mr. MOORE. I do.

Senator McCASKILL. Let the record reflect the witnesses have answered in the affirmative.

We will be using a timing system today. We would ask that your oral testimony be no more than 5 minutes, especially since we have three panels today. Your written testimony will be printed in the record in its entirety. Mr. Rymer.

TESTIMONY OF THE HON. JON T. RYMER,¹ INSPECTOR GENERAL, FEDERAL DEPOSIT INSURANCE CORPORATION, AND CHAIR, AUDIT COMMITTEE, COUNCIL OF THE INSPECTORS GENERAL ON INTEGRITY AND EFFICIENCY

Mr. RYMER. Thank you, Chairman McCaskill, Senator Brown. My name is Jon Rymer. I am the Inspector General of the FDIC. I am appearing today before you in my capacity as Chair of the CIGIE Audit Committee.

You have asked me to address the recent CIGIE peer evaluation of SIGAR and specifically SIGAR's conduct of audits. We thank you for including the peer evaluation report in the hearing record.

In late February 2010, the CIGIE Chair received a letter from General Arnold Fields, Special Inspector General for Afghanistan Reconstruction, requesting a peer evaluation of his operations. The CIGIE Executive Council was convened to discuss SIGAR's request and determined that conducting three separate, yet coordinated, standards-based reviews would provide SIGAR with the information it was requesting.

I led a team to conduct a peer review of SIGAR's audit organization, and I will speak on the results of that review in just a moment. Mr. Moore led a team to conduct a quality assessment of SIGAR's investigative operations, and he will discuss the results of that review. Mr. Moore and I jointly led a team to review the other management support operations not covered by either of the two peer reviews.

I will focus the remainder of my remarks on the external peer review of SIGAR's audit organization and SIGAR's request for a follow-up review.

In the audit community, an external peer review is an independent, backward-looking review, requiring a peer to examine and opine on, at least once every 3 years, an audit organization's system of quality control. A peer review is done in accordance with CIGIE's Audit Peer Review Guide and is based upon GAO's Yellow Book standards.

The goal of a peer review is to provide reasonable assurance that the audit organization has: One, adopted audit processes that are properly designed to produce accurate and reliable information and reports, and, two, is following those processes in conducting its work. A peer review is not designed to assess the reliability of individual reports.

On July 14th this year, we issued our report on the results of this review. We concluded that SIGAR's system of quality controls was suitably designed, but its compliance with its policies and procedures was inconsistent and incomplete.

We specifically identified five deficiencies in the audit organization's practices that could generate situations in which SIGAR would have less than reasonable assurance of performing and reporting on audits, in conformity with the Yellow Book and its own policies.

These deficiencies relate to quality assurance, audit planning, documentation and supervision, reporting, and independent referencing. We made eight recommendations for improvement.

¹ The prepared statement of Mr. Rymer appears in the appendix on page 45.

We believe the processes we followed, the procedures we performed, and the deficiencies we identified in SIGAR's audit organization provide a reasonable basis for a pass with deficiencies opinion. In its response, SIGAR concurred with the results of our peer review and committed to implementing corrective actions to overcome the deficiencies.

Last month, General Fields contacted the CIGIE Chair to request a follow-up review to address the extent to which his audit organization had implemented our recommendations. Earlier this week, my office began a focused, limited-scope review to do so. This review will not modify the opinion and conclusions reached in our July 2010 report, nor will it qualify as an external peer review of SIGAR's audit organization. I have scheduled a full-scope peer review of SIGAR's audit organization to commence next October.

At this time I would like to make two concluding comments.

First, SIGAR's request for a peer evaluation was unprecedented and warranted a unique approach. Despite competing demands and challenges that our individual offices faced, we responded in a fair, professional manner, conducted a thorough review, and provided SIGAR with useful and meaningful information.

Second, I would like to recognize the professionals who volunteered to participate in these reviews and the support of their respective IGs. I would also like to acknowledge the courtesy and cooperation extended to us by General Fields and his staff, and to acknowledge the assistance of those who facilitated our travel to and our work in Afghanistan.

This concludes my testimony. I look forward to answering your questions. Thank you.

Senator McCASKILL. Thank you, Mr. Rymer. Mr. Moore.

TESTIMONY OF THE HON. RICHARD W. MOORE,¹ INSPECTOR GENERAL, TENNESSEE VALLEY AUTHORITY, AND CHAIR, INVESTIGATION COMMITTEE, COUNCIL OF THE INSPECTORS GENERAL ON INTEGRITY AND EFFICIENCY

Mr. MOORE. Chairman McCaskill, Senator Brown, good afternoon. As you mentioned, I am Richard Moore, the Inspector General at TVA, and I am appearing before you today in my capacity as the Chair of the Investigations Committee for CIGIE. My colleague Mr. Rymer has ably laid out how we got here in terms of these peer reviews, and I will not restate that.

I would like to make a few comments about the work that we did, however. The reviews, particularly, for example, the investigations peer review, was not the work of one IG or one office. It was a community-wide review. In the case of the investigations peer review, there were six IGs who participated—their offices participated, rather, in that review. For the peer evaluation or Silver Book, as we call it, there were seven IG offices that participated in that particular review.

The investigations peer review resulted in a finding that SIGAR was not in compliance, as you mentioned, with our quality standards. There are only two possible outcomes in our investigation peer reviews, and that would be either you are in compliance or

¹The prepared statement of Mr. Moore appears in the appendix on page 57.

you are not. The determination that SIGAR was not in compliance with our peer review standards was based on 10 specific findings which were attached to the report, and I will be happy to discuss that in detail, if you would like later.

As you mentioned, Chairman McCaskill, we were required to alert the Attorney General of this finding, which I did. The Attorney General supervises all of the IGs who exercise statutory law enforcement powers, and it is conditioned—we exercise those powers based on our compliance with the Attorney General standards and the CIGIE peer review standards. And as Mr. Rymer mentioned, there will be an audit follow-on review, and there will be one on the investigation side as well. I would reiterate what Mr. Rymer said about the audit review for the investigation peer review. This is not a new peer review, and it will not change the finding or decision on the peer review, that is, noncompliance. This is merely to determine whether or not there has been remediation of the deficiencies that we found.

As to the peer evaluation, that Silver Book review, as we call it, was done pursuant to standards that are called the Quality Standards for Federal Offices of Inspector General. The Silver Book sets forth the overall approach for managing, operating, and conducting the work of the Inspector General. There are nine categories in the Silver Book that we addressed with SIGAR, and in the end, the team found 22 different suggestions or recommendations for improvement of SIGAR.

That concludes my testimony, and I look forward to answering any questions that you may have.

Senator MCCASKILL. Thank you, Mr. Moore.

Let me first start by putting on the record how conservative peer reviews are. And let me just say that every 3 years, as the elected auditor of Missouri, we had a peer review. And I loaned some of my senior staff to the national peer review effort that goes on nationwide. So I am very intimately aware of what a peer review is and what it means.

I also know that auditors by nature are extremely conservative, and the only time they become even more conservative is when they are passing judgment on their peers.

How often does an organization, based on all of your experience in the Council of Inspectors General for Efficiency in operations, how often does an organization fail its peer review, especially in light of the failure of SIGAR?

Mr. RYMER. Let me start, ma'am, by saying that the Audit Committee of CIGIE supervised or administered 58 peer reviews from 2006 to 2010. Of those 58, 55 were pass, and there were three pass with deficiencies. So 3 out of 58.

Senator MCCASKILL. And so we had three pass with deficiencies. Have there been any that have failed?

Mr. RYMER. Not in that 3-year period, ma'am, that I know of.

Senator MCCASKILL. OK. And what about on your end in terms of the Investigations Standards?

Mr. MOORE. On the investigations side, in terms of the investigation peer reviews, I believe there has been one noncompliance since we have been conducting peer reviews in 2003.

Senator MCCASKILL. How many have been done since 2003?

Mr. MOORE. Approximately 50.

Senator MCCASKILL. OK. So one time out of 50, and that would be this one?

Mr. MOORE. Yes—well, no.

Senator MCCASKILL. One other.

Mr. MOORE. One other, other than this, yes.

Senator MCCASKILL. So this would be the second time since 2003. And could you share with us what the organization was that had these serious problems, the other organization that was evaluated?

Mr. MOORE. I was not the Chair then. My recollection—and, Jon, you may recall. I believe it was OPM.

Senator MCCASKILL. Office of Personnel Management?

Mr. MOORE. Yes.

Senator MCCASKILL. OK. How serious would you all characterize the failures that you documented in your review of SIGAR?

Mr. RYMER. Well, I think what you have already pointed out and established, Senator, is the fact that it is very rare. The overall deficiencies that we noted, the five deficiencies on the audit side, were problems of noncompliance. We did positively note that SIGAR had established a policies and procedures manual and processes that we thought met the standards. However, we often found that they were not in compliance. And in most cases, we found situations where the compliance levels were in the two-thirds or so. Of the 12 reports we reviewed, we would often find that five, six, seven, or eight reports would be in compliance, and then three or four would not be.

Mr. MOORE. And I would say on the investigations side, the seriousness is, of course, if you have special agents in an investigative component of an IG shop who have not been trained or confronted with the guidelines that they are required to adhere to. Use of deadly force and use of confidential informants, the surveillance techniques, those kind of things are in the Attorney General's guidelines. You put at risk investigations that you are conducting, and you potentially put at risk all the Federal law enforcement simply because of the reputational damage that can occur if agents are not fully knowledgeable of the guidelines and adhering to them.

Senator MCCASKILL. Which obviously could be exacerbated in a contingency theater where we are fighting a battle, and one of the battles we are fighting is, in fact, corruption.

Mr. MOORE. I believe that is true.

Senator MCCASKILL. One response that SIGAR had to these issues is that they were a new organization, and normally Inspectors General are not given a peer review for 3 years. Now, I understand that the reason this happened was because General Fields asked for the review. But is that a valid response, that the kinds of problems that you found could be attributable to the fact that they had not been in existence for 3 full years?

Mr. RYMER. Ma'am, we took that perspective into consideration. I think it is valuable to note that, as I said in my statement, this review was unprecedented. No one else had asked for a peer review at this stage as a de novo IG, particularly none of the three special IGs that are now in existence. So I think that was positive. I think we noted that in terms of how we conducted the review. We were

concerned that, given its fairly short existence, 18 months or so when we began the review, there would not be sufficient evidence of how they were performing. So to accommodate that fact, I chose to do a 100-percent sample of every audit they did, frankly, to try to give the organization the opportunity to show improvement.

Senator McCASKILL. To give them the benefit of the doubt.

Mr. RYMER. Yes, ma'am, to make sure that if there were opportunities to show improvement from Audit 1 to Audit 10 or 12, we could demonstrate that. But the results were mixed. We noted that some audits showed improvement on occasion, and then other audits did not show improvement.

Senator McCASKILL. So you did a 100-percent sample?

Mr. RYMER. Yes, ma'am.

Senator McCASKILL. And you do not need to tell me that is very, very unusual.

Mr. RYMER. Yes, ma'am.

Mr. MOORE. On the investigations side, again, as Mr. Rymer suggested, we have not looked at an organization this early in their development. We were surprised to see the absence of policies and procedures and the fact that agents that we interviewed—and we interviewed agents here in the United States and in Afghanistan, and they were not conversant with the guidelines that they had to adhere to or the standards. And as we reflected in our report, it appeared that there were no manuals or standards at SIGAR's headquarters that were being taught to the agents and holding them accountable by when we went in, but there were block stamp policies at the time that we conducted the peer review. So it appeared that they were making good-faith efforts to adopt policies, but they had not been in existence before April of this year.

Senator McCASKILL. OK. Senator Brown.

Senator BROWN. Thank you, Madam Chairman.

First of all, thank you very much for your testimony. I am trying to get my hands around the fact that we have a group like SIGAR, and while I am appreciative that they said, "Hey, can you come in and, audit us and see what is up and report back—I certainly appreciate." But the results in terms of actual numbers that we have actually expended in terms of providing them the resources and then the return—I know Senator Coburn has here the comparison of oversight in Afghanistan, the funds recovered by other entities, USAID IG, DOD IG, and SIGAR.

Now if my numbers are correct, we have given approximately \$46.2 million to SIGAR for this mission, yet they have only identified and collected \$8.2 million. I know the value of a dollar, but that does not seem to be a good value for our taxpayer dollars.

Do you have any comments as to whether you feel that we are getting the value for our dollars and/or why do you feel—if you could get into that. And then also, why do you feel the recovery is so low compared to these other entities?

Mr. RYMER. I'll start and attempt to answer that, Senator. The issue of funds put to better use is a direct function of the audits that the organization chooses to do. One of the observations we had in the peer review and in the capstone review was that we were concerned about the process that SIGAR went through in selecting the initial audits, the first 12 or so, in our sample. We were con-

cerned that the audits perhaps were not as focused, and we heard this in some of our interviews, on either contract oversight, funds put to better use, or improper payments.

Senator BROWN. Well, wasn't that their mission, though, contract oversight?

Mr. RYMER. Well, I think that would certainly be a large part of their mission. Let me explain a little bit and put it in greater context.

We did not really see any audits that were specifically designed, where the principal objective was to recover funds. But the IG has a responsibility also to detect and comment on lapses of internal controls. We saw a few audits directed at internal controls, or preventive processes. Specifically, I think we saw three audits that were in my judgment, internal control-related audits. So of the 12 we looked at, 3 addressed internal control and the other 9 were audits that, in my view, were audits examining or looking at either U.S. policy rules and regulations or at international policy rules and regulations.

So in that continuum, we suggested—and SIGAR certainly agreed—that a more risk-based approach to identifying the audits that SIGAR should be focusing on was something they should do.

Senator BROWN. Yes, but do you think—you have to give them \$46-plus million—I mean, is it the fact that nobody gave them the proper guidance as to where to go and what to do? Or they just chose to ignore the guidance and do their own thing in those areas that you just commented upon? And let me just also ask, what is your independent professional opinion as to whether we are actually getting our money's worth out of this particular group?

Mr. RYMER. Well, Senator, I have to be a bit careful. As a professional auditor, I have to stick to the scope and approach of the review, and Senator McCaskill—

Senator BROWN. I am asking you your professional auditor opinion.

Mr. RYMER [continuing]. Will agree to this, but the concern that I had, as I said, was that the sort of "tier one" auditing was not in the original plan. We suggested that it be in their plan. The other concern I have would be not paying as much attention in the early stages to the suggestions of the auditees, of folks that have responsibility for managing the programs. There was, in my view, a bit of top-down and not enough bottom-up audit planning. So I think the audit planning process was one that was not quite balanced and I think needs improvement.

Senator BROWN. And I recognize—certainly I think everybody does—the difficult operating environment in Afghanistan. I have been there. I understand it. In your opinion, does SIGAR have the sufficient resources to overcome that lack of direction or obstacles or not?

Mr. MOORE. Well, Senator, I would say that we looked at funding for SIGAR because that was raised to us by SIGAR staff, that there were funding issues early on, and we were particularly concerned about that on the investigative side, whether they had the proper funding to put agents in Afghanistan. We found that they did have appropriate funding levels.

And I would just say in terms of performance of the organization, which you have been asking us about here today, there are at least three things that handicapped the organization, in my opinion, and we cover this in the report. One is what we have mentioned before, the lack of risk assessment. Really what are the risks to the pot of money, if you will, that you are charge with overseeing? We typically in IG offices look at what are the likely frauds that are most likely to occur? What is the likelihood of that happening? And then we look at the severity if it does. We make heat maps that give us an indication about where we should put our dollars, where they would be most effective. That was not done at SIGAR.

The second thing is strategic planning. Everybody, I think, appreciates the importance of having goals, making sure your priorities are understood, and, unfortunately, that was not done very well at SIGAR, at least in the period that we reviewed.

And, finally, I would say in terms of performance, a handicap that we saw was the way that human resource issues were handled—that is, the hiring decisions. As we point out in the report, there was a decision to wait to hire the head of investigations, to pursue one particular candidate, and that cost them almost a year in terms of performance on the investigative side. They decided not to hire a deputy until recently. That is another human resource issue that made it more difficult for them to perform.

Senator BROWN. So were the hiring delays, do you think, a lack of experience or knowledge in what the job at hand was? I mean, where do you see the breakdown?

Mr. MOORE. I would say that it goes back to not having the kind of focus on risk and the plan. If you are not sure exactly what the strategic plan is, what your priorities should be, it can affect the hiring decisions that you make.

Senator BROWN. Now, before I turn it back over to the Chair, I would think out of everything that we have been talking about here today that the number one priority of every independent group here is to try—well, obviously, dealing with Afghanistan specifically now—is to find out how much and where the monies are going, if they going at all to the Taliban and other groups that want to basically kill us. I am shocked that this is not like the number one priority, that we find out where that money is going and why it is going and who is delivering the funds, under what circumstances. Where is the breakdown? I am just flabbergasted as to—and I know that, I am going to be asking the questions to the next panel, but am I missing something? I mean, should not that be the priority of SIGAR and any other entity that is there independently finding where the waste, fraud, and abuse is? The biggest abuse is the fact that we are giving money to people that want to kill us, and they are not entitled to it. It is our money. I mean, I am sorry, folks. I know I am still semi-new here. We have a few new members now, but give me a break.

Mr. RYMER. The one thing I would say, Senator, is the Special IG—to differentiate the Special IGs from the IGs that are assigned to or work in existing, standing Federal agencies—should be primarily focused, in my opinion, on contract oversight and management of dollars. The Special IGs exist because they are essentially

attached to an appropriation or a series of appropriations, meaning that financial oversight should be a primary responsibility.

Take the case of my organization, my primary responsibility as an IG in a regulatory agency is to look for waste, fraud, and abuse in the programs of a regulator, but it does not give me the same opportunities to look at situations where appropriations are managed controls are established, and contracting dollars are spent.

So I think there is a difference, and I think it speaks to all three of the Special IGs, that their principal mission should be, in my view at least, looking at controls associated with contracting and how cash is being used.

Senator BROWN. And just to note, I wholeheartedly agree with you, so thank you for that independent statement and assessment, because the taxpayers are being hurt and the soldiers that are trying to defend us and do their jobs are being provided with—they have a disadvantage because some of our own monies are being potentially used to hurt or kill them, and I find that deeply troubling. So, Madam Chairman, I will turn it back over.

Senator MCCASKILL. Thank you, Senator Brown.

In reading your reports, I was struck by how factual and—which I was not surprised. I knew that these would be very by-the-book, very factual recitations of compliance and noncompliance that you found in the Yellow Book and in the Silver Book. And I think that I just have really one area I would like to cover with you, and that is the management and oversight issue.

The head of an audit agency, their responsibility is really to make the decision about how the resources of that agency are going to be used. I think you all will both agree that General Fields was never expected to do these audits or to do these investigations. Is that correct?

Mr. MOORE. That is correct.

Mr. RYMER. That is correct.

Senator MCCASKILL. But, rather, his entire responsibility of taking over in this position was to look at what was flowing into Afghanistan and figure out where there was a risk. That was his most important job: First, the risk assessment; and, second, the audit plan that would address the risks that were assessed within the scope of the work that he had the legal ability to audit or investigate. Would that be correct?

Mr. RYMER. That is correct. Yes, ma'am.

Mr. MOORE. Yes.

Senator MCCASKILL. All right. Now put, in this context that we have been informed by major problems in Iraq. I mean, my frustration with General Fields and his position is that, as a former auditor, his job—it was like shooting fish in a barrel. There was so much work to be done as an auditor. I mean, everywhere you looked there was a contract that needed another set of eyes. There was a flow of money that needed investigation. There is potential for corruption, waste, misuse of money in almost every single location this money was flowing. I mean, this is a free-for-all in terms of risk assessment.

But yet in the first 16 months of his tenure, there was not one audit performed on one contract. Is that correct?

Mr. RYMER. Yes, ma'am, I believe that is correct.

Senator McCASKILL. That is hard for me to get around.

Mr. RYMER. Ma'am, there were assessments of internal controls.

Senator McCASKILL. Right.

Mr. RYMER. Specifically a contract audit? I do not recall a contract audit.

Senator McCASKILL. There was assessment of controls, and there was also a study done on the participation of women in the Afghan election. And I do not mean to minimize—the participation of women in the Afghan election is an important policy problem, and it is an important part of the overall mission in Afghanistan because we want—obviously, the capabilities of that country in terms of keeping the Taliban at bay includes a healthy participation in a democracy.

With all due respect, either one of you in your experience as auditors, would that study—would that have made your risk assessment if you had been given this job in the first 18 months?

Mr. RYMER. The Afghan election? As I said, for a Special IG, I think the focus should be on the dollars. That should be the principal responsibility of any of the three Special IGs we have.

Senator McCASKILL. Mr. Moore.

Mr. MOORE. I would agree, and I would just point out that, in addition to doing the risk assessment as to the pot of money, if you will, one of the things that we discussed with SIGAR staff and pointed out in our report was you have to do that internal office risk assessment so that you know what your limitations are, what your skill sets are, what your resources are, what your priorities are, what is likely to limit you from getting the mission accomplished. That was not done at SIGAR.

Senator McCASKILL. Right. That is all the questions I have for this panel.

Senator BROWN. I am all set, too.

Senator McCASKILL. Thank you both very much for your service, and CIGIE is a very, very important part of oversight in this government. It is unfortunate that most Americans have no idea that many, many professional Inspectors General in the Federal system give of their time in overseeing other Inspectors General in the system. But I certainly understand that we would not have the quality of Inspectors General that we have in the Federal Government were it not for the work of CIGIE. So thank you, and please convey our thanks to your entire organization that does these peer reviews.

Mr. RYMER. Thank you, ma'am.

Mr. MOORE. Thank you. [Pause.]

Senator McCASKILL. General Fields, welcome. Thank you for your attendance today. Let me introduce you to the hearing.

General Fields has served as Special Inspector General for Afghanistan Reconstruction since July 2008. General Fields previously served as Deputy Director of the Africa Center for Strategic Studies at the Department of Defense and is a member of the U.S. Department of State (DoS) assigned to the U.S. embassy in Iraq, where he performed duties as the Chief of Staff of the Iraq Reconstruction and Management Office (IRMO). He retired as a Major General from the United States Marine Corps in January 2004 after 34 years of active military service.

Let me state for the record how much your record speaks of you as an American, as a patriot, and how much our country owes you a debt of gratitude for your many years of service on behalf of the United States of America.

It is the custom of this Subcommittee to swear in all witnesses that appear before us, so if you do not mind, I would like you to stand. Do you swear that the testimony that you will give before this Subcommittee will be the truth, the whole truth, and nothing but the truth, so help you God?

General FIELDS. I do.

Senator McCASKILL. We welcome your testimony, General Fields.

**TESTIMONY OF THE HON. ARNOLD FIELDS,¹ SPECIAL
INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION**

General FIELDS. Thank you, Chairman McCaskill and Ranking Member Senator Brown. I appreciate this opportunity to be here today. I would say it is a pleasure, but I would be telling a lie if I were to say so. But it is a privilege as well as an opportunity, and I wish to take full advantage of that opportunity.

I have worked in support of SIGAR for the past basically year and a half. Funding we received in June 2009 fully funded this organization. I have built SIGAR from nothing to 123 very well informed and talented staff, of which 32 to date are assigned for 13 months to a very dangerous place known as Afghanistan.

This work is challenging. I have to find people who are willing to put their lives in harm's way in Afghanistan conducting this work in the midst of a very competitive market of investigators and auditors. I am proud of the staff that we have.

We have conducted work in 22 of 34 provinces in Afghanistan and 48 separate locations. We have produced 34 audits, over 100 recommendations, 90 percent of which have been accepted by the institutions of this Federal Government that we have scrutinized. They are using our work. I could cite many cases, but I will not at this point. But our work is, in fact, making a difference.

I did—and I appreciate that the Chairwoman acknowledged that I requested the CIGIE assessment. We would not normally have undergone such a thing until—the earliest would have been 2012. I wanted to make this organization what Senator McCaskill would wish that it be, and that assessment for which I individually and unilaterally made requests was intended to do just that.

My leadership has been referred to as “inept.” That is the first time, Senator, that in all my life, a man of 64 years of age, who has supported this Federal Government for 41 straight years, of which 34 have been as a military officer. I do not even allow my own auditors to refer to the people in Afghanistan as “inept” because it is too general a statement for any human being. I have met with many people in Afghanistan, from the President of Afghanistan to the little children in the province of Ghor. And when I ask those little children what is it on which this reconstruction effort and \$56 billion that the United States has invested in Afghanistan should be based, and I want you to know that those children, who were no higher than my knee, said to me the same

¹ The prepared statement of Mr. Fields appears in the appendix on page 64.

things that President Karzai said as well as his ministers. They want energy or electricity or light. They want agriculture. They want education. And what really broke my heart is when those little children told me that, "What we really want is a floor in our school." That is what we are up against in Afghanistan.

We have created by way of this \$56 billion an opportunity for the children in Afghanistan, who I feel represent the future of Afghanistan, as well as the rest of the people. And I would be the last, Senator McCaskill and Senator Brown, to condone in any form or fashion any activity that leads to less than the full measure of that \$56 billion being used for the purposes for which it was made available.

I want this Subcommittee to also note that I take this work very seriously. Why? Because I was raised up in South Carolina in a family not unlike that in Afghanistan, where the level of education for both my mother and father was less than fifth grade. But, nonetheless, the best training that I received in my life came from my mother who had less than a fifth grade education. I wish that someone had brought \$56 billion to bear upon my life. But here I am in a very important position and trying to influence what is going on in Afghanistan to the best of my ability, using a very knowledgeable and competent staff by which to do so.

I raised up hard, ladies and gentlemen, in poverty myself. I worked for less than \$1.50 a day, about what the average Afghan makes today in the year 2010. On the day President Kennedy was buried, which was a no-school day for me, my brother and I shoveled stuff out of a local farmer's septic tank with a shovel for 75 cents per hour for the two of us. I know what it is to live in poverty, and I know what it is to have an opportunity, and my country has given me that, and by which I am pleased and very grateful.

I will do my best, Senator McCaskill and Senator Brown, to measure up to your full expectations. I appreciate the emphasis that you have placed on contracting in Afghanistan, but I want also to say that the legislation that I am carrying out has three dimensions. Contracts is not the exclusive one, but I will agree with you that is where the money is, and we should focus more on that. But I am also tasked to look at the programs as well as the operations that support this tremendous reconstruction effort. And I promise you, Senators, that I will do so. Thank you.

Senator McCASKILL. Thank you, General Fields.

General Fields, I certainly respect your life story and what you have accomplished, and no one—I can speak, I think, confidently for Senator Brown and every other U.S. Senator. No one questions your commitment to the United States of America. That is not the question here. The question here is whether or not the important work of the Inspector General in Afghanistan has been fulfilled and completed, especially within the time frames that we are working with because of the contingency operation.

You submitted 12 pages of written testimony for this hearing. Less than one page of those 12 addressed the serious deficiencies found in your peer review by other Inspectors General trying to measure the work of your audit agency against the standards that are required in the Federal Government. You did say in your testimony that the findings have helped you strengthen your organization and that you have now made changes.

Let me talk about the law that you are operating under. The law that you are operating under, I am sure you are aware, requires a comprehensive audit plan. Are you aware of that, General Fields, that the law requires a comprehensive audit plan?

General FIELDS. Yes, I am.

Senator MCCASKILL. And when did you begin work on a comprehensive audit plan?

General FIELDS. We began work on a comprehensive work plan, Senator, when I published the very first quarterly report which contained how we planned to proceed with this very new organization and oversight entity. In that report delivered to this Congress on the—I am sorry. In that report delivered to this Congress at the end of October 2008, I laid out in general what we would pursue, and I am pleased to say that at the top of that list is, in fact, contracting. That was followed up with the hiring of Mr. John Brummet as my principal auditor, someone who—

Senator MCCASKILL. And when did that hire occur?

General FIELDS. That hiring actually occurred the first week of January 2009. That is when Mr. Brummet actually reported aboard. But we commenced the process of bringing him aboard, of course, much earlier than that. And then we—

Senator MCCASKILL. And you had been at the agency how long when he actually joined the agency?

General FIELDS. I had been at the agency—

Senator MCCASKILL. Since July 2008, correct?

General FIELDS. That is when I was sworn in, yes, ma'am.

Senator MCCASKILL. Now, in the audit plan that the law requires—and I am sure that—I hope the first thing you did was to look at Public Law 110–181 and look at the statutory requirements of your job. That plan that was required lays out that it must be consistent with the requirements of Section 842, subsection (h), which are the audit requirements that the Congress placed on SIGAR. Are you familiar with the audit requirements in subsection (h), General?

General FIELDS. In general, yes, I am.

Senator MCCASKILL. Could you tell us what those requirements are?

General FIELDS. That we would conduct thorough audits of the spending associated with our contribution to reconstruction in Afghanistan.

Senator MCCASKILL. I am not trying to play “gotcha” here, General, but there are seven requirements in Section (h), and I am going to lay them out for the record, and after I do each one, I would like you to tell me if that has been completed and, if so, when.

General FIELDS. Yes, ma'am.

Senator MCCASKILL. The first one is—these are the things at a minimum you are required to examine as Special Inspector General. The first one is the manner in which contract requirements were developed and contracts or task and delivery orders were awarded. Has that been done by SIGAR? Have you examined contract requirements in Afghanistan and contracts or task and delivery orders, how they were awarded? Has your agency done that at this date?

General FIELDS. We have conducted several contract audits. Each of those audits has addressed matters associated with how contracts came about.

Senator MCCASKILL. How many contract audits have you completed?

General FIELDS. We have completed about four contract audits.

Senator MCCASKILL. And how long—you have done four contract audits, but isn't it true that all of those have occurred essentially in the last 12 months?

General FIELDS. That is correct.

Senator MCCASKILL. Number two, the manner in which the Federal agency exercised control over the performance of contractors. Have you done that audit work?

General FIELDS. We have examined in each of our audits the extent to which controls have been in place to guard against waste, fraud, and abuse of the American taxpayer's dollar. In so doing, yes, ma'am, we have looked at those matters as they related to contracts specifically in those areas in which we have conducted focused contract audits of specific initiatives for which funding is being available.

Senator MCCASKILL. All right. So the first requirement dealt with contract requirements and task and delivery orders. The second requirement, the manner of control over contractors of the Federal Government.

Number three, the extent to which operational field commanders were able to coordinate or direct the performance of contractors in the area of combat operations. Has that work been done?

General FIELDS. Senator, the very first audit that we conducted was a contract being supervised by CSTC-A, which is responsible for the oversight of training and equipping the Afghanistan security forces. That contract is worth \$404 million to the American taxpayer.

Senator MCCASKILL. And how many audits have you done that address the oversight of contractors by field commanders?

General FIELDS. Forty percent, Senator, of our audits have either been direct audits or focused contract audits or contract-related audits.

Senator MCCASKILL. I thought you said you had done four audits on contracts.

General FIELDS. I said four audits because I was referencing four focused contract audits, which were of multi-million-dollar infrastructure initiatives specifically associated with the stand-up of the Afghanistan security forces. But I am also saying we have audits that addressed contracts in general that relate to the stand-up of the Afghanistan security forces and other initiatives in Afghanistan.

Senator MCCASKILL. Number four, the degree to which contractor employees were properly screened, selected, trained, and equipped for the functions to be performed. Is there a report that you could point me to where I could get reassurance that we are doing adequate selection, training, equipping, and screening of contract personnel in Afghanistan?

General FIELDS. Senator, the very first audit, once again, that we published, the \$404 million contract, we found in that audit the su-

pervision of that particular contract was inadequate whereby the actual entity, the expert in contract was really living in Maryland and not physically located on a permanent basis in Afghanistan.

Senator MCCASKILL. How many contracts are operational in Afghanistan right now?

General FIELDS. I do not know, Senator.

Senator MCCASKILL. Can you give me a ballpark?

General FIELDS. I know that there are, based on our most recent audit, between 2007 and 2009 of all contracts for which we could find information at that point in time 6,900 contracts, among which I am confident are a number of the type that you just mentioned.

Senator MCCASKILL. OK. So I have asked several questions. In each one you referred to the same audit of one contract. So of the six thousand—what did you say the number was?

General FIELDS. 6,900, Senator.

Senator MCCASKILL. So we have almost 7,000 active operational contracts, and there have been four audits completed of those contracts?

General FIELDS. The 6,900 is a roll-up of contracts in general regarding Afghanistan between the years 2007 and 2009. How many of those might be defined as operational contracts, I do not know.

Senator MCCASKILL. But you do not have any reason to believe that has gone down, do you?

General FIELDS. No, ma'am, I do not.

Senator MCCASKILL. In fact, it has probably gone up.

General FIELDS. Absolutely.

Senator MCCASKILL. Absolutely. All right. The next one, the nature and extent of any incidents of misconduct or unlawful activity by contractor employees. How many audits have you done that would reassure the American people that you have, in fact, looked for, found, or are confident there is no unlawful activity by contractor employees?

General FIELDS. Senator, I would say that in each of the 34 audits that we have conducted, those matters have been of concern. But each of those 34 audits may not necessarily have been directly related to a contract.

Senator MCCASKILL. How many findings have you issued dealing with misconduct or unlawful activity by contractor employees? How many findings in these audits?

General FIELDS. I do not think that we have identified misconduct per se. We have identified issues that we have given to our investigators for further follow-up. And I can specifically—

Senator MCCASKILL. I am sorry. Excuse me.

General FIELDS. Well, I am sorry, Senator.

Senator MCCASKILL. That is OK. Go ahead.

General FIELDS. I can specifically tell you of a specific audit that we have conducted which started out as a general audit of the Kabul Power Plant, an item worth \$300 million to the American taxpayer. And during the course of that audit, we found anomalies that we felt were investigatory in nature, so we tailored and shortened the scope of our audit, and the rest of those matters were turned over to our investigators, and they are still being pursued.

Senator MCCASKILL. The remaining two requirements in terms of audits that must be performed: The nature and extent of any activ-

ity by contractor employees that was inconsistent with the objections of operational field commanders. And, finally, number seven, the extent to which any incidents of misconduct or unlawful activity were reported, documented, investigated, and prosecuted.

To what extent have you been able to produce a report as to how much unlawful activity has actually been investigated and prosecuted?

General FIELDS. I do not have an answer for that question at this time, but I will assure the Senator that, as we conduct our audit work and as we conduct our investigations work, all of those matters are, in fact, taken into consideration.

Senator McCASKILL. Thank you, General.

Senator Brown.

Senator BROWN. Thank you, Madam Chairman.

General thank you once again. I mirror Senator McCaskill's kind words about your service. As someone who is still serving, I greatly appreciate that service. And I noted in your testimony how you had great concern for the Afghan children and the needs of the people in Afghanistan, and I understand that. I also have, however, great concern about our soldiers, the men and women that are fighting, and also the taxpayers who are providing that \$56 billion. It does not grow on trees.

And that being said, I know you have been in the position since July 2008, and the last panel that you heard noted serious deficiencies, management deficiencies during their review.

Now that you have held the office for over 2 years, what major course corrections are you currently taking to rectify these serious deficiencies?

General FIELDS. Thank you, Senator. July 2008, that was the month during which I was privileged to be sworn into this position, but funding for SIGAR did not really come until much later. That is why I pointed out that we did not receive full funding for this organization until June 2009.

Senator BROWN. So noted, and that is a good point. Thank you.

General FIELDS. Thank you, Senator. But in reference to course corrections, one of the reasons I asked for the CIGIE to come in early, about 2 years in advance of the time which it normally would have as we anticipated, was to help me set the course correctly for this organization. And I am using the results of both the audit, the investigations, and the so-called capstone review of SIGAR to help chart the course. So I have put in place as of September 30 of this year the recommendations and are implementing the suggestions made by the review team.

Senator BROWN. And how have you done that? What specifically as to—the biggest thing where I think Senator McCaskill and I are concerned about, which is the money. I know you have done some good reports and investigations on other things that you have commented on, which is policy issues relating to the ability for the Afghan people to, live and grow. But in terms of the things that many taxpayers right now are concerned about is the dollars. They are growing weary. They want to know where their money is going. What actions, based on the recommendations, do you have in place?

General FIELDS. Thank you, Senator. I am a taxpayer as well, so I have as much interest, if not more in my particular case, as the

individual American taxpayer. We are doing a better job of risk assessment. We found that to be a weakness to which earlier attention in a much more pointed way should have been turned. So we are improving the means by which we determine where it is that we should focus our effort.

Senator BROWN. And where is that leading you now?

General FIELDS. Well, it is leading us to a greater focus on contracts, because that is, in fact, where the money is. But as the initial questioning by Madam Chairman, we have to also address the front end of this reconstruction effort. To what extent are the policies being put in place by those who are implementing this \$56 billion?

Senator BROWN. I understand that and I respect that approach. But right now, now that you have kind of been put on notice by everybody that, we understand the policies and all that stuff, but what specifically are you doing now based on the recommendations that you have been given? What are you specifically doing so I can tell the people back home in Massachusetts and all of our viewers—I do not know how many there are, but all the viewers we have—where are you focusing? Give me some specific examples so I can advocate and say, hey, he is kind of learning—he is learning and growing, he has taken a spot, he has the funding after a year of being sworn in. He has now been given an independent requested audit. So give me some specific examples as to what you—I do not want to beat a dead horse here, but I need to know where exactly you are focusing. Are you focusing, for example, on how the heck Taliban is allegedly getting money from us taxpayers? Are you focusing on that? Are you focusing on the bribes and payoffs? Are you focusing on the fact that the Afghan army is not—after the \$6-plus billion we have spent, is still not up and running. I mean, where are you focusing exactly?

General FIELDS. Sir, we are focusing on several broad areas, but at the top of that list happens to be contracting.

Senator BROWN. What specifically in contracting? What area are you doing? Are you looking at bridges, roads, power? What are you doing specifically? I know contracting is so big. We heard we have 7,000 contracts or more.

General FIELDS. Yes, sir.

Senator BROWN. Give me an area. Have you actually initiated some investigations already?

General FIELDS. Sir, we have 89 investigations ongoing as we speak.

Senator BROWN. And where are they being focused?

General FIELDS. They are focused on fraud and theft.

Senator BROWN. And based on that, what types of things are you investigating? What examples could you give to me and the American taxpayers of what you are seeing? What made you go to that particular area versus another area?

General FIELDS. Because that is where we feel that the vulnerability is for the American taxpayer's dollar.

Senator BROWN. Based on what? Some tip-off? Some prior types of contracts? I mean, why did you specifically want to go for that area?

General FIELDS. Based on all of the above, sir.

Senator BROWN. OK. Can you share your thoughts about how we can strategically deal with this very complex challenge that you stated in your testimony about your concern in the role and cost of private security contractors, specifically as it relates to fueling corruption and financing insurgents, as I said, or strengthening criminal networks? What tangible actions are required to try to defer this corruption? What can you tell me about that?

General FIELDS. Sir, I believe that the fight against corruption must take place on several levels and many dimensions, the first of which is that we need to give consideration to what it is that we are doing in support of the reconstruction effort and the government of Afghanistan. We are conducting a reconstruction effort in three broad areas: Security, governance, and development. And each of those we feel needs to be addressed.

We are devoting and have devoted \$29 billion to security in Afghanistan itself, the stand-up of the Afghan security forces, the police and the army. We have devoted \$16 billion to governance and development, and therein lies the vulnerability of the American taxpayer's dollar.

So we are pursuing audits and investigations that will help mitigate the potential for the American taxpayer dollar to be wasted, frauded, or abused.

Senator BROWN. I know you are getting \$46 million to complete your mission. That is a lot of money. And I noted here on the chart that Senator Coburn referenced, you have basically identified in terms of fraud, waste, and abuse of about \$8 million. So 46 you have been given, \$8 million in the time frame. Can you tell me why there has not been more of kind of a collection on that fraud, waste, and abuse up to this point?

General FIELDS. Sir, a contributing factor is the slow start that this organization had in standing up, a part of which I am inclined to attribute to the lack of funding—

Senator BROWN. Listen, I am going to give you that one because that is something that I would note. You are sworn in, you get the funding, you get the funding, you got to get it up, you got to get it running. So let us just take in the last 9 months, for example, have you had any success that you want to share with us?

General FIELDS. I feel that we have had some successes. We have—

Senator BROWN. Hard-dollar success?

General FIELDS. Hard dollars, \$6 million that we have reported in our most recent report. We have an ongoing forensic audit of \$37 billion looking at over 73,000 transactions from which we intend to be vectored towards crime or potential crime. And we are moving in that direction, so we are using forensics as a means by which to fairly quickly identify the vulnerabilities, and then we are structuring audits and our investigations accordingly.

Senator BROWN. One final, and then I will turn it back. In your latest SIGAR quarterly report, on page 6, it mentions that Afghan private security contractor—I think it is Watan Risk Management—has been suspended and debarred after it was found funneling large sums of money to insurgents.

Now, I have met with General Petraeus on many occasions concerning our Afghan policy, and I agree with him that we must be better buyers and buy from better people.

What oversight actions are you taking through your audits and investigations to prioritize General Petraeus' directive that those funds will be given to better people and not to our enemies?

General FIELDS. Well, first, I applaud General Petraeus and the initiatives that he has taken to address this issue of corruption. The stand-up of Task Force 2010 is one of those very significant initiatives. We are working very closely with Task Force 2010. We are also working with the International Contract Corruption Task Force in order to harness the investigatory initiatives of the Federal agencies so that we can bring our wherewithal very quickly to bear upon finding folks who are bilking the American taxpayer out of money.

Senator BROWN. OK. Thank you, Madam Chairman. Thank you, General.

Senator MCCASKILL. General Fields, in your testimony to me a few minutes ago, you referred to the CSTC-A audit. The CSTC-A audit, the first audit you did.

General FIELDS. Yes, ma'am.

Senator MCCASKILL. Is that correct? That was the first audit?

General FIELDS. That is correct.

Senator MCCASKILL. And do you recall how long that audit was, how many pages?

General FIELDS. I do not recall how many pages, but I am pretty sure it was not a very large audit, Senator.

Senator MCCASKILL. Does 12 pages sound right?

General FIELDS. That may be about right, the summary of that audit, yes, ma'am.

Senator MCCASKILL. And how many pages in that audit actually contained the audit work?

General FIELDS. I would have to review that audit because it—

Senator MCCASKILL. Would four pages sound correct?

General FIELDS. Maybe, Senator.

Senator MCCASKILL. OK. And the other audit you referred to in the previous testimony was the audit on the Kabul Power Plant?

General FIELDS. That is correct.

Senator MCCASKILL. And had not a very similar audit been done by USAID exactly 1 year prior to the time that you did that audit?

General FIELDS. That is correct.

Senator MCCASKILL. And let us talk about the funding of your agency. USAID did a very similar audit to the one that you did 1 year prior on the Kabul Power Plant. Do you know what the funding for USAID has been in terms of their Inspector General work in Afghanistan over the last—I do not know how many—5, 6 years? Do you know what their total funding has been?

General FIELDS. Funding for USAID in terms of its operations in Afghanistan? I do not know.

Senator MCCASKILL. \$10 million. And do you see what they have recovered for a \$10 million taxpayer investment? \$149 million. And you have received \$46 million. Is that correct, General?

General FIELDS. \$46.2 million, to be exact, Senator.

Senator MCCASKILL. And you all have recovered \$8.2 million?

General FIELDS. At this point in time, yes.

Senator MCCASKILL. Can you understand as an auditor, as I look at those numbers, it is very hard for me to reconcile the notion that a lack of funding has been your problem?

General FIELDS. Senator, the recoveries that we have thus far experienced are small, but the full measure of the outcome of audits and investigations that are underway are—that full measure has not thus far been determined, and our forthcoming numbers will be much larger than the numbers that we submitted to the CIGIE in their roll-up of work that the Federal IG community in general, had done for 2009.

Senator MCCASKILL. Let us talk about contracting. One of the things that is very important is how audit agencies contract because your job is to oversee contracts. And your job is to determine if there are contracts that are not needed, or could be put to better use. Out of the \$46 million that you have received, how much money are you spending to Deloitte & Touche just to prepare your reports for Congress?

General FIELDS. That contract, Senator, started out at \$3.7 million at a time when we had a paucity of people to do the very specific type of work for which we have contracted Deloitte & Touche to help us. The intent of that arrangement was to facilitate the gaps in our own personnel and the skill sets that were needed at that point in time. And over a period of time, we would commensurately reduce that contract as we were able to bring that particular level of talent aboard in SIGAR.

Senator MCCASKILL. OK.

General FIELDS. And we are doing that, Senator.

Senator MCCASKILL. All right. You spent \$3.7 million in the base year on Deloitte & Touche and \$2.7 million this year for Deloitte & Touche, and their only function is to produce reports to Congress, correct?

General FIELDS. Deloitte provides also assistance to us in database management. That is one aspect of it. But they principally assist SIGAR in putting together the reports that we do submit to Congress, which is a very detailed report, a very important report, and we feel that the extent to which we have gone to ensure that the report is put together correctly and is presentable to this Congress is commensurate with the money that we have invested in Deloitte & Touche to do so.

Senator MCCASKILL. So just because I want to clarify this, because I will tell you, candidly, I do not want to lay out my fellow Members of Congress here, but an investment of that kind of money in a report to Congress when there is the kind of audit work that needs to be done, and when you are using the lack of funding as one of the rationales because of why more audit work has not been done and why it has taken so long for audits to really be performed or produced in a manner commensurate with the size of your agency, let us compare here. The contract total to Deloitte & Touche is \$6.6 million, and the total amount of funding to AID IG is \$10 million in Afghanistan. And for that \$10 million, we got \$149 million back. Meanwhile, with the \$6.6 million to Deloitte & Touche, all we have is a shiny report and pretty pictures for Members of Congress, most of which will never see it.

Do you understand why that causes one pause about whether or not that is a strong leadership decision, General Fields?

General FIELDS. Senator, we have been told by Members of this very Congress that they appreciate the report that we provide for them. Similarly, the Federal community elsewhere have told us that they appreciate the detail and the correctness of the reports that we produce.

Senator MCCASKILL. And let us talk about the contract with Joseph Schmitz. Now, you have an audit, and it is completed, your peer review, and it is not good. And, in fact, for only the second time in 50 peer reviews you have been recommended to lose your law enforcement capability in an arena where desperately needed law enforcement capability is absolutely essential. You have had this audit, and after the audit is done, you hire someone, it is my understanding, to help you monitor compliance with the audit recommendations. Is that a fair characterization of what your contract with Joseph Schmitz was supposed to represent?

General FIELDS. That is a fairly fair characterization, Senator. But we hired this independent monitor commensurate with a plan of action and milestones that I put in place in response to the results of the CIGIE in order to move SIGAR quickly along to putting in place the corrective action that had been identified for us. I set that date at September 30 of this year, and we are a better organization because we had this external agency to come in and provide us this particular expertise during that period.

Senator MCCASKILL. And this was a no-bid contract.

General FIELDS. It was a sole-source contract for which we made a request.

Senator MCCASKILL. That is a no-bid contract, sole-source. Correct.

General FIELDS. That is correct?

Senator MCCASKILL. OK. And what you said is you needed the immediate establishment of an independent monitor to independently validate and verify agency actions and compliance in response to issues contained in the CIGIE letter of July 15, 2010, to the Attorney General of the United States. Is that correct?

General FIELDS. Senator, we wanted to—

Senator MCCASKILL. That is the document that—the information in the document for the justification and approval of a no-bid contract.

General FIELDS. Senator, we wanted to quickly correct the areas of concern pointed out by the peer evaluation. We did not wish to lose or put in jeopardy any further the authorities for criminal investigations that had been provided to me by way of the Department of Justice. And we felt that this entity would provide that independent look at us, and we felt that would help mitigate any concerns that this Congress and the overseers of SIGAR on Capitol Hill might have as well as to reassure anyone else who might be interested in the outcome of that peer evaluation.

Senator MCCASKILL. Well, isn't CIGIE back doing an independent review of whether or not you have complied with the audit now?

General FIELDS. Please repeat the question, Senator.

Senator MCCASKILL. Isn't CIGIE looking now to see if you have complied with the audit? Aren't they the independent body you are looking for in terms of seeing if you have, in fact, corrected the deficiencies?

General FIELDS. CIGIE is now looking at the audit piece, but the investigation piece has yet to get underway. But, nonetheless, I have made requests that they come back in.

Senator MCCASKILL. OK. And so Army Contracting Command who awarded the contract on behalf of SIGAR said this contract was sole-source because there was only one person, Mr. Schmitz, who was available and qualified. Did you reach out to any other retired IGs if you were going to hire someone else to come in and tell you whether or not you were complying with the audit?

General FIELDS. Not at that time, Senator.

Senator MCCASKILL. Did you ask for suggestions from Mr. Rymer or, more importantly, Mr. Moore?

General FIELDS. No, we did not.

Senator MCCASKILL. And did you talk to them about using Mr. Schmitz?

General FIELDS. Did I what?

Senator MCCASKILL. Did you talk to Mr. Moore and his team, the group of independent peer review auditors that looked at your process and quality control in criminal investigations, did you discuss Mr. Schmitz with them, about hiring Mr. Schmitz?

General FIELDS. No, I did not.

Senator MCCASKILL. All right.

General FIELDS. Someone may have done so on my behalf, but I did not personally.

Senator MCCASKILL. When my staff spoke with your staff in September, your staff said they had expected Mr. Schmitz would be entering into a subcontract with Louis Freeh, the former Director of the FBI, who also works with Mr. Schmitz, on the independent monitor team for DaimlerChrysler. Or Daimler now, I guess. SIGAR officials stated they believed that Mr. Freeh would "be intimately involved" in the outreach to Attorney General Holder. Was that your understanding?

General FIELDS. That is not necessarily my understanding, and I cannot account for what folks may have communicated to your staff or to anyone else. My intent, Senator, was to bring aboard an independent entity to provide the oversight of the plan of action that we were putting in place to move this effort quickly along so that we could come into compliance with the Department of Justice (DOJ) requirements.

Senator MCCASKILL. Did you expect that Mr. Freeh was going to be working on this contract, General Fields?

General FIELDS. I did at the onset, yes, ma'am. I had confidence—

Senator MCCASKILL. And what was Mr. Freeh's function as it related to what you expected him to do? A reach-out to General Holder?

General FIELDS. No, ma'am. I did not expect anyone to reach out per se. I expected the oversight being provided by this entity to help SIGAR and the Inspector General correct the issues that had been pointed out.

Senator McCASKILL. Well, your staff said to us that Mr. Freeh would be intimately involved in an outreach to General Holder. You understand what this looks like, don't you?

General FIELDS. I would ask that the Senator explain what you are referring to.

Senator McCASKILL. It looks like that you all went out and found somebody who could get to Louis Freeh, who could get to Attorney General Holder, and make sure you did not lose your ability to exercise law enforcement functions. It looked like you were trying to hire someone to help influence the Attorney General of the United States as opposed to fixing the problem and then having the same independent audit group come back and certify that you had fixed the problem.

General FIELDS. Senator, I as Inspector General had confidence in Mr. Freeh because he is a former Director of the FBI, because he is a former judge, and because, as I learned along the way, Mr. Schmitz was associated with his firm, and in which I had confidence because of Mr. Freeh's contribution already to this government and also Mr. Schmitz's contribution to the government in a role that I was playing at that time. That was my line of thinking. It had nothing to do, Senator, with any other potential influence in reference to the Attorney General. I wanted to correct the issues that had been pointed out to me by the peer evaluation, and that was my only objective.

Senator McCASKILL. It is my understanding that Mr. Moore's team—this contract was worth \$100,000, correct, to Mr. Schmitz? He got a hundred grand?

General FIELDS. No, Senator. The contract was worth \$95,000.

Senator McCASKILL. Excuse me. The contract was worth \$96,095. And how many days did Mr. Schmitz work on this for \$96,095?

General FIELDS. He was with SIGAR for approximately 2 months.

Senator McCASKILL. So 60 days and he got \$96,095.

General FIELDS. That is correct, and—

Senator McCASKILL. About \$45,000 a month.

General FIELDS. Senator, we followed the rules in engaging in this contract. We utilized the Contract Center of Excellence in Washington that many other entities use, and the \$95,000 was the fair market value for the specific work that we were requesting that this—

Senator McCASKILL. With all due respect, General, I got to tell you the truth. You are supposed to be finding ways to save the American taxpayers' dollars, and, please, I do not think it is a good idea to say that it was fair market value to pay somebody \$46,095 a month to try to fix a problem in your investigations unit to the satisfaction of the Attorney General. Isn't it true that Mr. Moore is going to complete the work in just a few days and it is not going to cost anything in terms of determining whether or not you now have the proper procedures in place to do law enforcement work as the Special Inspector General of Afghanistan?

General FIELDS. Senator, I believe that the decision that I made at that point in time was a good decision. I did not anticipate all of the scrutiny that this particular initiative has received since that

decision. Had I had an opportunity to do it all over again, I probably would have made a different decision.

Senator McCASKILL. That is good news. General. Senator Brown. Senator BROWN. Thank you. I just have a couple of questions.

In fiscal year 2011, General, you are slated to get \$16.2 billion. If approved, how will that money be tracked and how will it be measured? And what expected return on the investment would you expect the taxpayer to get?

General FIELDS. Senator, we would expect that the full measure of the \$16.2 billion, which is primarily designed for training and equipping of the Afghanistan security forces, we expect that the full measure of the taxpayers' investment in terms of a return will be achieved. To that end, we have asked for additional funding for SIGAR so that we can increase the numbers in our staff so that we can provide the coverage and oversight necessary to ensure the American taxpayer that the money is completely used for the purposes for which made available.

Senator BROWN. So when you say "full measure," what does that mean exactly in laymen's terms, "full measure"?

General FIELDS. Well—

Senator BROWN. I know there is some military in there. I get it. So just tell—when you say you expect to get the "full measure," what does that mean exactly?

General FIELDS. Well, "full measure" means, sir, that the \$16.2 billion was requested for specific initiatives associated with the stand-up of the Afghanistan security forces. So the full measure means that \$16.2 billion would be exclusively used for that purpose without waste, fraud, and abuse. That is what I am referring to, Senator.

Senator BROWN. I see there is 25—if I am reading this correctly—well, how much are you going to spend in personnel compensation? Do you have any idea?

General FIELDS. Personnel compensation, not unlike the rest of the Federal community, is high, and our personnel compensation is, I believe, commensurate with my SIGIR counterpart. Our staff who work in Afghanistan by way of a compensation package approved by this Congress receives 70 percent in addition to their regular pay for danger pay and location pay. We have to pay that, Senator. SIGAR is an independent agency. I must pay as we go for everything that we receive, personnel and otherwise. The cost is very high, but we are also a temporary organization, Senator, so when we bring people aboard, they know that. And we bring people aboard for 13 months. It is not like a standing and statutory Federal agency and the Inspectors General thereof.

We are also competing in a market where 70 other Inspectors General in this city are looking for auditors and investigators, and we have to compete in that regard with their compensation in order to bring aboard the level of talent that we need.

I wish it were cheaper, Senator. I certainly do.

Senator BROWN. So, General, let me just finish with this. Then I am going to move on, either to turn it back or we are going to go on to the next panel. You know where I would like you to focus? I just want you to follow the money. I just want you to find out where the money is going and zero in on the Taliban issue, why

and how they are getting any of our monies, number one. I want to know if there are any bribes and payoffs and criminal activity going on where the money should not be going. If there are people that are doing it, then, what are we going to do to stop it and plug that leak? I understand—but not for you telling me, I would have overlooked the fact that you got appointed and then there was a transitional period. So I get that. But now that you have done all the—women in elections and all the policy stuff and you have focused there, I think the message from me and Senator McCaskill and the folks that did your independent audit—and I commend you for reaching out and doing that. Either it was a CYA situation or you seriously wanted to actually get there and get some guidance, because maybe it was new or maybe there was not any guidance. But they have given you the guidance. I think we are giving you some guidance. Please protect our money. Find a way to bring that number up so that we can feel confident that the millions we are giving you, we are getting millions in return. At least make it a wash. That is my only message.

I have nothing further. Thank you.

Senator MCCASKILL. Let me clean up a couple of things. I do not have a lot of other questions. But, in fact, Louis Freeh never was engaged or declined to participate in any way in this contract. Correct, General Fields?

General FIELDS. That is correct, Senator, as far as I know. What assistance Mr. Freeh may have given Mr. Schmitz of which I am not aware, then I am not able to comment on that, Senator.

Senator MCCASKILL. And I have not gone into any of the issues surrounding Mr. Schmitz in his previous tenure at the Department of Defense. But were you aware at the time that you hired him that there had been some controversy concerning his previous tenure as a Department of Defense Inspector General?

General FIELDS. Senator, I was completely unaware of any—

Senator MCCASKILL. But that would have been a vet that you might have done, maybe just a basic Google search for his name that would have revealed that there was, in fact, some questions that were asked, so you would have had a chance to ask him before you hired him and be clear that there were not any problems associated with him?

General FIELDS. Senator, our initial initiative really was to engage the Louis Freeh group of which Mr. Schmitz, to our understanding, was a part.

Senator MCCASKILL. So now you have said that the reason for hiring him was to get to Louis Freeh, to engage Louis Freeh.

General FIELDS. Not necessarily, Senator. The reason for hiring any of these entities was to help bring the talent and expertise that we needed at that point in time to address the issues in SIGAR, and we—

Senator MCCASKILL. You just said—I said, “Why didn’t you vet him,” and you said, “Because we were hiring him to get to Louis Freeh.” You just said that in your testimony. We can read it back.

General FIELDS. No, Senator, I did not say that I was hiring anybody to get to Louis Freeh.

Senator MCCASKILL. OK. Then let us start again. Why did you not vet Mr. Schmitz before you hired him?

General FIELDS. I personally had no cause to do so.

Senator McCASKILL. OK.

General FIELDS. And these matters, Senator, were being handled by way of my contracting officer and by way of the CCE.

Senator McCASKILL. So—

General FIELDS. I did not have any reason to doubt the integrity and so forth of Mr. Schmitz, and as I understand it, the issues of which he may have been accused during his tenure as Inspector General—and this is information I have found out subsequent to the Senator having raised questions about my decision in hiring this particular contractor. But as I understand it, the issues that were brought up concerning Mr. Schmitz were not corroborated in the final analysis.

Senator McCASKILL. You understand that the reason that this even has come up about Mr. Schmitz is in preparation for this hearing, we did basic investigatory work that SIGAR should be doing. And when we did basic investigatory work, we found that Senator Grassley had a lot of questions about Mr. Schmitz when he was Inspector General at DOD. And I am not saying whether Senator Grassley was right or wrong. I am saying it is very troubling that you would not be aware of those questions before paying someone the amount of \$450,000 a year to do work for the Federal Government, General Fields. That is what I am getting at, that this—an audit agency is careful about who they hire and whether or not there is any appearance or problem. And I am not saying there is a problem, but the fact that you did not even know that there might be one is what I am trying to bring to your attention.

Did Mr. Schmitz ever go to Afghanistan?

General FIELDS. Not under the contract involving SIGAR, to my knowledge. There was—

Senator McCASKILL. So the pay for him that you claim is market value, the \$45,000 a month, did not involve any high risk on Mr. Schmitz's part, other than calling Louis Freeh's office?

General FIELDS. Potentially—correct, as far as I know, Senator.

Senator McCASKILL. All right.

General FIELDS. But let me also say, Senator, begging the Senator's pardon, that Mr. Schmitz is registered to contract with the government of the United States as far as I understand.

Senator McCASKILL. I understand, General, but I think the point I am trying to make here is your job is to oversee contracting. Your job is to set the gold standard on contracting. So you do a sole-source contract, no bid; you immediately hire someone. Clearly there was not even a vet done that brought to your attention that there were questions you need to ask him about his previous service as an Inspector General. That is the point I am making, General Fields. That is the point I am making.

Have you ever done or worked with an audit agency before you were given this job? Had you ever done any audit work or been around any auditors before you were given this job?

General FIELDS. Yes, Senator, I have been.

Senator McCASKILL. OK. Tell me in what capacity you had worked with auditors prior to taking this job.

General FIELDS. I worked with auditors in conjunction with my support to the Iraq Management and Reconstruction Office

(IRMO). This was indirect work associated with reconstruction and support of Iraq.

Senator MCCASKILL. And what audit agencies did you work with, General?

General FIELDS. I did not specifically work with an audit agency per se, but as the Chief of Staff of IRMO, my work covered multiple dimensions of reconstruction in Iraq. Prior to that, Senator, I served as the Inspector General for United States Central Command. I did that work for 2 years, and that work involved some degree of oversight involving audit-type work, but not necessarily the professional auditors by which SIGAR is currently characterized.

Senator MCCASKILL. Right. And, in fact, this is something that the public is not aware of, that there is a vast difference between Inspectors General within the active military and Inspectors General within the Federal Government. Correct, General Fields?

General FIELDS. I would say that is correct.

Senator MCCASKILL. Inspectors General in the active military report to the commander and are there as the eyes and ears of the commander. They have no duty whatsoever to report to the public or to the Congress or to perform an independent function in terms of monitoring taxpayer dollars. Correct?

General FIELDS. Those Inspectors General are guided by the basic intent, no less, of the Inspector General Act of 1978 by which I and other Federal Inspectors General are guided as well, Senator.

Senator MCCASKILL. Well, I understand. I was just shocked when I went to Iraq on my first contract oversight trip, and I am sitting with Inspectors General, and I did not realize we had two varieties that were vastly different in the Federal Government. In fact, I wish they were not called the same thing. I wanted to rename the military Inspectors General another name, and then the military informed me they had the name first. So it got a little tricky. But these are not the same functions, and they do not do the same work.

I guess the reason I ask this question, General, is, the first thing you do if you head an audit agency is to figure out where the risk is and do a risk assessment and do a tier analysis as to what tier is the top tier of work that you should do where the highest risk is. Then you go down and then you do your audit plan determining how much resources you have and how you can get to the most risk.

General FIELDS. Yes, Senator.

Senator MCCASKILL. At what point in time was a risk assessment completed at SIGAR?

General FIELDS. I will go back, Senator, to what I said earlier. We conducted a risk assessment which was published in our 2008 report to Congress. That risk assessment was made up of several elements. It may not look like a risk assessment as the Senator might—

Senator MCCASKILL. It is not a Yellow Book risk assessment, is it, General Fields?

General FIELDS. Say again, Senator?

Senator MCCASKILL. It is not a Yellow Book risk assessment.

General FIELDS. It would not be a Yellow Book assessment per se, but it would certainly contain the elements relevant to any risk assessment when it comes to oversight of money.

Senator McCASKILL. Did the auditors working for you at that time tell you that was sufficient in terms of a Yellow Book risk assessment?

General FIELDS. I had no auditors at that time, Senator, because we completed that assessment in conjunction with our October report to Congress before I was privileged to hire my first auditor.

Senator McCASKILL. So you are saying that you performed what you would consider a professional risk assessment of a major responsibility in terms of audit function without any auditors?

General FIELDS. I performed that assessment, Senator, with intelligent folks, and I feel that—this is not—I do not feel that this is necessarily rocket science in order to determine what needs to be done, Senator.

Senator McCASKILL. Well, I got to tell you the truth. Once again, I do not mean to be cruel. I do not mean to—this is not fun for me either. It is very uncomfortable to say that I do not think that you are the right person for this job, General Fields. But I do not think you are the right person for this job— [Interruption by protester.]

Please, no. That is very inappropriate. Please leave the room. Please.

The risk assessment, the reason that you had the findings from peer review was because you fell short of the professional standards that are demanded in the world of auditing. And I am not saying the people that worked for you were not intelligent. I am not saying you are not intelligent. I am not saying that you are not a hero, sir. I am saying this is too important a government function to not have the very highest level of experience, qualifications, and expertise leading this kind of audit agency.

I have no other questions for you. We will keep this record open. If there is anything that I have said in this hearing that you believe is unfair, if there is any information that you want to bring to our attention, we will keep the record of the hearing open. And I can assure you I will look at all of it with the eye of an auditor and examine it and make sure that our final record in this hearing is fair and balanced. And we are happy to include anything else that you would like to include, and I thank you very much for all of your service to America.

Senator BROWN. Madam Chairman, if I may—

Senator McCASKILL. Oh, I am sorry.

Senator BROWN. Thank you, General. I want to thank you for your service as well, and I appreciate your forthright answers. Thank you.

Senator McCASKILL. Thank you, sir.

General FIELDS. Thank you, Senators.

Senator McCASKILL. And we will now take the third panel. Thank you all for being here. Let me introduce this panel.

Gordon Heddell has served as the Inspector General for the Department of Defense since July 2009. He was Acting Inspector General from 2008 to 2009. Prior to joining the DOD IG, Mr. Heddell served as the Inspector General for the Department of Labor (DOL).

Harold Geisel has served as the Deputy Inspector General for the State Department since June 2008. He has more than 25 years of experience with the State Department and previously served as the Acting Inspector General in 1994.

Michael G. Carroll has served as the Deputy Inspector General for the U.S. Agency for International Development, USAID, since February 2006. Mr. Carroll is a member of the Senior Executive Service with more than 26 years of government service. Prior to his appointment, Mr. Carroll served as the Director of Administration for the Bureau of Industry and Security in the Department of Commerce.

Stuart Bowen—and I understand you are not feeling well today, Mr. Bowen. Thank you for arriving and try not to breathe on Mr. Carroll. [Laughter.]

Mr. Bowen has served as Special Inspector General for Iraq Reconstruction since October 2004. Mr. Bowen served President George W. Bush as Deputy Assistant to the President, Deputy Staff Secretary, Special Assistant to the President, and Associate Counsel. Mr. Bowen also spent 4 years on active duty as an intelligence officer in the U.S. Air Force, achieving the rank of captain.

Thank you all for your service to our government, and obviously this is a four-person panel and it is our third panel. I will stay here all night. You know this is what I enjoy; this is the stuff I enjoy. But I do not want to prolong the hearing for any of you any longer than necessary. So feel free to make any testimony you would like as long as it is less than 5 minutes. If you want to do less than that, that is fine. If you want to just stand for questions, that is fine, too. But I am anxious to hear from all of you. Mr. Heddell.

TESTIMONY OF THE HON. GORDON S. HEDDELL,¹ INSPECTOR GENERAL U.S. DEPARTMENT OF DEFENSE

Mr. HEDDELL. Thank you, Chairman McCaskill, Ranking Member Brown, and distinguished Members of this Subcommittee. Thank you for the opportunity to appear before you this afternoon to discuss our oversight efforts in Afghanistan and throughout the region.

Effective, meaningful, and timely oversight of U.S. contingency operations in Southwest Asia is critical to our success in Afghanistan. I would like to focus on one of the fundamental reasons behind our success: The effective and efficient coordination of the audit, inspection, and investigative assets of the many agencies in the region. This cooperation has not only maximized our ability to complete our mission, but has reduced the amount of impact our presence has had on the commands in theater to complete their mission. Due to the complexity of contingency operations and the involvement of multiple Federal agencies, interagency coordination is essential to identifying whether critical gaps exist in oversight efforts and recommending actions to address those gaps.

I appointed Mickey McDermott as the Special Deputy Inspector General for Southwest Asia in November 2009. His role is to ensure effective coordination within the Defense and Federal oversight community. Mr. McDermott reports directly to me and coordi-

¹The prepared statement of Mr. Heddell appears in the appendix on page 151.

nates and de-conflicts oversight efforts within Southwest Asia. He is forward-deployed on a 2-year assignment and over the past year has worked with the oversight community, Department of Defense leadership, and the supporting commands to improve communications and identify oversight requirements.

Mr. McDermott also serves as the chairperson of the Southwest Asia Joint Planning Group, which develops the Comprehensive Oversight Plan for Southwest Asia. The Joint Planning Group is developing a comprehensive strategy for the oversight of the training, equipping, and mentoring of the Afghanistan National Security Forces and has plans to develop a comprehensive strategy for the oversight of contingency contracting in Afghanistan. In May 2009, the Joint Planning Group established a sub-group to coordinate audit and inspection work in Afghanistan and Pakistan.

In addition to the Joint Planning Group, we participate in the U.S. Forces-Afghanistan oversight Shura. This forum provides another opportunity for each of the oversight community in-country representatives to update the supporting commands on the status of their current and planned projects. We also collaborate on criminal investigations in Afghanistan. The Defense Criminal Investigative Service maintains a close working relationship with the International Contract Corruption Task Force and is a member of the Task Force 2010. We have learned from our experiences in Iraq that maintaining an in-theater presence is essential to providing effective oversight in an overseas contingency environment.

Additionally, one of the most important lessons we have learned is the value of having the Special Deputy Inspector General as our single point of contact in the region for coordinating oversight efforts and to ensure effective communication with senior leaders in the theater. This is key for minimizing the impact on the daily operation of the activities we visit, and it provides those activities a single point of contact.

Another important lesson learned is that contracting in a contingency environment presents many challenges. In May 2010, we summarized our experiences in the report—and I have it here—titled “Contingency Contracting: A Framework for Reform.” This report identifies key systemic contingency contracting issues as well as actions that need to be taken to correct these issues for future contracting. By compiling this data and summarizing our findings, we were able to provide a useful tool for operators on the ground to improve their operations by avoiding past mistakes.

In closing, I would like to thank the Subcommittee for the opportunity to discuss our work in Afghanistan, and I look forward to continuing our strong working relationship with the Congress, the Department, and with all oversight agencies in Southwest Asia. Thank you.

Senator McCASKILL. Mr. Geisel.

**TESTIMONY OF THE HON. HAROLD W. GEISEL,¹ DEPUTY
INSPECTOR GENERAL U.S. DEPARTMENT OF STATE**

Mr. GEISEL. Thank you, Chairman McCaskill and Ranking Member Brown, for the opportunity to appear today. I have prepared remarks but ask that my written testimony also be made part of the record.

Our oversight role in Afghanistan includes performing audits, evaluations, inspections, and investigations with respect to activities that are funded and managed by the Department of State. These funded and managed programs include activities such as worldwide protective services for diplomats, embassy security, counternarcotics, and police training programs, as well as construction and maintenance of U.S. embassies.

Our Middle East Regional Office (MERO), has an office in Kabul with boots on the ground to provide quick and timely evaluations of high-risk, high-dollar programs. In addition, our Office of Investigations provides on-the-ground investigative support in Afghanistan. And our Offices of Audits and Inspections also perform work there.

We have provided the Subcommittee with a list of audits, evaluations, and inspections related to Department of State operations in Afghanistan that have been issued by our office since 2004. We have used congressional resource increases since 2009 in both supplemental and the appropriations base to greatly increase the number of completed and planned audits, evaluations, and inspections in Afghanistan during 2009 and 2010. Approximately 25 percent of our ongoing or planned oversight for the Middle East and South Asia regions, which include 33 countries, will take place in or are otherwise related to Afghanistan.

Madam Chairman, coordination occurs at several levels within the oversight community to reinforce the efficiency of oversight efforts. In Washington, D.C., coordination occurs first through the Southwest Asia Planning Group, which meets quarterly to plan ongoing activities to ensure minimum duplication of oversight and maximum cooperation. There is also a separate sub-group, the AFGPAK Working Group, which meets to address oversight work in Pakistan and Afghanistan. This working group is where IG coordination, deconfliction, and agreement occur. OIG personnel from the Department of State, USAID, DOD, Government Accountability Office (GAO), and SIGAR are members of the AFGPAK group.

Informal coordination regarding oversight work in Afghanistan and elsewhere in the region also takes place between these same organizations as well as other OIGs. These groups will continue to play a vital role and serve as a model for new and flexible groups formed in response to future contingency operations, regardless of where they occur in the world.

In Afghanistan, there are additional coordination groups. The IG Shura is facilitated in-country by U.S. Forces-Afghanistan and the DOD OIG. Participants meet monthly and include representatives from all OIG offices working in Afghanistan.

Madam Chairman, Senator Brown, the novel concept of creating a permanent Inspector General—because that was one of the ques-

¹The prepared statement of Mr. Geisel appears in the appendix on page 168.

tions we were asked in advance—to oversee contingency operations merits serious consideration. However, existing departmental OIGs have proven their ability to work well together and with the Special IGs over the past 2 years to provide effective, coordinated oversight in contingency operations. They have existing processes, organizational structures, and institutional knowledge of the programs within their departments that facilitate efficient oversight of those programs and eliminate the learning curve that would be required of a contingency IG.

Moreover, in an era of fiscal restraint, creating a permanent IG to oversee contingency operations might not be prudent. Millions of start-up dollars would be required to establish and sustain a new bureaucracy.

Current organizations already in existence, such as the Southwest Asia Joint Planning Group and the International Contract Corruption Task Force, could be used for interagency coordination or as models for the fast creation of other coordination groups for new contingencies around the world as the need arises. These groups have the means, methodology, and practices in place to facilitate efficient, cost-effective oversight and through planning, coordination, and deconfliction.

Once again, I thank you, Chairman McCaskill and Senator Brown, for the opportunity to appear today, and I am ready to answer any questions.

Senator McCASKILL. Thank you, Mr. Geisel. Mr. Carroll.

TESTIMONY OF MICHAEL G. CARROLL,¹ DEPUTY INSPECTOR GENERAL, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. CARROLL. Thank you, Chairwoman McCaskill, Senator Brown. Thanks for having me here today to brief the Subcommittee on our oversight activities in Afghanistan, our working relationship with SIGAR, and, finally, to share our views on the feasibility of a Special IG for contingency operations.

I want to start by saying that from its inception almost 30 years ago, the USAID IG has operated in an overseas environment with foreign service auditors, investigators, and management analysts, providing audit and investigative coverage of USAID's programs. And we think that gives us a unique comparative advantage in providing oversight in contingency operations.

Our oversight in Afghanistan has really evolved over the past—well, since we had “boots on the ground” in November 2002. We started out covering it as a country in a regional portfolio out of our office in the Philippines, and it has morphed into what will soon be the largest country office that we have of our eight overseas offices with 14 auditors and investigators.

On relationship with the SIGAR, Special IG for Afghan Reconstruction, I would have to draw a distinction between audit and investigations as I describe that relationship. On the audit side, I would characterize the relationship as cooperative and productive. It has taken some time to get to that point because obviously we have duplicative authorities, and we have the authority to look at the same programs. So it has taken some time, it has taken some

¹The prepared statement of Mr. Carroll appears in the appendix on page 180.

effort, but I can say now that through planning and deconfliction, we are not going to have any overlap in audits.

I cannot characterize the relationship with the SIGAR investigations in the same way. We seem to not be able to come to terms with jurisdictions. Again, they have law enforcement jurisdiction over AID programs. So do we. But we feel that as the statutory IG for AID we should have primary law enforcement jurisdiction over any allegations of corruption in AID programs or against AID employees, and we should lead any investigation that has to do with AID programs and employees. And we are still trying to work through that relationship with the SIGAR folks on the investigation side.

Also, if I could just share our views, as Mr. Geisel did, about the practicality or the feasibility of a statutory IG for contingency operations. I cannot imagine an entity that has a better comparative advantage than the statutory IGs for doing oversight work. And when you talk about contingency operations, I think we would all agree that the two best examples of that over the past 10 years are Iraq and Afghanistan. And you have before you today the three statutory IGs for the Department of Defense, Department of State, and AID. And I think that with our collective experience, our in-depth knowledge and understanding of our agency's programs, people, systems, policies, I think that, properly funded, with the same authorities that the special IGs have for personnel, working closely with the Government Accountability Office, I think we can, as a collective group, provide the same comprehensive oversight and reporting that a statutory IG for contingency operations could.

I thank you for your time and look forward to any questions you might have.

Senator McCASKILL. Thank you, Mr. Carroll. Mr. Bowen.

TESTIMONY OF THE HON. STUART W. BOWEN,¹ JR., SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

Mr. BOWEN. Thank you, Chairman McCaskill, for this opportunity to appear before your Subcommittee and testify on the critical issue of oversight in contingency operations. It is an issue that has been acutely with us for the last 8 years in Iraq, and indeed, almost exactly 7 years ago, the Congress created my office, the Special Inspector General for Iraq Reconstruction, because of weakness regarding oversight by the departmental IGs then in Iraq and the significant waste that occurred.

To carry out this mission, I focused my organization on four critical operational principles.

First, real-time auditing. We get our audits out quickly, averaging six a quarter, and that is essential in a war zone because the operators need to get answers fast. If you wait the typical 9 to 15 months for an audit, the world has completely changed. It is not a useful audit.

Second, in-country engagement. We have been as high as 50. We are at 22 now. That is the largest single contingent of oversight operators in-country in Iraq, and it is investigators, it is auditors, it is inspectors, it is evaluators, and that has given us the capacity,

¹The prepared statement of Mr. Bowen appears in the appendix on page 192.

the special capacity with our focused mission, to be highly productive.

Third, unprecedented transparency. We operate I think fairly uniquely as an IG in that we meet every week with the subject of our oversight to inform them of what we are doing, the progress we are making, and what we are finding to promote improvement in the overall reconstruction program as the consultative component. That is the fourth mandate that I give my auditors and inspectors: Be consultative.

Just a week ago, I was in Iraq at Camp Victory, meeting with General Austin, the commander of U.S. Forces-Iraq, on a critical SIGIR audit that is going to produce really tough findings in January. But he needed to know about those findings today because they affect an enormous contractor. That is the kind of work we are able to do by being heavily engaged on the ground with leadership.

We have produced 27 quarterly reports and five Lessons Learned reports. They help strengthen performance, and they have been focused on accounting for taxpayer dollars, the dollars appropriated to four major funds which comprise about \$46 billion of the money.

The question that you have asked me to address particularly is: Does a Special Inspector General for Overseas Contingency Operations (SIGOCO), make sense? And differing from my fellow panel members, I say yes, absolutely, because of several reasons: First, the cross-cutting jurisdiction. I have a CAC card and a State badge. I can go to any door of any department with any funds, and a lot of these projects and programs are multi-funded from different sources—police training—for example, and I can get answers from any Department, and I do not have to operate in a stovepipe.

Second, a singularly focused mission. I have a staff that is focused on one thing: Protecting taxpayer interest and improving mission performance in a contingency. That allows for aggressive oversight and gets you quick reporting.

We have focused on coordination. We have talked about that a lot today. Well, the Iraq Inspectors General Council was something I formed within a couple of months of starting up 7 years ago, and we met every quarter, and now this quarter we are going to fold it into the Southwest Asia program. But it has facilitated really strong interaction with my fellow Inspector General auditors here at the table, in Iraq, and on this side of the world.

Next, flexibility in hiring practices. We have unique authority, and thus we have been able to maintain high-quality staff throughout the life of our organization. We are highly independent, and we report quarterly to the Congress, not semiannually. So you get comprehensive, detailed analyses, and factual data about what is going on in Iraq every 3 months.

A permanent Special IG would eliminate the inherent challenges that arise in starting up a Special IG in a contingency. Oversight has to be present there from the beginning. You know you would have that if you had a SIGOCO in existence. You would not need to have a departmental IG formulate and draw out of their own resources a capacity to deploy and execute that kind of oversight. SIGOCO would ensure it.

A feasible SIGOCO standing operation could have a core staff of 25 and cost about \$5 million a year. If such an organization had

existed, say, at the beginning of the Iraq reconstruction program, the amount of waste it would have averted would pay for it for our lifetimes. There is no doubt that it would be cost-effective. Indeed, the return on investment in cost for SIGAR has been about 5:1.

There will be other contingency operations no doubt. That is a new phase in modern national security reality, and we will have significant contingency relief and reconstruction operations. How do we avoid the kind of waste that we have seen in Iraq and Afghanistan—significant, unacceptable, ridiculously high levels of waste—in the future? One way would be, as we have heard at the table, to provide more funds to the departmental IGs to allow them to hire more auditors and inspectors. But to ensure that you would have a capacity that is capable and ready to deploy, SIGOCO is a good answer.

Thank you, Madam Chairman. I look forward to your questions.

Senator McCASKILL. Thank you all. Let me start. How many people do you have on the ground in Afghanistan right now, Mr. Heddell.

Mr. HEDDELL. Right now I have 15 auditors, 8 criminal investigators, 2 administrative staff, and in addition to that, I complement that with expeditionary forces that enter and exit on a regular basis. That is just in Afghanistan.

Senator McCASKILL. OK. And, Mr. Geisel, how about you in Afghanistan?

Mr. GEISEL. We have five auditors and analysts in Kabul, and that will increase to eight by January. Our investigators are always on a TDY status, and I think at the moment we have two investigators actually in-country.

Senator McCASKILL. OK. Mr. Carroll.

Mr. CARROLL. Well, we have nine auditors, and hopefully very shortly we will have five investigators.

Senator McCASKILL. And what do you have currently in Iraq, Mr. Bowen.

Mr. BOWEN. I was there just last week, and with 18 personnel, there were 10 auditors, 3 investigators, 3 evaluators, and a chief of staff, and support staff.

Senator McCASKILL. And what was the high point, high mark in Iraq in terms of how many auditors you had on ground?

Mr. BOWEN. Total number of auditors? Not inspectors, just auditors?

Senator McCASKILL. Just auditors.

Mr. BOWEN. We were up to 29.

Senator McCASKILL. Twenty-nine. How many times have the four of you been in the same room with General Fields?

Mr. GEISEL. I reckon at least five times.

Senator McCASKILL. No, I mean all four of you together with General Fields. Have you ever been in the room with all four of you and General Fields at the same time?

Mr. GEISEL. No.

Mr. HEDDELL. Well, I think there may be times at the monthly CIGIE meetings.

Mr. BOWEN. Yes.

Mr. HEDDELL. And General Fields frequently attended those.

Senator McCASKILL. OK. But I am not talking about at the CIGIE meeting, and, of course, the CIGIE meeting is a meeting where all the Inspectors General come together, I do not want to say it is like your Rotary Club, but it is your association where you come and network and talk to one another, and obviously that is the pool of people which the peer reviews come out of, correct?

Mr. HEDDELL. Yes.

Mr. BOWEN. Yes.

Senator McCASKILL. I am talking about how many times have the four of you sat down with General Fields and talked about contingency operation audits, writ large?

Mr. BOWEN. Not as a group, but frequently individually.

Senator McCASKILL. OK.

Mr. HEDDELL. Senator McCaskill, if I could add to that, however, I think the point you are getting at is how much we talk to each other, share information, and assess risk. And that is one of the reasons that the Department of Defense Inspector General created a Special Deputy Inspector General who also chairs the Joint Planning Group where all of our offices are represented.

Senator McCASKILL. Right.

Mr. HEDDELL. In fact, almost 25 agencies are represented. So that does happen. It is just not the same personalities that are sitting—

Senator McCASKILL. I understand. I am not implying by the fact that the five of you have not been in the same room together that your agencies are not talking to one another and not trying to coordinate.

How many independent contractors have you hired relating to the work in Afghanistan or relating to reports or anything that you need to produce for Congress? Can anyone think of any independent contractors that you have hired?

Mr. CARROLL. As part our audit work, we hire both ourselves and we help the agency hire independent financial audit firms to conduct financial audits in Afghanistan. And also, since it is difficult for us to get out to do our field work in some of the more dangerous places, we have also hired local audit firms to go out and do site visits for us on performance audits.

Senator McCASKILL. OK. What about you, Mr. Bowen? When you prepare your—yours is not a pamphlet. Yours is a book on lessons learned, which I am a little embarrassed I have committed to memory. Was an independent contractor hired for that effort?

Mr. BOWEN. For “Hard Lessons,” no. This was done by government staff and printed by GPO.

Senator McCASKILL. This is awkward because I do not want you all to comment on General Fields. I do not want to put you in what is an awkward position for a professional auditor. But I have a lot of concern that someone would think it was appropriate to do a risk assessment and call it a risk assessment without an auditor on staff. Does that cause you concern, Mr. Heddell?

Mr. HEDDELL. Without an auditor on staff?

Senator McCASKILL. Correct

Mr. HEDDELL. Yes, it would cause me concern.

Senator McCASKILL. Does it cause you concern, Mr. Geisel?

Mr. GEISEL. Definitely.

Senator McCASKILL. Mr. Carroll.

Mr. CARROLL. Yes.

Senator McCASKILL. Mr. Bowen.

Mr. BOWEN. Yes.

Senator McCASKILL. I am curious. Has there been a sense that the leadership of SIGAR was not up to the professional standards that are required for this kind of very difficult and very important audit work? Are we the only ones that have an oversight capacity here? Do you all as auditors that are in a unique position to know whether or not the agency is standing up in a way that would reflect Yellow Book standards or Silver—and let me say for the record, the Yellow Book—I keep saying “Yellow Book.” For the record, I should explain that the Yellow Book is called that because it is yellow, but it is the book of standards for government auditors. And the Silver Book is the book of standards for government investigators.

If you are working with another agency—and I do not know what the ethics are here, candidly. If you are working with another audit agency and you have a sense that professional the District are not being complied with, do you have a duty to report it to anyone?

Mr. GEISEL. I am allegedly the diplomat here, so I will try and answer. [Laughter.]

The simple answer is yes. Let me give you two examples where it worked very well. We did a joint audit with the DOD IG on one of the most important facets of our presence in Afghanistan, and that is police training. That activity was carried out—well, it was funded under State Department authority, and it is going over to DOD. And our joint audit found a lot of problems, and frankly—

Senator McCASKILL. Was it your audit that figured out they were not sighting the rifles?

Mr. GEISEL. Yes, as a matter of fact. That was another audit, but that was our evaluation.

Senator McCASKILL. Go ahead. I am sorry to interrupt. I was just curious.

Mr. GEISEL. That is right.

Senator McCASKILL. Good work, by the way. That is fairly important that we hire someone who train the police who knows how to sight the rifles.

Mr. GEISEL. Yes. It is also important when we found that the dogs that were supposed to sniff for explosives were not trained to sniff the right explosives. But in our work with the DOD IG, there were slight differences of opinion, but we worked them out immediately. And I can tell you, without exception, there was mutual respect. I knew some of the DOD auditors, and I thought the world of them.

Senator McCASKILL. Well, I guess what I am asking is: If you work with an audit agency where you do not think professional standards are being met, do you—

Mr. GEISEL. I would pull out. Pure and simple. I would not hesitate. I would try to do it nicely, but I would just say, “We seem to have different objectives and perhaps different standards, and we cannot work together.” I would do that in a heartbeat.

Senator McCASKILL. Anybody else?

Mr. CARROLL. Well, I would say that as SIGAR was standing up—and I think that—I cannot think of a case actually where we worked together with them on an audit. We have worked together with them on some investigations, and they have assisted us on some investigations. But we never worked with them together on an audit like State and DOD IG did on the police training. So we may have missed the boat there, but we were completely laser-focused on our work and not necessarily focused on what was happening at SIGAR.

Mr. HEDDELL. Senator McCaskill, to correct the record, the Department of Defense Inspector General's office to my knowledge has never worked with SIGAR on an audit.

Senator MCCASKILL. OK.

Mr. HEDDELL. We have worked with SIGAR in law enforcement task forces, however.

Senator MCCASKILL. OK. Before I turn it over to Senator Brown, do you have a comment on that?

Mr. BOWEN. Yes, we work very closely with a variety of permanent Inspectors General and other law enforcement agencies on investigations, and we have done joint audits as well.

Senator MCCASKILL. With SIGAR?

Mr. BOWEN. No. With State.

Senator MCCASKILL. Have you ever done any work with SIGAR?

Mr. BOWEN. No. Our jurisdictions do not overlap.

Senator MCCASKILL. I understand. I just wanted to be sure.

Mr. BOWEN. Other than—I mean, no audit work. We were very closely supportive of them in their first year in their stand-up, as evidenced in my submission.

Senator MCCASKILL. Senator Brown.

Senator BROWN. Thank you, Madam Chairman. I just have a couple of questions. I know we may be voting in a minute.

As you heard from my previous line of questioning, I am greatly concerned, as I know the Chairwoman is, on the allegation that there is money going to the insurgents, the Taliban in particular. What roles do you collectively have in helping to determine whether, in fact, that is the case and how we can stop it, identify it, who is responsible? That whole line of questioning, if you could just maybe—whomever, one or both or all.

Mr. HEDDELL. Senator Brown, one of our primary responsibilities and concerns is not just simply money. It is the life and safety of our men and women in Afghanistan who are doing the fighting for us. So we look at things much broader than money. The money is extremely important, but, for instance, a tremendous amount of our work is focused on the train and equip mission of the Afghan national army and the police and determining what the success is that we are having with weapons accountability, for instance.

Senator BROWN. Yes, weapons, everything. I should not have said just money, but everything. The whole thing.

Mr. HEDDELL. Yes, and that is something we do focus on. Are weapons getting to where they are supposed to go? Are they being put into the hands of the people that we want them to be placed in?

We did a tremendous amount of work in Iraq in that respect. We are continuing to increase our focus in Afghanistan on those kinds

of areas. So we are concerned about the money, and we are concerned about the amount of money, the remaining \$14.2 billion, for instance, that is going to go into Afghan national army and police training, and getting them to the capability levels that will enable the United States to achieve its goals in Afghanistan. So yes, we are very, very involved and focused on those kinds of issues.

Senator BROWN. Having been there, I am greatly concerned as well, and I am concerned that a lot of the folks that are supposed to be doing the training are not fulfilling their obligations with our coalition forces, too. That is a whole different story.

But when I said funds, I should also say obviously weapons and supplies and, communications, the whole nine yards. So thank you for that.

Madam Chairman, I really have focused on where I wanted to go in the hearing. I want to just say thank you for, collecting the money and finding out where the waste, fraud, and abuse is, and I think it helps. It enables us to justify where those funds are going. So, drive on.

I have nothing further. Thank you.

Senator McCASKILL. Thank you, Senator.

On SIGOCO, I have great respect for all of you who are here that work for State and DOD and AID. And I understand in some ways establishing SIGOCO in some ways feels a little bit like someone is permanently going to be on your turf. And I am not discounting your opinions about this because of that, but I do think that Mr. Bowen makes some points about—and I think that what we have heard today in the testimony about SIGAR is really in many ways to me depressing. Standing up an organization in a contingency is very difficult, and that is the one organization where speed is incredibly important. You all understand that your audit product has a very short shelf life in a contingency operation. It is very easy to waste a lot of money on an audit in a contingency operation if you cannot get it to the decisionmakers quickly enough. And so when you establish a Special Inspector General for Afghanistan and it takes 18 months to produce the first audit on a contract and the audit portion of that report is four pages, that makes me weep. I mean, something is terribly wrong there.

Now, was there appropriate expertise in place? Clearly not. Did it take them too long to get appropriate expertise in place? Obviously. And if we had a permanent Inspector General on Overseas Contingency Operations, we would not have had that lag time.

Can't you all acknowledge that \$5 million a year is a pretty good investment if we could keep a contingency operation Inspector General office, if we could stand one up and sustain one for the long haul? Because I got to tell you, the irony is—and some of you, I may have told you this before, that in speaking with somebody in the army who was involved in Bosnia, the lessons learned in Bosnia on contracting, they were not learned. We went back to the drawing board in Iraq, and by the time that Mr. Bowen arrived, we had a completely out-of-control Logistics Civil Augmentation Program (LOGCAP) contract with no oversight whatsoever. Nobody had any idea why it was so far over the estimate in its first year of operation, and it took a while. And I think that Cunningham is doing a much better job in Afghanistan than a lot of the folks were

doing in Iraq. And I think we have made improvement. But I am just worried. I mean, I do not have confidence in this agency after this hearing today. And I have a sense that if we had a permanent office I would not have this sinking sensation that we do not have the right leadership and we have missed a lot of audits that should have been done.

Comments?

Mr. HEDDELL. Well, I will, Senator McCaskill. I certainly have great respect for my colleague, Inspector General Bowen, and I never discount anything that he says. But I am not totally convinced—and this is not turf issues for me. I have more than enough work. Quite frankly, I would take any help I could get. But I am not convinced that a Special Inspector General for Contingency Operations is the most effective and efficient way.

There is a difference, if I may say, between the way we have set up SIGIR, Mr. Bowen's operation, and the way we set up SIGAR. When we set up SIGIR, the Department of Defense Inspector General provided 144 auditors and investigators, some full-time, some part-time, for a lengthy period of time. When the Special Inspector General for Iraq Reconstruction (SIGIR) was first set up as Coalition Provisional Authority Inspector General (CPA IG), the DoD IG detailed 27 individuals on a full or part-time basis to SIGIR. In total 138 DoD IG staff members provided audit, investigative, Hotline, information technology, payroll, travel, and other administrative support (full and part-time to the CPA, CPA IG and SIGIR. I am not saying that is why Mr. Bowen was so successful, but I think it got SIGIR off on the right foot.

But on the other side of that coin, that was not done with SIGAR. I am not saying it would have been better. I am not suggesting that there still would not have been hiring and performance problems with SIGAR. What we heard today goes far beyond that.

Senator MCCASKILL. The problems we heard today go far beyond just the ability to stand up quickly.

Mr. HEDDELL. That is correct. But I think what we are talking about right at this moment is what is best for the future, and I think that, for instance, the response by the Inspector General community to Hurricane Katrina, which was a contingency operation, by and large was relatively effective.

Senator MCCASKILL. Right.

Mr. HEDDELL. I think we have the audit and law enforcement expertise in our community at large to respond to contingency operations very effectively. I think it is a little bit of a toss-up as to whether you go the Special IG route, but the inefficiency aspect of it is that if you do that, two things happen: No. 1, you do not have enough people in a Special Inspector General contingency operation on a full-time basis to be able to respond quickly; and, No. 2, the cost of maintaining a force waiting for a contingency to occur.

So until we sit down and I guess figure it all out, to me it is not an efficient proposal.

Senator MCCASKILL. I know all of you probably want to comment on that, and I have a vote that has been called, and I am not going to make you sit here while I go vote and come back, as much as I am tempted to, because I could go on a while. And I know—In-

spector General Bowen and I have discussed this one on one before, and I am a little biased towards his opinion on this. But I certainly will go out of my way to have one-on-one conversation with you, Mr. Geisel, and you, Mr. Carroll, on this subject if we do not have time to get back to it.

But I wanted to ask you, Mr. Carroll, you intimated that or referred to problems in working with the law enforcement end of SIGAR. Now, I find that fascinating since they have now had a CIGIE review of their law enforcement, and it was—as somebody who is a former prosecutor and former auditor, as I read the review of the law enforcement problems, I was really surprised that basics had not been done. Are they trying to assert primary jurisdiction even after CIGIE has said that they are so far out of compliance with the government standards of investigation?

Mr. CARROLL. Yes.

Senator MCCASKILL. That is outrageous. That is outrageous. And I will follow up. I think our office needs to follow up and ask some significant questions. It takes a lot of nerve for an investigative agency to assert primary jurisdiction over AID after independent peer review has determined they are not in compliance with government investigative standards. And so I would be irritated, if I were you, if they were trying to step on you. I would really be irritated if they are trying to step on you after they are only one of 51 agencies looked at—of 52 agencies looked at that were not in compliance with the government standards of investigations. So I am glad that you have indicated that to me.

I have to make a vote by 6:15 p.m. Please, if there is anything that I have not asked that I should have, I implore you to give us that information as we look at this issue. You all are the front line of probably the most challenging audit environment that exists in the world in Afghanistan right now. The enemy we are fighting is, yes, it is Taliban, yes, it is al Qaeda, but it is, make no mistake about it, a culture of corruption. And the American people have no idea how much money is probably walking away from its intended purpose in Afghanistan.

So please convey to the men and women who work for all of you, and we will probably have another opportunity at a hearing, Mr. Bowen, before the end of the line in Iraq, but please convey to all the people that have worked in Iraq what—we spend a lot of time praising the men and women in uniform, as we should. And I do not think enough people realize that there are men and women that are putting their lives in danger with very difficult work in a very challenging environment. So please convey to all of your staffs the appreciation of the American people for the work they are doing. It is essential. It is very important to the safety and security of this Nation.

So thank you for your attendance today, and this hearing is adjourned.

[Whereupon, at 6:09 p.m., the Subcommittee was adjourned.]

A P P E N D I X



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Testimony

Before the Subcommittee on Contracting Oversight
Committee on Homeland Security and Governmental
Affairs
United States Senate

Hearing on the Oversight of Reconstruction Contracts in Afghanistan and the Role of the Special Inspector General

Statement of Jon T. Rymer
Inspector General
Federal Deposit Insurance Corporation

**STATEMENT OF JON T. RYMER, INSPECTOR GENERAL
Federal Deposit Insurance Corporation
on
Oversight of Reconstruction Contracts in Afghanistan and the Role of the
Special Inspector General**

**Subcommittee on Contracting Oversight
Committee on Homeland Security and Governmental Affairs
United States Senate**

November 18, 2010

Chairman McCaskill, Mr. Brown, and Members of the Subcommittee:

My name is Jon T. Rymer, and I am the Inspector General (IG) for the Federal Deposit Insurance Corporation (FDIC). I was sworn in as the second presidentially appointed-Senate confirmed IG for the FDIC, on July 5, 2006. As the FDIC IG, I am responsible for promoting the economy, efficiency, and effectiveness of FDIC programs and operations, and protecting against fraud, waste, and abuse. My office conducts audits, evaluations, and investigations and, in doing so, we augment the FDIC's contribution to stability and public confidence in the nation's financial system.

During the economic crisis over the past 2 years, my office has played the vital and legally required role of explaining why 71 FDIC-supervised banks failed and how supervision of these banks could have been improved. We have done so through the issuance of material loss review reports for these failures. In addition, my office is responsible for providing audit and investigative oversight of the FDIC's programs to manage the fall-out of the more than 300 banks that have failed within the entire banking system. The FDIC is currently managing 306 receiverships with \$34.8 billion in assets, and through purchase and assumption agreements with acquiring institutions, the FDIC is engaged in 199 loss share agreements covering \$187.1 billion in assets, where the FDIC agrees to absorb a portion of the loss. The Corporation's overall exposure in these areas is significant, and strong, focused oversight by my office to ensure that the FDIC has controls in place to mitigate risk and ensure integrity is critical. To date we have issued six reports addressing resolution and receivership matters.

From an investigative standpoint, during the past fiscal year, our cases involving bank fraud at both open and closed institutions have resulted in 109 convictions, 168 indictments/informations, and potential monetary recoveries of more than \$221 million. We coordinate closely with the Department of Justice; the Federal Bureau of Investigation; financial regulatory agency investigators; and other federal, state, and local law enforcement colleagues in conducting our work.

Prior to my public service as an IG, I was an executive in the banking industry and later worked as a director for a large accounting firm, where I provided services to clients related to process improvement and internal auditing. I have also served for 30 years in the active and reserve components of the U.S. Army.

Since July 2008, I have chaired the Audit Committee of the Council of the Inspectors General on Integrity and Efficiency (CIGIE).¹ The Audit Committee provides leadership to, and serves as a resource, for the Federal audit community. As it relates to this hearing, the Audit Committee administers the community's audit organization peer review program and maintains the community's guide for conducting audit organization peer reviews. Since May 2009, I have been a member of the Comptroller General's Advisory Council on Government Auditing Standards serving a 3-year term.

As noted in your invitation letter, the purpose of today's hearing is to examine the role of the Special Inspector General for Afghanistan Reconstruction (SIGAR) in providing independent oversight of reconstruction contracts in Afghanistan. You asked that my testimony address the recent CIGIE peer evaluation of SIGAR, and specifically the part of the report related to SIGAR's conduct of audits. My written statement is responsive to your request.

SIGAR's Request for Assistance

On February 24, 2010, the CIGIE Chair received a letter from SIGAR requesting that CIGIE conduct a peer evaluation of SIGAR's operations to determine whether it has established appropriate work standards; policies, procedures, and management structures to meet those standards; and a team of highly qualified experts to conduct the level and quality of oversight that the Congress intended and the taxpayer expects. In his letter, the IG specifically asked CIGIE to examine aspects of his office's audit, investigative, and support operations to assist him in identifying improvements that should be made to ensure that SIGAR was moving in the right direction. Such a request for an independent evaluation was unique in the history of the IG community.

The CIGIE Chair convened the CIGIE Executive Council, of which, as Chair of the CIGIE Audit Committee, I am a member, to discuss SIGAR's request and decide on an approach. Through these discussions, the CIGIE Executive Council determined that conducting three separate yet coordinated reviews following a standards-based approach would provide SIGAR with the useful, appropriate, and meaningful information it was requesting. In the interest of leveraging resources, we assembled a multi-disciplined group of professionals from seven OIGs² to participate on one of the three reviews, as follows:

- To examine SIGAR's audit organization, we opted to conduct an audit peer review in accordance with CIGIE's *Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General* (Audit Peer Review Guide),

¹ In July 2008, I became the Chair of the Audit Committee for the President's Council on Integrity and Efficiency. With the enactment of the Inspector General Reform Act of 2008 in November 2008, which created the Council of the Inspectors General on Integrity and Efficiency (CIGIE), I transitioned over as interim Chair of the CIGIE Audit Committee. In April 2009, I was elected by my peers as Chair of the CIGIE Audit Committee for a 2-year term.

² The 26 group members are managers, auditors, and investigators representing Offices of Inspector General from the Department of Defense, Federal Deposit Insurance Corporation, Department of the Interior, Department of State, Tennessee Valley Authority, U.S. Department of Agriculture, and U.S. Agency for International Development.

based on requirements in the *Government Auditing Standards* (Yellow Book). As Chair of the CIGIE Audit Committee, I led this project and issued a separate report.

- To examine SIGAR's investigative operations, we opted to conduct a quality assessment review to assess compliance with the PCIE/ECIE Quality Standards for Investigations and applicable Attorney General's Guidelines.³ The Chair of the CIGIE Investigations Committee and IG at the Tennessee Valley Authority, Richard Moore, led that project and issued a separate report.
- To review the other management and support operations not covered by either peer review, we used the standards contained in the IG community's *Quality Standards for Offices of Inspector General* (Silver Book)⁴ as a foundation for the review and as criteria from which to offer suggestions for improvement. The Silver Book standards set forth the overall approach for managing, operating, and conducting the work of Offices of Inspector General (OIG), and in the review team's opinion, provided a comprehensive and objective basis for conducting a review of this type. We consolidated the results of this review and the audit and investigative peer reviews into one report that Mr. Moore and I signed and issued on August 10, 2010. We request that the overall peer evaluation report be included as part of the hearing record.

In my statement, I will generally discuss the overall peer evaluation and then focus more specifically on the audit peer review. I will not be addressing the quality assurance review on SIGAR's investigative operations, as Mr. Moore plans to discuss it in his testimony.

Peer Evaluation of SIGAR

Per SIGAR's request of February 24, 2010, the overall objective of the peer evaluation was to identify opportunities for SIGAR to improve its management, audit, investigative, and support operations required to provide effective oversight commensurate with reconstruction funding levels and risk. The scope of this evaluation included SIGAR's operations from its enabling legislation in 2008 forward. We began the peer evaluation and both peer reviews with an entrance conference at SIGAR on April 2, 2010. Over the next 4 months, the review teams performed work in Arlington, Virginia, and Kabul, Afghanistan.

As noted above, the audit peer review team focused on SIGAR's audit organization, and the investigative peer review team focused on SIGAR's investigative operations. The third team performed a management and operations review of SIGAR encompassing activities not subject to either of these peer reviews. Using the Silver Book as overarching criteria, this third team based its review on the following nine quality standards: ethics, independence, and

³ For purposes of the investigative quality assurance review, the Attorney General Guidelines include the Attorney General Guidelines for Offices of Inspector General with Statutory Law Enforcement Authority (2003), Attorney General's Guidelines for Domestic Federal Bureau of Investigation Operations (2008), and Attorney General's Guidelines Regarding the Use of Confidential Informants (2002).

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confidentiality; professional standards; internal controls; quality assurance; planning and coordinating; communicating results; managing human capital; reviewing legislation and regulations; and receiving and reviewing allegations.

The Silver Book does not set forth prescriptive requirements for federal Inspectors General, because the needs of each OIG can vary significantly due to differences in the activities of their host agencies. As such, this third review team did not opine on “compliance” or “performance,” but rather evaluated, based on the team’s collective knowledge and experience, whether SIGAR’s practices aligned with Silver Book standards and to what extent SIGAR had implemented those practices. The review team did provide suggestions in those circumstances where, in its judgment, improvements could be made or efficiencies achieved.

In conducting this review, we learned early on that SIGAR was very different from our own organizations. First, SIGAR is a young organization that is still working to establish its overall structure and operational policies and procedures and instill the rigor to ensure compliance. Both peer reviews were conducted at least 18 months earlier than such reviews would have been required. Second, SIGAR had the difficult challenge of operating in Afghanistan, which is significantly different from most OIGs who conduct activities exclusively in the United States. While a few other federal OIGs conduct operations in Afghanistan and other dangerous and difficult locations around the globe, we acknowledge that these challenges contribute to the complexity of establishing a new OIG.

In our report, we offered consultative observations for SIGAR to consider according to the nine Silver Book standards. The most significant observations included the need for the following:

- (1) a robust risk assessment and reassessment process, which considers stakeholder input at all levels, to ensure coverage of higher risk areas in audit and investigative strategic planning processes;
- (2) improvements in the area of performance management, including more definition in setting performance targets and a more comprehensive system of monitoring performance;
- (3) development and refinement of audit and investigative processes to address deficiencies and instances of noncompliance; and
- (4) implementation of quality assurance programs to ensure ongoing compliance with professional standards.

Additionally, the audit and investigative peer review reports addressed the professional standards element of the Silver Book and touched on a number of other standards. As appropriate, we discussed certain aspects of the audit and investigative peer reviews in the body of the peer evaluation report.

SIGAR’s written response of August 6, 2010 committed to taking action on the 22 suggestions that we made and indicated that senior management would place emphasis on four specific areas: risk-based planning, correction of the deficiencies identified in the peer reviews, quality assurance, and organizational and individual performance assessment.

In my view, the Silver Book is an especially useful tool to OIGs, as it provides a comprehensive foundation for establishing practices that can enable IGs to successfully address the challenges to their individual missions. Going forward, as we noted in our report, SIGAR should avail itself of the Silver Book guidance and use it to assess and reassess its approach in a number of critical areas as it strives to accomplish its mission.

External Peer Review of SIGAR's Audit Organization

An audit organization should conduct, supervise, and coordinate its audits according to the Yellow Book. In its July 2007 revision, the Yellow Book states that high-quality auditing is essential for government accountability to the public and should provide independent, objective, fact-based, nonpartisan assessments of the stewardship, performance, and cost of government policies, programs, and operations. A system of quality control provides the audit organization with reasonable assurance of conformity with the Yellow Book.

An external peer review is a backward-looking review, requiring a peer review team to examine and opine on the audit organization's system of quality control over a period of time. The Yellow Book requires audit organizations that perform audits in accordance with the Yellow Book to undergo external peer reviews at least once every 3 years. Peer reviews generally cover a one-year period to ensure that there are sufficient reports, policies, and systems to review and test for compliance and arrive at an opinion.

A peer review is not designed to assess the reliability of individual reports. To make such an assessment regarding a specific audit, the peer review team would need to "reaudit" the original work, which would be inefficient and more than likely impossible. Instead, the peer review process within the IG community calls for another OIG to conduct an independent, external peer review to examine the foundation of, and compliance with, the underlying processes that the audit organization follows to conduct its audits and issue its reports. The goal of the peer review is to provide reasonable assurance that the reviewed audit organization has adopted audit processes that are properly designed to produce accurate and reliable information and reports, and the audit organization follows those processes in conducting its work.

Audit organizations receive one of three opinions upon completion of a peer review: *pass*, *pass with deficiencies*, or *fail*. Historically, the vast majority of peer reviews have resulted in a "*pass*" opinion, which means the review team, in issuing its report, has concluded that the system of quality control for the audit organization has been suitably designed and complied with to provide the OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. In cases where audit organizations receive a "*pass*," the review team did not uncover any deficiencies or significant deficiencies during the review, and therefore the report does not discuss any deficiencies or significant deficiencies. Any findings and recommendations are included in a separate letter of comment.

After issuing a peer review report, the review team does not monitor implementation of the report's recommendations. The review team is responsible for maintaining the working papers supporting the review until the next peer review cycle, when a new peer review team begins that review. Under Section 989C of the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act, IGs are required to report semiannually on the status of

recommendations they have made or received as part of their audit and investigative peer review activities.

Peer Review Opinion on SIGAR's Audit Organization

Members of my office led the team conducting the peer review of SIGAR's audit organization, which was done in accordance with the CIGIE peer review guide, and based on Yellow Book requirements. This guide allows the peer review team up to 9 months to conduct the review. My 7-member team, with over 160 years of collective auditing experience, performed this task in less than 4 months. The team reviewed all audit engagements issued through March 31, 2010, and selected administrative files to test for conformity with the Yellow Book and compliance with SIGAR's system of quality control. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

On July 14, 2010, I signed, as both the FDIC IG and CIGIE Audit Committee Chair, the System Review Report, which detailed the results of the external peer review of SIGAR's audit organization in effect for the year ended March 31, 2010. In performing a peer review, the team is responsible for expressing an opinion on the design of the audit organization's system of quality control and its compliance therewith. We believe the process we followed and the procedures we performed provided a reasonable basis for our opinion of SIGAR's audit organization as *pass with deficiencies*.⁵

Specifically, we concluded that SIGAR's system of quality control was suitably designed, because the draft policies and procedures in effect during the period under review adequately covered areas required by the Yellow Book. To guide the audit organization from the start, SIGAR adopted, for the most part, the policies and procedures of the Special Inspector General for Iraq Reconstruction and operated using those policies from February to May 2009. In May 2009, SIGAR formally issued its own draft audit policies and procedures manual, which it updated and issued in final form on March 27, 2010. SIGAR performed audit work and issued the reports covered in our review pursuant to the draft versions of the manual.

However, SIGAR's compliance with these policies and procedures was inconsistent and incomplete. The audit peer review team specifically identified five deficiencies in the audit organization's practices that could create situations in which SIGAR would have less than reasonable assurance of performing and reporting on audits in conformity with the Yellow Book and its policies and procedures. A deficiency is one or more findings that the review team has concluded, due to the nature, causes, pattern, or pervasiveness, including the relative importance

⁵ According to the Audit Peer Review Guide, a report with a peer review rating of *pass with deficiencies* should be issued when the review team concludes that the system of quality control for the audit organization has been suitably designed and complied with to provide the reviewed OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects with the exception of a certain deficiency or deficiencies that are described in the report. These deficiencies are conditions related to the audit organization's design of and compliance with its system of quality control that could create a situation in which the reviewed OIG would have less than reasonable assurance of performing and/or reporting in conformity with applicable professional standards in one or more important respects due to the nature, causes, pattern, or pervasiveness, including the relative importance of the deficiencies to the quality control system taken as a whole.

of the finding to the audit organization's system of quality control taken as a whole, could create a situation in which the audit organization would not have reasonable assurance of performing and/or reporting in conformity with applicable professional standards in one or more important respects.

In its response to our draft report, SIGAR concurred with the results of this peer review and committed to implementing corrective actions to overcome each of the following deficiencies.

Deficiencies Noted in SIGAR's Compliance with Its System of Quality Control

Implementing a Quality Assurance Program

First, SIGAR had not implemented a quality assurance program. The Yellow Book considers monitoring of quality as an ongoing, periodic assessment of work completed on audits and provides that an audit organization should analyze and summarize results of its monitoring procedures at least annually, to identify any systemic issues needing improvement and recommend corrective actions. A quality assurance program ensures that work performed adheres to established policies and procedures; meets established standards of performance, including applicable professional standards; and is carried out economically, efficiently, and effectively.

SIGAR's policies and procedures in effect over the period of our review did not expressly provide for a quality assurance program and those responsibilities were not being performed. As such, SIGAR had not conducted any quality assurance reviews for our team to review. However, during our review, SIGAR reassigned a Senior Audit Manager to the newly established position of Quality Control Director and issued a directive, which provides that the Quality Control Director develop a plan to inspect, at least annually, a sample of reports and summarize the results.

At the review close-out meeting, SIGAR's audit leadership advised that a quality assurance program had not been implemented sooner due to demands for productivity and timely issuance of audit reports. At that meeting, we learned that a process for reviewing quality control files of completed audits had begun and that one review had been completed. We also learned that SIGAR was planning to summarize these reviews in a quarterly report to identify any systemic issues needing improvement along with recommendations for corrective action.

To address this deficiency, we offered two recommendations. First, we recommended that as part of the emerging quality assurance program, the audit organization should use the CIGIE peer review guide performance audit checklist as a methodology for quality assurance reviews of completed audits. Second, we recommended that SIGAR, in order to meet the Yellow Book's requirement for the audit organization to annually summarize its monitoring efforts, solicit input from auditors-in-charge and referencers to identify any systemic issues needing improvement and take appropriate corrective action. SIGAR concurred with and provided a plan for implementing both recommendations.

Audit Planning

The second deficiency related to audit planning, which is critical to the audit process. The audit plan provides the roadmap to conclude on audit objectives and reduces audit risk to an appropriate level to provide reasonable assurance that the evidence is sufficient and appropriate

to support the auditors' findings, conclusions, and recommendations. During our review, we noted two particular areas where policies and procedures related to audit planning had been established but were not being consistently followed.

One area dealt with the requirement that the four planning elements for internal control; computer-processed data; compliance with laws, regulations, and provisions of contracts; and fraud risk be considered to determine their significance to the audit objectives. When significance is established, auditors are required to plan procedures and obtain sufficient, appropriate evidence to support their conclusions. SIGAR's policies and procedures include this requirement, but compliance was inconsistent. In the 10 audit plans supporting the 12 audits we reviewed, 5 of the 10 did not have evidence that these elements were considered.

The second area involved the requirement that audit plans be approved prior to the conduct of significant fieldwork. Approving plans for individual audits ensures that all responsible for the audit are clear on its objectives, scope, and methodology, and helps reduce audit risk to an appropriate level for auditors to provide reasonable assurance that the evidence is sufficient and appropriate to support the auditors' findings and conclusions. The peer review found that for 10 of the issued reports, 8 of the audit plans were never approved and 2 others were approved 4 days and 31 days before the final report issuance date. At the close-out meeting, SIGAR audit organization representatives commented that there were usually no formal meetings to specifically support audit plan development and that they chose to focus on productivity rather than implementing quality control activities. The representatives continued that they were aware of these issues and have adopted a current process providing for audit plan development based on meetings, staff input, and formal approval.

The team made one recommendation related to audit planning and SIGAR concurred. Specifically, we recommended that the head of the audit organization reiterate to the audit staff the requirements associated with (1) considering whether the four planning elements are significant to the audit objective and (2) approving audit plans prior to conducting significant fieldwork.

SIGAR advised that it would implement this recommendation by emphasizing in writing through a memo to existing staff and as part of the in-process briefing for future staff, and orally at the next staff meeting the importance of its audit planning requirements. In addition, as part of quality assurance program, the Quality Control Director would review the audit plan for each engagement to ensure that the requirements would be met.

Documentation and Supervision

Documentation and supervision was the third deficiency noted in our review. The SIGAR policies and procedures manual states that audit documentation are records developed while performing an audit, which provide sufficient detail to enable an experienced auditor having no previous connection to the audit to understand from the audit documentation the nature, timing, extent, and results of audit procedures performed; the audit evidence obtained and its source; and the conclusions reached, including evidence supporting the auditors' significant judgments and conclusions. SIGAR's manual also states that audit documentation should include appropriate identifying information and receive from those supervising the audits a review to ensure compliance with professional standards and overall sufficiency and appropriateness of evidence.

Incomplete audit documentation can reduce the effectiveness of audit supervision and other quality control measures designed to ensure that findings, conclusions, and recommendations are supported.

During our review, we noted that audit documentation for one-third of the audits we reviewed was not prepared and organized consistent with SIGAR's policies and procedures manual. As such, we recommended that the head of the audit organization take steps to enforce adherence to SIGAR's manual and quality control system and place increased emphasis on ensuring that (a) audit documentation clearly indicates the nature, timing, and extent of audit procedures, consistent with Yellow Book requirements and (b) supervisory review of the audit work that supports the findings, conclusions, and recommendations occurs and is documented.

The head of the audit organization concurred on the recommendation and committed to several enhancements. First, he planned to communicate the importance of adhering to the manual at the next staff meeting and in a memo to existing staff and all future staff as part of their in-processing package. In addition, the head of the audit organization expected his office's development and deployment of a document management system would allow secure, timely, accurate transfer and storage of data files between Arlington, Virginia and Kabul, Afghanistan, and improve documentation capabilities. He continued that having an effective document management system and hiring additional audit managers would help to ensure that audit documentation procedures were followed and supervisory review of the audit work had occurred and been documented. Finally, the head of the audit organization advised that the Quality Control Director would review audit documentation for each engagement to ensure that the proper supervisory steps were taken.

Reporting

The fourth deficiency cited by the peer review team related to reporting. As with the last two deficiencies, SIGAR's policies and procedures manual detailed the requirements, according to professional standards. However, as previously noted under the other deficiencies, SIGAR's compliance with its own requirements fell short. As it relates to reporting, SIGAR's manual requires that (1) audit objectives be communicated in a clear, specific, neutral, and unbiased manner; (2) all four finding elements (i.e., criteria, condition, cause, and effect) be described in the report; (3) recommendations logically flow from findings and conclusions and clearly state the corrective action to be taken; and (4) reports include an explanation of any significant internal controls assessed, the scope of the assessment work, and any significant deficiencies. When auditors meet these requirements, readers of an audit report will be presented with a clear and concise summarization of the audit process, findings, conclusions, and recommendations.

Our review determined that SIGAR's audit reports were not always prepared in accordance with its manual. Specifically we found that objectives for half of SIGAR's issued reports were not expressed in a clear and concise manner, the 4 finding elements necessary to address objectives were not clearly presented in 7 of the 12 reports, recommendations did not flow logically from findings and conclusions in 6 of those 7 reports, and the scope of work on internal control was not described in any of the 12 issued reports.

In connection with this deficiency, we made two recommendations advising SIGAR to consistently follow its own policies and procedures as they relate to the reporting issues that we

noted. The head of the audit organization concurred on our recommendations and advised that he would communicate the importance of reporting in a memo to staff and at the next staff meeting. He also advised that the recent hire of a writer/editor and the planned hire of a report reviewer could support the audit organization in mitigating the findings associated with this deficiency.

Independent Referencing

The last deficiency we noted involved independent referencing. SIGAR's policies and procedures manual provides that independent referencing is an integral part of the audit quality control process that helps to ensure the draft and final reports are accurate and adequately supported by the audit documentation. In our review, we found that independent referencing was not completed for five audits.

The leadership of the audit organization acknowledged that early in SIGAR's history, other pressing priorities prevented a strong commitment to complete independent referencing reviews. We were advised that difficulties in independent referencing also resulted from hiring staff from various agencies with varying experiences and understandings of the referencing process, and conducting work in two locations (and time zones). Going forward, SIGAR audit organization leadership asserted that reports would not be issued without completed independent referencing reviews.

The peer review team had two recommendations related to independent referencing. Specifically, we recommended that the head of the audit organization (1) reiterate the manual requirements for completing the independent referencing process for draft and final reports and (2) provide independent referencer training to audit staff and develop and implement an independent referencer checklist to help ensure that audit quality initiatives are met.

As with all of the peer review team's recommendations, SIGAR concurred with the two recommendations related to independent referencing. The head of the audit organization committed to reiterating the independent referencing requirements to audit staff at the next staff meeting and in a memo to staff and including a referencing module in the 2-day training for auditors scheduled for August 2010. He noted that a referencing checklist would be developed by September 30 to help ensure audit quality, and he was considering hiring a full-time auditor dedicated to referencing.

Follow-up Review

Last month, the CIGIE Chair forwarded a letter to me related to our peer evaluation of SIGAR. In this letter, the IG for SIGAR was looking to schedule, as was suggested in the peer evaluation, a follow-up review of his audit organization to address the extent to which the audit organization had implemented the specific recommendations as a result of the peer review. As noted earlier, the CIGIE Audit Committee administers the peer review program for most OIGs and manages the scheduling process.

On November 8, I recommended a two-step approach for the SIGAR audit organization in my response to SIGAR. First, my office will conduct a focused, limited-scope review to specifically describe and assess SIGAR's progress in implementing the recommendations in the system

review report. I advised that this review would not qualify as an external peer review of SIGAR's audit organization. We began this limited scope review on November 15.

As the second step to this approach, in my role as CIGIE Audit Committee Chair, I will include the scheduling of SIGAR's next full-scope peer review in the Committee's update of the IG community's peer review schedule. As I mentioned, a peer review generally covers a one-year period to ensure that there are sufficient reports, policies, and systems to review and test for compliance and arrive at an opinion. As such, SIGAR's next audit peer review should commence around October 1, 2011, and cover the period October 1, 2010, the effective date of the audit organization's new policies and procedures, through September 30, 2011.

Concluding Remarks

SIGAR's request for this peer evaluation and supporting peer reviews was unprecedented and warranted a unique approach. Despite competing demands and the challenges that our individual offices face, I believe that we responded in a professional manner, conducted a thorough and appropriate review, and provided SIGAR with useful and meaningful information.

We are thankful to the group members for volunteering to participate in these efforts, for the expertise they brought to bear, and for the collaborative and professional manner in which they approached their work. We appreciate the support of their IGs in this endeavor. We also appreciate the courtesy and cooperation extended to us by SIGAR and SIGAR staff, and the assistance of members of the OIGs of the Department of Defense, Department of State, and U.S. Agency for International Development who facilitated our travel to and work in Afghanistan.

This concludes my testimony. I am available to answer any questions that you might have.



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November 18, 2010

Testimony

Before the Subcommittee on Contracting Oversight
Committee on Homeland Security and Governmental Affairs
United States Senate

Hearing on the Oversight of Reconstruction Contracts in Afghanistan and the Role of the Special Inspector General

Statement of The Honorable Richard W. Moore
Inspector General
Tennessee Valley Authority

STATEMENT OF THE HONORABLE RICHARD W. MOORE, INSPECTOR GENERAL
Tennessee Valley Authority
on
Oversight of Reconstruction Contracts in Afghanistan and the Role of the
Special Inspector General

Subcommittee on Contracting Oversight
Committee on Homeland Security and Governmental Affairs
United States Senate

November 18, 2010

Chairman McCaskill, Mr. Brown, and Members of the Subcommittee:

My name is Richard W. Moore, and I am the Inspector General (IG) for the Tennessee Valley Authority (TVA). I was sworn in as the first presidentially appointed-Senate confirmed IG for TVA, on May 9, 2003. As the TVA IG, I am responsible for promoting the economy, efficiency, and effectiveness of TVA's programs and operations, and protecting against fraud, waste, and abuse. My office conducts audits, evaluations, and investigations and in doing so, we help make the Nation's largest public power producer better.

Prior to my appointment as an Inspector General, I was an Assistant United States Attorney in the Southern District of Alabama where I prosecuted primarily white collar fraud cases, many involving crimes against federal programs. I served as the Senior Litigation Counsel for many years and for a time as the Chief of the Criminal Division. It was my pleasure to work collaboratively with special agents from most of the federal law enforcement agencies including the FBI, DEA, IRS, and the U.S. Customs Service.

Since May of 2009, I have chaired the Investigation Committee of the Council of the Inspectors General on Integrity and Efficiency (CIGIE). The Investigations Committee provides leadership to and serves as a resource for the Federal investigation community. As it relates to this hearing, the Investigations Committee administers the community's investigations peer review program and maintains the community's guide for conducting investigations peer reviews.

As noted in your invitation letter, the purpose of today's hearing is to examine the role of the Special Inspector General for Afghanistan Reconstruction (SIGAR) in providing independent oversight of reconstruction contracts in Afghanistan. You asked that my testimony address the recent CIGIE peer evaluation of SIGAR. This written statement is responsive to your request.

SIGAR's Request for Assistance

On February 24, 2010, the CIGIE Chair received a letter from General Arnold Fields, Inspector General for SIGAR requesting that CIGIE conduct a peer evaluation of SIGAR's operations to determine whether it has established appropriate work standards; policies, procedures, and management structures to meet those standards; and a team of highly qualified experts to conduct the level and quality of oversight that the Congress intended and the taxpayer expects. In his letter, the Inspector General for SIGAR specifically asked CIGIE to examine aspects of his office's audit, investigative, and support operations to assist him in identifying improvements that should be made to ensure that SIGAR was moving in the right direction. Such a request was unique in the history of the IG community in that it included more than the typical peer reviews.

The CIGIE Chair convened the CIGIE Executive Council, of which, as Chair of the CIGIE Investigations Committee, I am a member, to discuss SIGAR's request and decide on an approach. Through these discussions, the CIGIE Executive Council determined that conducting three separate yet coordinated reviews following a standards-based approach would provide SIGAR with the useful, appropriate, and meaningful information it was requesting. In the interest of leveraging resources, we assembled a multi-disciplined group of professionals from seven OIGs¹ to participate on one of the three reviews, as follows:

- To examine SIGAR's audit organization, we opted to conduct an audit peer review in accordance with CIGIE's *Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*, based on requirements in the *Government Auditing Standards* (Yellow Book). As Chair of the CIGIE Audit Committee, my colleague Jon Rymer, Inspector General, FDIC, led this project and issued a separate report. He will address that report in both his written testimony and his testimony before this Committee.
- To examine SIGAR's investigative operations, we opted to conduct a quality assessment review to assess compliance with the PCIE/ECIE Quality Standards for Investigations and applicable Attorney General's Guidelines.² As the Chair of the CIGIE Investigations Committee and IG at the Tennessee Valley Authority, my office led that project and issued a separate report. We request that this report be included as part of the hearing record.
- To review the other management and support operations not covered by either peer review, we used the standards contained in the IG community's *Quality Standards for Offices of Inspector General* (Silver Book)³ as a foundation for the review and as criteria from which to offer suggestions for improvement. The Silver Book standards set forth the overall approach for managing, operating, and conducting the work of Offices of Inspector General (OIG), and in the review team's opinion, provided a comprehensive and objective basis for conducting a review of this type. We consolidated the results of this review and the audit and investigative peer reviews into one report which Mr. Rymer and I signed and issued on August 10, 2010. We request that overall peer evaluation report be included as part of the hearing record.

Peer Evaluation of SIGAR

Per SIGAR's request of February 24, 2010, the overall objective of the peer evaluation was to identify opportunities for SIGAR to improve its management, audit, investigative, and support operations required to provide effective oversight commensurate with reconstruction funding levels and risk. The scope of this evaluation included SIGAR's operations from its enabling legislation in 2008 forward. We began the peer evaluation and both peer reviews with an entrance conference at SIGAR on April 2, 2010. Over the next four months, the review teams performed work in Arlington, Virginia, and Kabul, Afghanistan.

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As noted above, the audit peer review team focused on SIGAR's audit organization and the investigative peer review team focused on SIGAR's investigative operations. The third team performed a management and operations review of SIGAR encompassing activities not subject to either of these peer reviews. Using the Silver Book as overarching criteria, this third team based its review on the following nine quality standards: ethics, independence, and confidentiality; professional standards; internal controls; quality assurance; planning and coordinating; communicating results; managing human capital; reviewing legislation and regulations; and receiving and reviewing allegations.

The Silver Book does not set forth prescriptive requirements for federal Inspectors General, because the needs of each OIG can vary significantly due to differences in the activities of their host agencies. As such, this third review team did not opine on "compliance" or "performance," but rather evaluated, based on the team's collective knowledge and experience, whether SIGAR's practices aligned with Silver Book standards and to what extent SIGAR had implemented those practices. The review team did provide suggestions in those circumstances where, in their judgment, improvements could be made or efficiencies achieved.

In conducting this review, we learned early on that SIGAR was very different from our own organizations. First, SIGAR is a young organization that is still working to establish its overall structure and operational policies and procedures and instill the rigor to ensure compliance. Both peer reviews were conducted at least 18 months earlier than such reviews would have been required. Second, SIGAR had the difficult challenge of operating in Afghanistan, which is significantly different from most OIGs who conduct activities exclusively in the United States. While a few other federal OIGs conduct operations in Afghanistan and other dangerous and difficult locations around the globe, we acknowledge that these challenges contribute to the complexity of establishing a new OIG.

Our reviews, however, made no allowance for any unique difficulties presented by operating in a hostile war environment. SIGAR was held to the same standards that any other federal inspector generals office would be held including those offices who currently operate along with SIGAR in Afghanistan.

In our report, we offered consultative observations for SIGAR to consider according to the nine Silver Book standards. The most significant observations included the need for:

- (1) A robust risk assessment and reassessment process, which considers stakeholder input at all levels, to ensure coverage of higher risk areas in audit and investigative strategic planning processes;
- (2) Improvements in the area of performance management, including more definition in setting performance targets and a more comprehensive system of monitoring performance;
- (3) Development and refinement of audit and investigative processes to address deficiencies and instances of noncompliance; and
- (4) Implementation of quality assurance programs to ensure ongoing compliance with professional standards.

Additionally, the audit and investigative peer review reports addressed the professional standards element of the Silver Book and touched on a number of other elements. As appropriate, we included certain aspects of the audit and investigative peer reviews in the body of the peer evaluation report.

SIGAR's written response of August 6, 2010, committed to taking action on the 22 suggestions that we made, and indicated that senior management will place emphasis on four specific areas: risk-based planning, correction of the deficiencies identified in the peer reviews, quality assurance, and organizational and individual performance assessment.

In our view, the Silver Book is an especially useful tool to OIGs, as it provides a comprehensive foundation for establishing practices that can enable IGs to successfully address the challenges to their individual missions. Going forward, as we noted in our report, SIGAR should avail itself of the Silver Book guidance and use it to assess and reassess its approach in a number of critical areas as it strives to accomplish its mission.

External Peer Review of SIGAR's Investigations Organization

The investigation peer review resulted in a determination that SIGAR was not in compliance with the peer review standards applicable to all statutory OIGs. The two possible outcomes of an investigation peer review are a determination that an organization is "in compliance" or "not in compliance" with relevant standards. The peer review determined that from the inception of SIGAR to April 16, 2010, the safeguards and management procedures in SIGAR did not provide reasonable assurance of conforming with professional standards in the conduct of its investigations. This determination was based on ten findings attached to the report dated July 9, 2010. The immediate consequence of this determination was that as Chairman of the CIGIE Investigations Committee I forwarded the report to the Attorney General to consider whether SIGAR's law enforcement powers should be suspended, pending correction of the identified deficiencies. The investigative peer review team believes that these deficiencies, while significant, can be remedied by SIGAR over time, given the commitment of SIGAR's investigative staff to implement the required policies and procedures.

Perhaps the one choice having the greatest impact on SIGAR's investigative operations during the review period was the decision not to actively hire investigators and put them in the field until one certain candidate for the Assistant Inspector General for Investigations position was hired. In the end, that candidate was not hired, and SIGAR's investigative productivity was adversely impacted for almost a year. Currently, however, SIGAR's agents work jointly with other agents on the International Contract Corruption Task Force in Afghanistan and are making a valuable contribution in the effort to combat fraud. SIGAR generally concurred with the findings included in the peer review report.

Comparatively speaking, SIGAR is a young organization that is still working to establish its overall structure and operational policies and procedures and instill the rigor to ensure compliance. It is important to note that both peer reviews were conducted at least 18 months earlier than such reviews would have been required. We believe the results of the peer reviews, which utilize standards that are intended to be applicable to more mature organizations, reflect, in part, SIGAR's relatively recent establishment. Nevertheless, we also believe these reviews provide valid assessments of SIGAR's audit and investigative functions, as of the end of their respective review periods, and provide valuable insight into key areas where SIGAR's operations can be enhanced and improved.

Acknowledgements

The Peer Evaluation of the Special Inspector General for Afghanistan Reconstruction is attached to my written testimony as Appendix A. We refer to this report as a "capstone report" as it provides an over-arching framework for assessing SIGAR. The capstone report done pursuant to the Silver Book has relevant attachments including the Report on the Quality Assessment Review of the Investigative Operation of SIGAR designated as "Appendix V."

As Chairman of the CIGIE Investigations Committee, I had oversight responsibilities for the peer review of SIGAR's investigations operations. The real work of the review, however, was done by Special Agent in Charge Paul Houston, TVA Office of Inspector General, and his team which consisted of special agents from several OIG offices including, the Department of Defense, the Department of State, the Department of the Interior, the Department of Agriculture and the Agency for International Development. I am grateful for their contributions to this review as well as the Inspectors General who made it possible for them to serve.

I want to particularly acknowledge Christopher Fair, DCIS, who provided invaluable insights and assistance to me as the representative of the investigations peer review team when we traveled to Afghanistan in June of 2010. His previous "in country" experience and appreciation for conducting investigations in a wartime environment afforded me the context needed to properly evaluate SIGAR's investigations work in Afghanistan. I also want to acknowledge the professional courtesies extended to the team by SIGAR's staff in Kabul during our review of SIGAR's investigative unit. They were fully cooperative and made our brief stay in Kabul more productive.

The capstone report done pursuant to the Silver Book was ably led by my Deputy, Ben Wagner. His team included representatives from several OIG offices including, the Department of Defense, the FDIC, the Department of the Interior, the Department of State, the Tennessee Valley Authority, U.S. Agency for International Development, and the Department of Agriculture.

The review of SIGAR was a joint effort with my colleague Jon Rymer, Inspector General at FDIC and Chairman of the CIGIE Audit Committee. The Tennessee Valley Authority Office of Inspector General and the FDIC Office of Inspector General provided the bulk of the coordination necessary to insure that the three reports (audit, investigations, and capstone) were issued timely and professionally. While peer reviews within the federal inspector general community are routine, the review of SIGAR was unique and required extraordinary expertise and focus. Our staffs met that challenge and any value in our reports results from their leadership and dedication.

Finally, this review was the official product of the Council of Inspectors General for Integrity and Efficiency and not the work of any particular IG office. Phyllis Fong, Chair of CIGIE and Inspector General for the Department of Agriculture provided extraordinary leadership in responding to the challenges presented by the SIGAR review. CIGIE has been well served by her dedication to a professional process.

Follow-On Review

The Peer Evaluation of the Special Inspector General for Afghanistan Reconstruction dated August 2010 suggested that SIGAR request follow-up reviews "when appropriate." General Fields has made that request in a letter dated October 29, 2010, addressed to the Chair of CIGIE (see Appendix B). As Chairman of the CIGIE Investigations Committee, I responded to General Fields in a letter dated November 9, 2010 (see Appendix C).

As set forth in my letter to General Fields, the follow-on review will not serve as an external peer review of SIGAR's investigations component. The investigations peer review that was conducted during the summer of 2010 was backward-looking review requiring the team to examine and opine on the investigation component's system of quality control over a period of time. Peer reviews generally cover a one-year period to ensure that there are sufficient investigative reports, policies, and systems to review and test for compliance and arrive at an opinion. Therefore, the findings of the Report on the Quality Assessment Review (QAR) for the Investigative Operation of SIGAR dated July 2010 will not change regardless of the results of the follow-on review.

As I have noted previously, because the QAR resulted in a determination that SIGAR was not in compliance with the applicable standards, and particularly the Attorney General guidelines, I notified Attorney General Eric Holder by letter dated July 15, 2010, that SIGAR was not in compliance. It is the Attorney General's responsibility to determine if SIGAR's law enforcement powers should be suspended or rescinded.

I have been advised by a representative of the Justice Department that no decision has been made by the Attorney General on this matter and none will until the results of the follow-on review are known. I anticipate that it will take two agents from the original review team 2 to 3 days to conduct the field work at SIGAR's headquarters in Arlington, Virginia, and the written report will be available in early December 2010. I will provide the results of the follow-on review to the Department of Justice as requested.

As I noted in my letter to the Attorney General in July 2010, the review team concluded that while the 10 reportable findings that resulted in a determination of noncompliance were substantial, SIGAR was capable of curing those deficiencies and exhibited every intent to do so.

Concluding Remarks

This concludes my testimony. I am available to answer any questions that you may have.

Testimony of Arnold Fields
Special Inspector General for Afghanistan Reconstruction
Before the
Subcommittee on Contracting Oversight
Committee on Homeland Security and Government Affairs
Oversight of Reconstruction in Afghanistan and the Role of the Special
Inspector General
November 18, 2010

Madame Chairman, Senator Brown, and Members of the Committee:

Thank you for this opportunity to discuss SIGAR's work. This Committee has been instrumental in the vital effort to improve U.S. contracting practices. We share your commitment to contract oversight and to protecting the growing U.S. investment in Afghanistan's security and stability.

The U.S. engagement in Afghanistan is now in its 10th year. Since 2002, the United States has invested over \$56 billion dollars in the reconstruction of Afghanistan. President Obama has requested an additional \$16.2 billion dollars for FY 2011. That would bring the total reconstruction funding to more than \$72 billion, surpassing the \$57 billion that the Congress has appropriated for Iraq's reconstruction.

Since receiving full funding in June 2009, SIGAR has moved aggressively to fulfill its Congressional mandate to conduct, supervise, and coordinate audits and investigations of programs, operations, and contracts utilizing reconstruction funds. We have conducted audits and investigations in 22 of Afghanistan's 34 provinces.

Over the last 18 months, SIGAR has issued 34 audit reports and made more than 100 recommendations. We made 23 recommendations just in the last five reports. These audits addressed more than \$4.4 billion in reconstruction spending and have already helped produce important improvements in the way U.S. agencies are implementing the reconstruction program. Moreover, we have published nine comprehensive quarterly reports to the Congress.

SIGAR has developed a robust investigations capability. We have 89 ongoing investigations of contract and procurement fraud, as well as corruption. SIGAR investigators, who, on average, have 24 years of prior experience investigating complex financial crimes and contract fraud, are part of the US and Afghan effort to track cash shipments out of the Kabul airport. SIGAR has also conducted joint investigations that have already resulted in four convictions and the ordered repayment of millions of dollars to the U.S. Government. Recently, as a result of SIGAR investigations into corruption related to the U.S. reconstruction effort, our investigators provided information that helped lead to the capture of a top al Qaeda operative.

AUDITS

SIGAR has three audit priorities: contract management and oversight, the development of the Afghan security forces, and anti-corruption programs. In addition, SIGAR is conducting audits of programs in the development and governance sectors, two of the three pillars of the Afghan National Development Strategy and the U.S. strategy for Afghanistan. Each of these priorities addresses a key element of President Obama's Afghan strategy. In addition to providing oversight of contracts, our legislative mandate requires us to examine programs and operations and to make recommendations to improve the effectiveness of the overall reconstruction effort. Therefore, SIGAR is executing a wide range of audits that look not only at individual contracts and contractor performance, but also at whether critical programs in the security, governance, and development sectors are aligned, resourced, and managed effectively to meet U.S. strategic objectives and achieve real, sustainable results.

SIGAR's FY 2011 audit plan includes 35 audits. We have selected these audits based on several criteria, including 1) our Congressionally-mandated requirements, 2) our analysis of the greatest risks to the U.S. reconstruction investment in Afghanistan, 3) input from the civilian and military leadership in Afghanistan and the United States, and 4) what other Inspectors General and the Government Accountability Office (GAO) are planning to do, as we don't want to duplicate work.

Contracting

SIGAR's first audit priority is contracting and we have been building a team of auditors to focus on contract audits. These auditors have been doing the foundational work needed to identify the universe of reconstruction contracts. As part of this effort, SIGAR performed pilot audits focused on large construction projects for ANSF facilities and also assessed agency management of contracts.

The three main U.S. implementing agencies—the Department of Defense (DoD), the Department of State (DoS) and the U.S. Agency for International Development (USAID)—are using contracts as their primary vehicle to implement the bulk of the reconstruction effort. However, these agencies do not segregate reconstruction contracts from the other U.S. government contracts. Last month, SIGAR completed an audit that, for the first time, identified the number of contractors and implementing partners involved in Afghanistan's reconstruction.¹ We found that DoD, DoS, and USAID had obligated nearly \$18 billion to nearly 7,000 contractors and other entities from FY 2007 through FY 2009. Our auditors are now using this information to develop a contract audit plan that "follows the money" and closely examines high-value contracts in critical areas.

¹ *DoD, DoS, and USAID Obligated Over \$17.7 billion to About 7,000 Contractors and Other Entities for Afghanistan Reconstruction during Fiscal Years 2007-2009*, SIGAR Audit, 11-4, October 27, 2010

SIGAR's very first audit assessed DoD's management of a \$404 million contract to provide training and support for the Afghan National Security Forces (ANSF).² We found that the Combined Security Transition Command-Afghanistan (CSTC-A), which was then responsible for developing the ANSF, did not have enough qualified contracting and program management staff to oversee this contract. CSTC-A agreed with these findings and the Defense Contract Management Agency subsequently sent a team of contract specialists to review contract management and oversight of CSTC-A's U.S.-funded contracts.

Nearly 40 percent of the audits that SIGAR completed in the last fiscal year were focused on contracting issues. Even though the United States has been involved in the reconstruction of Afghanistan for nearly a decade, SIGAR has found that U.S. implementing agencies still do not have enough contracting officers in the field and continue to have difficulty maintaining contract files, providing oversight of project implementation, and ensuring quality control. This is true for both large and small contracts. For example, last year SIGAR's audit of the Kabul Power Plant found that numerous contract management problems led to construction delays that added \$40 million to the cost of the \$300 million project.³

SIGAR's audits of contracts to build facilities for the Afghan National Security Forces (ANSF) have found similar problems. In our recent audit of a contract to build six Afghan National Police (ANP) facilities identified numerous problems, including poor construction and project delays.⁴ The U.S. Army Corps of Engineers (USACE), which was responsible for managing the \$5.9 million contract, failed to conduct sufficient oversight and made payments to the Afghan contractor based on incomplete quality assurance reports. SIGAR estimated that it could cost the U.S. government an additional \$1 million, or about one-sixth of the value of the contract, to repair the structural deficiencies we identified. SIGAR's earlier audits of infrastructure projects for the Afghan National Army (ANA) also identified contract management problems.

Three factors have contributed to inadequate USACE oversight of infrastructure projects: lack of security, insufficient training of local quality assurance representatives, and the reorganization of USACE in Afghanistan. The most important is the lack of security at the sites under construction. In response to our audit of the six ANP District Headquarters Facilities in Helmand and Kandahar, USACE noted that many of its infrastructure projects are located in areas with high levels of insurgent activity. Moreover, because the military's mission priorities

² *Contract Oversight Capabilities of the Defense Department's Combined Security Transition Command – Afghanistan (CSTC-A) Need Strengthening*, SIGAR Audit 09-1, May 19, 2009

³ *Contract Delays Led to Cost Overruns for the Kabul Power Plant and Sustainability Remains a Key Challenge*, SIGAR Audit 10-6, January 20, 2010

⁴ *ANP District Headquarters Facilities in Helmand and Kandahar Provinces have Significant Construction Deficiencies Due to Lack of Oversight and Poor Contractor Performance*, SIGAR Audit 11-3, October 27, 2010

on the ground change frequently, it is difficult to arrange the security needed to visit the construction sites.

The Department of Defense (DoD) has been responsible for the largest portion of reconstruction funding, approximately \$32 billion. In the last few months, DoD has taken several steps to improve its contracting practices. In addition to issuing new contracting guidance, DoD has also said it would deploy more contracting officers to the field. The new guidance emphasizes transparency and oversight to ensure that contracting spurs economic development and supports U.S. objectives.

One important goal of the new contracting guidance is to prevent U.S. funds from undermining the reconstruction effort by unintentionally fueling corruption, financing insurgents, or strengthening criminal networks. In this regard, SIGAR has been particularly concerned about the role and cost of private security companies (PSCs) and their subcontractors. We are currently conducting an audit of a USACE task order for private security services. Our audit is not only reviewing contract planning, management and costs, but it is also identifying subcontractors. We expect this audit to be completed early next year.

We have plans to initiate three more audits related to PSC contracts this year. The first will identify all the PSCs operating in Afghanistan, as well as the costs of their services to the U.S. government since 2007. The second will determine the ability of military commanders to track convoys guarded by PSCs. The third will be a focused contract audit of a PSC contract. SIGAR is also watching the statements and actions of Afghan officials regarding the use of private security contractors and the related impact on costs to the American taxpayer. These changes that have been announced could have a dramatic impact on the existing reconstruction effort and our planned work.

In addition to our audit of the USACE PSC contract, SIGAR has three other ongoing reviews of contractor performance. These include audits of a USAID cooperative agreement with Care International, of infrastructure projects in Herat and Mazar-E Sharif, and of selected projects funded through the Commander's Emergency Response Program (CERP).

The Development of the Afghan National Security Forces

Our second audit priority focuses on the development of the ANSF. Building a competent Afghan security force capable of operating independently is critical to the President's Afghanistan strategy. The lion's share of the United States investment in Afghanistan—more than \$29 billion—has been devoted to providing training, equipment, and infrastructure for the Afghan security forces. President's Obama FY 2011 request includes an additional \$11.6 billion to fund efforts to increase the troop strength of the ANA to 171,600 and the ANP to 134,000 by October 2011. As of the end of September this year, the ANA had 138,164 troops and the ANP had 120,504 personnel.

SIGAR is examining all aspects of the U.S.-funded mission to train and equip the ANSF. We have issued seven reports and have four ongoing audits related to the development of the ANSF. Five of the completed audits reviewed infrastructure contracts worth a combined value of \$320 million and one assessed the ability of DoD to provide oversight of a \$400 million training contract. These audits identified the continuing problems with contract and program management discussed in the contracting section of this testimony. Our first audit found that CSTC-A did not have sufficient qualified staff to oversee the \$400 million training contract.⁵ CSTC-A concurred with SIGAR's findings. Subsequently, the Defense Management Contract Agency sent a team of contract specialists to review contract management and oversight for all of CSTC-A's contracts that were funded through the Afghan Security Forces Fund (ASFF), which was established to support the development of the Afghan security forces.

SIGAR's audits of ANSF infrastructure have highlighted two other serious issues: the long-term challenge of developing the Afghan government's capacity to operate and maintain its military facilities, and the lack of an ANA master plan for facilities development. Because the Afghan government has neither the technical nor financial ability to sustain completed ANA and ANP facilities, the United States has entered into two contracts with a combined value of about \$800 million for the operations and maintenance of more than 650 ANSF facilities through the year 2013. At the conclusion of this contract, the United States plans to turn operations and maintenance responsibility for these facilities over to the Afghan government. SIGAR's infrastructure audits raise questions about whether Afghanistan will be able to meet this goal. We have ongoing audits of ANSF infrastructure that will help us to make this determination as well as identify how money is being spent.

Despite the significant investment in this infrastructure, SIGAR auditors found that there was no current master plan for developing the facilities needed to house and train the increased number of troops. U.S. military officials have told SIGAR that they are working on developing a process to capture the changing requirements of the garrisons. Without an updated strategy that accurately reflects existing requirements, the United States risks wasting billions of dollars to build facilities that do not meet the ANA's needs. As a result of these findings, SIGAR is currently conducting an audit of the overall planning for the construction of ANSF facilities.

Earlier this year, SIGAR completed an important audit that identified key weaknesses in the system used to measure the capabilities of new Afghan troops. Developing competent Afghan security forces capable of operating independently is a lynchpin of the President's Afghanistan strategy. Since this audit was completed, the ISAF Joint Command has developed a Commander's Unit Assessment Tool (CUAT) that incorporates most of SIGAR's recommendations. It is too early to assess the new system, but SIGAR will be doing follow up work to examine the effectiveness of this new tool, as well.

⁵ *Contract Oversight Capabilities of the Defense Department's Combined Security Transition Command – Afghanistan (CSTC-A) Need Strengthening*, SIGAR Audit 09-1, May 19, 2009

In addition to assessing planning for ANSF facilities, SIGAR's ongoing audits in the security sector include: a review of the Afghan National Police personnel management systems, an examination of the U.S. program for providing vehicles for the ANSF, and an audit of infrastructure projects in Herat and Mazar-E-Sharif.

Corruption

Our third priority area is corruption. Corruption is not only destroying the confidence of the Afghan people in their government, but also the support of U.S. taxpayers for our engagement there. Reducing corruption is such a key element of the U.S. strategy, and is so essential to achieving U.S. reconstruction goals in Afghanistan, that SIGAR initiated a program in the spring of 2009 to assess: 1) 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) the extent to which national and provincial Afghan institutions receiving significant U.S. funding have the systems in place to exert internal control and account for donor funds.

As part of this initiative, SIGAR has issued several audits, including two assessing the capabilities of the key Afghan institutions charged with curbing corruption: the High Office of Oversight (HOO) and the Control and Audit Office (CAO). Despite the critical role that these institutions should play in deterring corruption and providing accountability for donor funds, SIGAR found that they lacked sufficient independence and legal authority, were seriously short of qualified staff, and struggled with a number of operational issues. SIGAR concluded that these institutions required a stronger commitment and better coordinated assistance from the United States. Since our audit of the HOO, both the United States and the Afghan government have taken steps to implement many of SIGAR's recommendations. The United States has provided \$30 million to support the HOO and the Afghan government issued a decree giving the HOO more independence. Both the Afghan government and the donor community must do more to both strengthen the capacity of the HOO and the CAO and to ensure that these organizations have the independence and authority needed to protect the considerable international investment in Afghanistan.

In August 2010, SIGAR published an audit that identified the various U.S. programs designed to help the Afghan government develop its anti-corruption capabilities and challenges in the coordinated management of those programs.⁶ For example, the SIGAR audit found that although the U.S. Embassy Kabul has drafted a comprehensive anti-corruption strategy and is in the process of implementing this strategy, the State Department had not yet approved it. The strategy has still not been approved. The audit also identified the six U.S. departments and agencies that are funding projects, directly or indirectly, to help strengthen the anti-corruption

⁶ *U.S. Reconstruction Efforts in Afghanistan Would Benefit from a Finalized Comprehensive U.S. Anti-Corruption Strategy*, SIGAR Audit 10-15, August 5, 2010

capabilities of the Afghan government. These include the DoS, DoD, and USAID, as well as the Departments of the Treasury, Justice, and Homeland Security.

SIGAR's anti-corruption initiative has become even more important in light of the new U.S. policy to provide as much as 50 percent of its development assistance through Afghan government institutions within the next two years. The U.S. commitment is contingent on the Afghan government's progress in implementing reforms to strengthen public management systems, reduce corruption, improve budget execution, and increase revenue collection to finance critical national programs.

SIGAR's recent audit, *Weaknesses in Reporting and Coordination of Development Assistance and Lack of Provincial Capacity Pose Risks to U.S. Strategy in Nangarhar*, reviewed development assistance in Afghanistan's most densely populated province and the country's primary gateway for trade with Pakistan.⁷ The audit's findings illustrate some of the challenges the United States faces in fulfilling its commitment to provide more funding through local governments. Despite a \$100 million investment in development activities in Nangarhar in 2009, SIGAR detected little coordination of project selection and implementation with provincial authorities. Moreover, SIGAR found that the province did not have an operational development plan or a functioning process to identify, implement, and manage development projects. We are concerned that the lack of involvement of provincial authorities could result in projects that are not needed or wanted, and which cannot be maintained or sustained by the Afghan government.

Last month SIGAR published an audit which found that the Afghan government depends heavily on donors to fill critical civil service positions.⁸ However, this salary support is also distorting the local labor market and undermining the long term goal of developing a capable and sustainable government. International donors do not have a standardized pay scale, and often pay 10 to 20 times more than the Afghan government would be able to sustain on its own. Moreover, the financial controls over who receives salary support are very weak and this opens the door to corruption.

Let me also highlight two ongoing SIGAR audits related to our anti-corruption initiative. The first is reviewing Afghanistan's National Solidarity Program. In 2003, Afghanistan's Ministry of Rural Rehabilitation and Development established this program to help local communities identify, plan, manage, and monitor their own development projects. Since then, the program has received more than \$900 million in international funding and has reported completing nearly 40,000 small infrastructure projects. The United States has pledged \$440 million to this program. The second deals with the effectiveness of efforts to improve Afghanistan's ability to address corruption through the Major Crimes Task Force.

⁷ *Weaknesses in Reporting and Coordination of Development Assistance and Lack of Provincial Capacity Pose Risks to U.S. Strategy in Nangarhar*, SIGAR Audit 11-1, October 26, 2010

⁸ *Actions Needed to Mitigate Inconsistencies in and lack of Safeguards over U.S. Salary Support to Afghan Government Employees*, SIGAR Audit 11-5, October 29, 2010

Forensic Data Collection

In addition to a broad spectrum of audits, SIGAR's enabling legislation requires it to investigate improper payments, and to prepare a final forensic audit report on all programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan. SIGAR is currently conducting forensic reviews of \$37 billion of transaction data from three Afghanistan reconstruction funds: Afghanistan Security Forces Fund (ASFF), which is managed by DoD; the Economic Support Fund (ESF), which is managed by USAID; and the International Narcotics Control and Law Enforcement Fund (INCLE), which is managed by DoS.

SIGAR's forensic team has recently completed a preliminary review of over 73,000 transactions amounting to \$7.4 billion in USAID disbursements. The team has isolated a number of anomalous transactions that indicate possible duplicate payments. SIGAR will integrate these anomalies into cross-agency transaction databases to further identify potential waste, fraud, and abuse. SIGAR will use this forensic work to identify specific contracts to audit, as well as to support criminal investigative initiatives.

INVESTIGATIONS

SIGAR investigators work closely with other federal law enforcement agencies in Afghanistan and in the United States to maximize resources and ensure that all allegations of waste, fraud, and abuse involving U.S. taxpayer dollars are seriously examined. SIGAR maintains a full-time presence at the joint operations center of the International Contract Corruption Task Force (ICCTF) in Washington, DC. The ICCTF, the principal organization coordinating contract fraud and corruption cases involving U.S. government spending in Southwest Asia, is comprised of nine Federal law enforcement agencies, including the Federal Bureau of Investigation (FBI), and the Inspectors General of DoD, DoS, and USAID. The National Procurement Fraud Task Force (NPFTF) at the Department of Justice provides prosecutorial support for SIGAR.

SIGAR is the only member of the ICCTF with cross-agency jurisdiction and a single focus on the expenditure of U.S. reconstruction funds. With more agents focused exclusively on waste, fraud, and abuse in Afghanistan today than the FBI, the USAID Inspector General, the DoS Inspector General and the DoD Inspector General, SIGAR is establishing a leadership role in the investigative oversight of reconstruction dollars.

In the past year, SIGAR has participated in joint investigations that have led to millions of dollars in fines and ordered repayments to the U.S. government. For example, at the request of the Department of Justice, SIGAR collaborated with the Defense Criminal Investigative Service (DCIS) and the Criminal Investigation Command (CID) to investigate two Afghan trucking companies. As a result of this joint investigation, the two companies pled guilty to bribery charges and received a \$4.4 million fine for paying U.S. officials to win contracts at

Bagram Air Field. Another joint investigation led to the U.S. Army Corps of Engineers demanding that an Afghan company and South Korean company repay \$1.9 million to the U.S. government. These companies filed false claims and stole U.S. government property from a construction site.

Recently, a SIGAR joint investigation with the FBI and the USAID Office of the Inspector General resulted in the detention and pending U.S. arrest of an Australian in India. In August of this year, the subject was indicted in the District of Columbia for soliciting a bribe in return for preferential treatment in the awarding of a hospital and college construction contract in Afghanistan.

To increase awareness of the SIGAR Hotline in Afghanistan, SIGAR investigations has a continuing broad public outreach campaign, which includes public service announcements, news media advertisements, and fraud awareness briefings. SIGAR agents recently conducted fraud awareness briefing in five provinces. These efforts have contributed to the significant increase in Hotline complaints over the last few months. To date, SIGAR has received and addressed more than 400 complaints of waste, fraud, and abuse through its Hotline and Complaints Management System. SIGAR has been able to quickly refer complaints that do not involve reconstruction dollars to other agencies, assign those with merit to SIGAR investigators, and close cases that have no merit or lack sufficient evidence to open a case.

Earlier this year, DoD established Task Force 2010 to investigate allegations that contractors hired to provide security, supplies, and reconstruction work were funding the Taliban or other criminal networks. Task Force 2010, which began operating in Afghanistan during the summer, has created the Afghan Shafaiyat (“transparency”) Investigative Unit (ASIU) to work with Afghan officials to investigate, arrest, and prosecute Afghans involved in contract fraud. SIGAR’s investigators are working closely with both Task Force 2010 and the ASIU.

SIGAR is conducting an investigation to identify the source of bulk currency transfers out of Afghanistan. In March of this year, as a result of this investigation, SIGAR identified weaknesses in the Kabul International Airport controls of money transiting through the airport. These weaknesses facilitated the illegal circumvention of the required declaration of such transfers. We shared this information with other federal agencies, including the Department of Homeland Security. Other agencies are now assisting the Afghan government to tighten controls at the airport.

SIGAR has no indication that any of the bulk currency transfers—which are mostly in foreign currencies such as rupees, riyals, dirhams, and euros—constitute a flood of U.S. reconstruction dollars fleeing the country, but our investigators are closely monitoring the situation.

PEER REVIEW

Earlier this year, SIGAR requested assistance from the Council of the Inspectors General on Integrity and Efficiency (CIGIE) to examine SIGAR's management, audit, investigative, and support operations. Although peer reviews are traditionally conducted every three years, SIGAR chose to request this early and unprecedented review in order to accelerate its own internal capacity building efforts. The review examined SIGAR's progress in establishing appropriate work standards; creating the policies, procedures, and management structures to meet those standards; and identifying and hiring the expert talent necessary to conduct the oversight of the reconstruction that Congress expected.

The audit peer review resulted in a rating of "pass with deficiencies" and a letter of comment. These findings have been instrumental in helping us strengthen our organization. The review team concluded that, with the exception of five deficiencies, SIGAR complied with CIGIE's system of quality control and had reasonable assurance that it was performing and reporting in conformity with applicable standards in all material respects. In response to the review, SIGAR's proposed a course of action to strengthen its capacity, with which CIGIE concurred. SIGAR has implemented all the recommendations in CIGIE's report and the letter of comment.

Let me address some of the specifics measurements used in the CIGIE review of our investigations directorate. CIGIE evaluated SIGAR against 51 standards and concluded that SIGAR was in compliance with 45 of those standards. In addition to the CIGIE standards, SIGAR's investigations directorate was evaluated against 37 individual standards related to the Attorney General Guidelines, and found to be in compliance with 33 of these standards. SIGAR's Investigations Directorate is now in compliance with all of the standards highlighted in the review.

As a result of this review, SIGAR has taken action to ensure its strategic plan and priorities are properly documented and disseminated to all employees. It has established an effective infrastructure to capture the records needed to document its full compliance with *Attorney General Guidelines for Inspectors General with Statutory Law Enforcement Authority*. To institute greater quality assurance, and ensure continued compliance with existing policy and standards, SIGAR has initiated a comprehensive self-inspection program for investigations.

At SIGAR's request, CIGIE will be conducting a follow-up review of the actions we have taken in response to their recommendations by the end of this calendar year.

CONTINUING RISKS TO THE U.S. INVESTMENT

Through its audit and investigative work over the last 18 months, SIGAR has identified six broad issues putting the U.S. investment in Afghan reconstruction at risk of being wasted or subject to fraud and abuse. Those six issues are: inadequate contract and program management,

need to work in greater partnership with the people of the country we are trying to rebuild, measuring outputs rather than outcomes, inability to curb corruption, insufficient local capacity to manage and sustain projects, and lack of security. SIGAR's October 30 2010 Quarterly Report to Congress discusses each of these issues in depth. Many of them are similar to issues that adversely affected reconstruction in Iraq. Our report can be found at www.sigar.mil.

Despite repeated recommendations, first by the Special Inspector General for Iraq Reconstruction (SIGIR) and now by SIGAR, U.S. agencies still struggle to effectively implement reconstruction projects. In this testimony, I will highlight just one the recurrent reconstruction challenges: the inability of implementing agencies to share information about reconstruction contracts. Although the U.S. Congress required DoD, DoS, and USAID to create a common database to track contracts and contractor personnel, these agencies have had difficulty using this database. Moreover, none of these agencies has routinely provided information on which contracts, cooperative agreements, and grants are used for reconstruction as opposed to other activities in Afghanistan, such as support for U.S. troops. SIGAR's audit—*DoD, DoS, and USAID Obligated Over \$17.7 billion to About 7,000 Contractors and Other Entities for Afghanistan Reconstruction during Fiscal Years 2007-2009*—was the first to segregate reconstruction contracts from other contracts.

Both SIGIR and SIGAR have repeatedly identified the lack of an integrated management information system as a serious impediment to the effective management of reconstruction efforts. Yet, the United States still does not have an integrated management information system that can provide a common operating picture of U.S. reconstruction projects. In the absence of such a system, it is extremely difficult for the U.S. government to effectively coordinate and monitor the expanding reconstruction effort in Afghanistan. In Afghanistan, the significant international participation in reconstruction further complicates the coordination effort.

LOOKING FORWARD

Over the last year and half, SIGAR has increased its staff to 123, including 51 auditors and 30 investigators. We have approximately 38 people working out of five locations in Afghanistan (U.S. Embassy Kabul, Camp Eggers, Kandahar Air Field, Bagram Air Field and Camp Falcon) and are working to expand SIGAR's investigations presence to seven military-controlled facilities in five provinces. We plan to continue to increase our staffing in critical areas of expertise, in order to provide the oversight necessary to keep pace with the growing reconstruction program.

The 34 audit reports that SIGAR has published to date have helped us identify the critical areas where we need to focus additional work. We plan to complete as many as 35 audits in FY 2011, and have already completed five. Our emphasis will be to audit major high-value contracts to detect and deter waste. We will continue to review operations and programs, such as the development of the Afghan Security Forces, which form the foundation of the U.S. strategy in

Afghanistan. We will also maintain focus on corruption, which puts the entire reconstruction effort at risk.

I look forward to working with this Committee, and the whole of Congress, to provide the enduring oversight necessary to ensure that taxpayer dollars appropriated for the reconstruction of Afghanistan, are fully accounted for, and spent effectively.

**PEER EVALUATION OF THE
SPECIAL INSPECTOR GENERAL
FOR
AFGHANISTAN RECONSTRUCTION**

August 2010

This review was conducted on behalf of the
Council of the Inspectors General on Integrity and Efficiency
by Selected Offices of Inspector General

This review was conducted by
the following
Offices of Inspector General

Department of Defense
Federal Deposit Insurance Corporation
Department of the Interior
Department of State
Tennessee Valley Authority
U.S. Agency for International Development
U.S. Department of Agriculture



Council of the
INSPECTORS GENERAL
on INTEGRITY and EFFICIENCY

August 10, 2010

Honorable Arnold Fields
 Inspector General
 Special Inspector General for Afghanistan Reconstruction

Dear General Fields:

In response to your February 24, 2010, request letter to the Chair of the Council of the Inspectors General on Integrity and Efficiency (CIGIE), we conducted a peer evaluation of the operations of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to determine whether your office has established appropriate work standards; policies, procedures, and management structures to meet those standards; and a team of highly qualified experts to conduct the level and quality of oversight that the Congress intended and the taxpayer expects.

This type of independent evaluation is unique in the history of the Inspector General (IG) community. In the interest of leveraging resources and providing you constructive feedback, a multi-disciplined group of professionals from seven Offices of Inspector General (OIG) was assembled to conduct this work. Using the standards contained in the IG community's *Quality Standards for Offices of Inspector General* (Silver Book) as a foundation, certain members of the group reviewed SIGAR operations and offered suggested improvements based on their collective knowledge and experience.


Concurrent with this review, members of the group also conducted two separate peer reviews of SIGAR's audit and investigative operations. The results of those reviews are included in their entirety as appendices to this report. As appropriate, certain aspects of the peer reviews are also discussed in the body of the report in relation to relevant Silver Book standards.

It is important to note the unusual timing of the three reviews. As you acknowledge in your request letter, normal practice would be to wait until at least the third year of an IG's existence before a peer review is conducted. However, you asked that the CIGIE Chair consider engaging with your office in February, 19 months into your existence, to examine aspects of your audit, investigative, and support operations to assist you in identifying improvements that should be made to ensure you are moving in the right direction. We honored that request and, to that end, presented a number of suggested improvements to enhance SIGAR's operations in this report.

In transmitting our draft report to you, we stated that we hoped that the observations and suggestions presented in the report would assist you in accomplishing the IG mission that you carry out on behalf of the American people. Your written response of August 6, 2010 commits to taking action on all 22 suggestions that we made. Moreover, you indicated that that senior management would place emphasis on four areas in particular: risk-based planning, including obtaining stakeholder input; correction of the deficiencies identified in both the audit and investigative peer reviews; enhancement of the quality assurance program for audits and development of a quality program for investigations; and development of performance systems to assess both organizational and individual success. We believe that these actions are necessary and, if successfully implemented, will help your office make needed improvements as you continue to evolve.

We are thankful to the group members for volunteering to participate in these efforts, for the expertise they brought to bear, and for the collaborative and professional manner in which they approached their work. We appreciate the support of their IGs in this endeavor. We also appreciate the courtesy and cooperation extended to us by you and your staff, and the assistance of members of the OIGs of the Department of Defense, Department of State, and U.S. Agency for International Development who facilitated our travel to and work in Afghanistan.

Sincerely,



Jon T. Rymer
Chair, CIGIE Audit Committee



Richard W. Moore
Chair, CIGIE Investigations Committee

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Introduction

On February 24, 2010, the Special Inspector General for Afghanistan Reconstruction (SIGAR) requested assistance from the Chair, Council of the Inspectors General on Integrity and Efficiency (CIGIE). This request was initiated to determine whether SIGAR has established: (1) appropriate work standards; (2) policies, procedures, and management structures to meet those standards; and (3) a team of highly qualified experts to conduct the level and quality of oversight over Afghanistan's reconstruction programs that the Congress intended and the taxpayer expects. Specifically, SIGAR asked CIGIE to examine management, audit, investigative, and support operations to assist in identifying needed improvements for current and future work. Pursuant to CIGIE discussions, the Chair referred the SIGAR request to the Chairs of CIGIE's Audit Committee and Investigations Committee and asked that they lead the evaluation. Subsequently, the Chairs of both Committees assembled a group of 26 multi-disciplined professionals from within the Inspector General (IG) community¹ to undertake this unprecedented review.

The overall objective was to identify opportunities for SIGAR to improve its management, audit, investigative, and support operations required to provide effective oversight commensurate with reconstruction funding levels and risk. The scope of this evaluation included SIGAR's operations from its enabling legislation in 2008 forward.

To conduct the work, the group was divided into three separate teams. One team performed an external peer review of SIGAR's audit organization in accordance with CIGIE's *Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*, based on requirements in the *Government Auditing Standards* (Yellow Book). A second team performed a quality assessment peer review of SIGAR's investigative operations based on *Quality Standards for Investigations*² and applicable Attorney General Guidelines.³ As is the practice in the IG community, these two teams issued opinions as a result of their reviews. In the interest of obtaining as full an understanding of SIGAR operations and progress over time as possible, the peer review teams examined all investigations closed through April 16, 2010, and all audit reports issued through March 31, 2010.

¹The 26 group members are managers, auditors, and investigators representing Offices of Inspector General from the Department of Defense, Federal Deposit Insurance Corporation, Department of the Interior, Department of State, Tennessee Valley Authority, U.S. Department of Agriculture, and U.S. Agency for International Development.

²Adopted by CIGIE but have not been reprinted.

³For purposes of the investigative quality assurance review, the Attorney General Guidelines include the Attorney General Guidelines for Offices of Inspectors General with Statutory Law Enforcement Authority (2003), Attorney General's Guidelines for Domestic Federal Bureau of Investigation Operations (2008), and Attorney General's Guidelines Regarding the Use of Confidential Informants (2002).

A third team performed a management and operations review of SIGAR encompassing activities not subject to the audit and investigations peer reviews. As overarching criteria, using the *Quality Standards for Federal Offices of Inspector General* (Silver Book),⁴ the Silver Book review team developed an evaluation framework based on these quality standards. The standards set forth the overall approach for managing, operating, and conducting the work of Offices of Inspector General (OIG) and address: ethics, independence, and confidentiality; professional standards; internal controls; quality assurance; planning and coordinating; communicating results; managing human capital; reviewing legislation and regulations; and receiving and reviewing allegations. In the review team's opinion, these standards provide a comprehensive and objective basis for conducting a review of this type. Given the nature of the overall evaluation, in conducting its review, this team sought input from SIGAR stakeholders,⁵ including congressional committees of jurisdiction, the Department of Defense and its component organizations, the Department of State, the U.S. Agency for International Development, and the Department of Justice. As appropriate, certain aspects of the audit and investigative peer reviews are also discussed in the body of the report in relation to relevant Silver Book standards.

The Silver Book does not set forth prescriptive requirements for federal Inspectors General, because the needs of each OIG can vary significantly due to differences in the activities of their host agencies. Therefore, the Silver Book review team did not opine on "compliance," but rather evaluated, based on the team's collective knowledge and experience, whether SIGAR's practices aligned with Silver Book standards and to what extent SIGAR had implemented those practices. The review team did provide suggestions in those circumstances where, in their judgment, improvements could be made or efficiencies achieved.

In addition to work performed in the United States, representatives from each of the three review teams travelled to Kabul, Afghanistan, to interview SIGAR's many stakeholders and staff in that region and to gain a fuller understanding of the challenges of conducting work in a war zone. Appendix I presents SIGAR's letter to the CIGIE Chair requesting the assistance. Appendix II presents additional details on the team's objective, scope, and methodology. Appendix III presents the list of stakeholders who provided input for this project.

Executive Summary

The purpose of this review was to identify opportunities for SIGAR to improve its management structures and operations. The review team chose a standards-

⁴In 2003, the President's Council on Integrity and Efficiency in conjunction with the Executive Council on Integrity and Efficiency updated the quality standards that are now contained in the Silver Book. In 2008, the two Councils were merged by the Inspector General Reform Act of 2008 creating the Council of the Inspectors General on Integrity and Efficiency.

⁵For the purpose of this review, stakeholders include congressional staff, White House and Administration officials, officials from other OIGs, and auditees.

based approach to evaluate SIGAR against the standards that each OIG should consider in the conduct of official duties in a professional manner. Through this review, we arrived at opinions on SIGAR's audit and investigative organizations and have provided observations and suggestions on SIGAR's overall management and operations.

As noted above, the Silver Book does not set forth prescriptive requirements for federal Inspectors General; therefore, this report does not provide an overall opinion regarding SIGAR's compliance. The focus of this review was to consider each of the nine standard areas discussed in the Silver Book and provide our observations, identify better practices based on our collective knowledge and experience, and offer suggestions for improvement. In our view, the Silver Book is an especially useful tool to OIGs in this regard, as it provides a comprehensive foundation for establishing practices that can enable inspectors general to successfully address the challenges to their individual missions. Once again, the Silver Book does not offer a basis on which an opinion as to "compliance" or "performance" can be rendered against objective standards. However, for the reasons discussed in this report, we believe SIGAR should avail itself of the Silver Book guidance and use it to assess and reassess its approach in a number of critical areas as it strives to accomplish its mission going forward.

The most significant of the Silver Book observations included the need for (1) a robust risk assessment and reassessment process, which considers stakeholder input at all levels, to ensure coverage of higher risk areas in audit and investigative strategic planning processes; (2) improvements in the area of performance management, including more definition in setting performance targets and a more comprehensive system of monitoring performance; (3) development and refinement of audit and investigative processes to address deficiencies and instances of noncompliance; and (4) implementation of quality assurance programs to ensure ongoing compliance with professional standards. Additionally, the audit and investigative peer review reports previously issued addressed the professional standards element of the Silver Book and touched on a number of other elements. As such, we have included highlights from those reports.

The audit peer review resulted in a rating of pass with deficiencies.⁶ As an audit organization, SIGAR should conduct, supervise, and coordinate its audits according to the Yellow Book. According to the July 2007 revision of the Yellow Book, high-quality auditing is essential for government accountability to the public and should provide independent, objective, fact-based, nonpartisan assessments of the stewardship, performance, and cost of government policies, programs, and operations. Specifically, the audit peer review concluded that SIGAR's system of quality control was suitably designed, because the draft policies and procedures in effect during the period under review adequately covered areas required by the Yellow Book. However, compliance with these policies and procedures was inconsistent and incomplete. The audit peer review

⁶For the purpose of this review, stakeholders include congressional staff, White House and Administration officials, officials from other OIGs, and auditees.

team specifically identified five deficiencies in the audit organization's practices that could create situations in which SIGAR would have less than reasonable assurance of performing and reporting on audits in conformity with the Yellow Book and its policies and procedures. SIGAR concurred with the results of this peer review and has committed to implementing corrective actions to overcome each of the deficiencies noted. Appendix IV contains the final audit peer review report and SIGAR's comments.

The investigation peer review resulted in a determination that SIGAR was not in compliance⁷ with the peer review standards applicable to all statutory OIGs. The immediate consequence of this determination was that the Chairman of the CIGIE Investigations Committee forwarded the report to the Attorney General to consider whether SIGAR's law enforcement powers should be suspended, pending correction of the identified deficiencies. The investigative peer review team believes that these deficiencies, while significant, can be remedied by SIGAR over time, given the commitment of SIGAR's investigative staff to implement the required policies and procedures. Perhaps the one choice having the greatest impact on SIGAR's investigative operations during the review period was the decision not to actively hire investigators and put them in the field until one certain candidate for the Assistant Inspector General for Investigations (AIGI) position was hired. In the end, that candidate was not hired, and SIGAR's investigative productivity was adversely impacted for almost a year. Currently, however, SIGAR's agents work jointly with other agents on the International Contract Corruption Task Force in Afghanistan and are making a valuable contribution in the effort to combat fraud. SIGAR generally concurred with the findings included in the peer review report. Appendix V contains the final investigative report and SIGAR's comments.

Comparatively speaking, SIGAR is a young organization that is still working to establish its overall structure and operational policies and procedures and instill the rigor to ensure compliance. It is important to note that both peer reviews were conducted at least 18 months earlier than such reviews would have been required. We believe the results of the peer reviews, which utilize standards that are intended to be applicable to more mature organizations, reflect, in part, SIGAR's relatively recent establishment. Nevertheless, we also believe these reviews provide valid assessments of SIGAR's audit and investigative functions, as of the end of their respective review periods, and provide valuable insight into key areas where SIGAR's operations can be enhanced and improved.

We acknowledge that the challenges of operating in Afghanistan are significantly different from those faced by offices conducting activities in the United States. We would also note that in addition to SIGAR, several other federal OIGs and other government agencies conduct operations in Afghanistan and many other dangerous and difficult locations around the globe. In all such cases, to be and become fully effective organizations, these entities must adapt to and overcome the obstacles presented by such environments.

⁷The two possible outcomes of an investigation peer review are a determination that an organization is "in compliance" or "not in compliance" with relevant standards.

SIGAR's written response of August 6, 2010 commits to taking action on the suggestions that we made, and indicates that senior management will place emphasis on four specific areas: risk-based planning, correction of the deficiencies identified in the peer reviews, quality assurance, and organizational and individual performance assessment. Appendix VI presents SIGAR's written response in its entirety.

History of SIGAR

On January 28, 2008, the Congress created SIGAR through the National Defense Authorization Act (Section 1229 of Public Law 110-181). This Act specifically provided for the independent and objective:

- Conduct and supervision of audits and investigations relating to the programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.
- Leadership and coordination of, and recommendations on, policies designed to (1) promote economy, efficiency, and effectiveness; and (2) prevent and detect waste, fraud, and abuse of the programs and operations described above.
- Means of keeping the Secretary of State and the Secretary of Defense fully and currently informed about problems and deficiencies relating to the administration of such programs and operations.

The Act also required submission of quarterly reports to the Congress and the Secretaries of State and Defense that summarize SIGAR's activities for each period and provide a detailed analysis of all programs and operations for the reconstruction of Afghanistan.

Since 2002, the Congress has appropriated more than \$51 billion to rebuild Afghanistan. The effective use of this money to improve Afghanistan security forces and governance, including laying the foundation for sustained economic development, is vital to the success of the U.S. strategy.

Afghanistan reconstruction programs also include any major contract, grant, agreement, or other funding mechanism entered into by any department or agency of the U.S. government that involves appropriated amounts or other amounts that are otherwise made available for these programs. The U.S. Departments of Defense, State, Agriculture, Justice, and Treasury, and the U.S. Agency for International Development provide the majority of appropriated funds for reconstruction.

President George Bush appointed SIGAR's first IG on June 12, 2008. The IG was sworn into office on July 22, 2008. SIGAR's IG is the only federal IG appointed by the President but not confirmed by the Senate. The IG operates under the general supervision of the Secretary of State and the Secretary of Defense.

SIGAR Funding, Staffing, and Operations

Notwithstanding SIGAR's formal creation in January 2008, in its quarterly report dated October 30, 2008, SIGAR noted delays in receiving start-up funding needed to begin hiring and commence its operations. Specifically, Public Law 110-181 authorized a \$20 million drawdown from the Afghanistan Security Forces Fund for the standup of SIGAR during 2008. However, these funds were never disbursed to SIGAR. Actual appropriations from the Supplemental appropriations bill approved on June 30, 2008 resulted in \$2 million being available through September 2008, with an additional \$5 million made available on October 1, 2008. The Congress subsequently appropriated \$9 million from the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act of 2009, which was signed by the President on September 30, 2008. With these funds, SIGAR began hiring and making arrangements for its long-term personnel, facilities, and logistics requirements.

At the time of SIGAR's establishment in January 2008, employment authority for "temporary organizations" was available that bypassed many of the time-consuming processes and salary limitations involved in other federal hiring processes. The Special Inspector General for Iraq Reconstruction (SIGIR) had relied upon such authority to hire employees quickly and pay them what was necessary to station them in Iraq. Just prior to the establishment of SIGAR, the Office of Personnel Management issued a restrictive interpretation of the definition of "temporary organization" that would have excluded SIGIR and SIGAR.

When the Congress established SIGAR in January 2008, the Congress modified SIGIR's language to authorize SIGIR to use the temporary organization hiring provisions without providing similar language for SIGAR. As a result, SIGAR remained subject to the restrictive Office of Personnel Management interpretation excluding it from broader hiring authority. Over a year later, the Congress recognized its oversight. Several senators played key roles in helping to ensure that SIGAR could begin hiring and carry out its mandated oversight role. In June 2009, 17 months after giving SIGIR broader temporary organization hiring authority, the Congress did the same for SIGAR.

SIGAR established its headquarters office in Arlington, Virginia. Additional offices were established in Afghanistan at the U.S. Embassy in Kabul, the Air Bases at Bagram and Kandahar, and the Combined Security Transition Command. As of June 30, 2010, SIGAR had a total staffing of 89 employees. Three additional employees are on detail from the Department of Defense and two others are foreign nationals in Kabul. SIGAR plans to expand its staff to 118 by the end of fiscal year 2010. Under SIGAR's recently amended agreement with the U.S. Embassy in Kabul, SIGAR can now station up to 32 employees at the Embassy and three satellite offices in Afghanistan. SIGAR has made requests to the Department of State to place additional employees there, mostly auditors, analysts, and investigators.

To assist in its administrative operations, SIGAR has established memoranda of agreement with the (1) SIGIR, (2) Office of the Secretary of the Army, (3) Office

of the Secretary of State, and (4) Commander, United States Forces-Afghanistan. These agreements were established for a variety of reasons, but mostly to streamline administrative functions such as payroll, travel, and procurement, and use program processes and controls already developed and tested.

The Office of SIGAR is temporary and shall terminate 180 days after the date on which unexpended amounts appropriated or otherwise made available for the reconstruction of Afghanistan are less than \$250 million.

SIGAR-Identified Challenges

SIGAR's mission is to conduct, supervise, and coordinate audits and investigations relating to programs, operations, and contracts regarding the treatment, handling, and expenditure of billions of dollars annually spent for the reconstruction of Afghanistan. As noted by SIGAR, this mission is further complicated by various environmental, information technology, and coordination challenges. Some of these challenges are experienced by other OIG organizations operating in Afghanistan; some appear to be unique to SIGAR.

The environmental challenges are probably the most difficult to overcome. On a daily basis, SIGAR managers and staff deal with the adverse conditions of living and working in a war zone. From an organizational standpoint,

- Hiring and retaining personnel to perform the mission is an ongoing challenge. The security environment of Afghanistan affects SIGAR's ability to hire new personnel. According to SIGAR, potential candidates are sometimes cautious about the high levels of personal risk throughout Afghanistan, and sensitive to difficult housing conditions and limitations on their freedom of movement.
- Traveling to Afghanistan is difficult at best and requires extensive planning. The review team's travel to Afghanistan confirmed this point. Managers, investigators, and auditors, whether on travel status or living in Afghanistan, live in extraordinarily difficult conditions. In some instances, auditors and investigators cannot travel outside the Embassy without armed escorts. Basic travel requires extensive planning, is very time consuming, and is at times very dangerous. Because the military's operational and security requirements have higher priority, SIGAR's site visits are often delayed or canceled.
- Housing at the Embassy in Kabul is limited and tightly controlled. An auditor or investigator can expect to live in a "t-hooch," which is described as a converted shipping container. When on shorter trips of up to 3 weeks, eight people can occupy a single t-hooch.

Importantly, the environment in Afghanistan differs from that in other conflict zones, including that found in Iraq during the startup phase for SIGIR. When SIGIR began operations (as the Coalition Provisional Authority Inspector General), Iraq was under U.S. military control, which on a day-to-day basis, meant that SIGIR coordinated principally with a single authority. By contrast,

SIGAR coordinates not only with the U.S. military, but with an established sovereign government of Afghanistan through the Department of State.

SIGAR has significant information technology challenges that range from simple email communication to more extensive enterprise-wide information management systems. SIGAR employees operate on three totally separate local area networks provided by different host organizations, depending on their location. None of these networks interact easily with one another, making collaboration and communication more difficult and making the use of common data or document management software among all SIGAR offices almost impossible.

SIGAR must routinely manage the coordination issues that develop when multiple groups share an oversight function. The Government Accountability Office (GAO) and the OIGs at the Departments of Defense and State and the U.S. Agency for International Development assist in carrying out this oversight function, but they have additional oversight responsibilities besides those in Afghanistan. While SIGAR was created for the sole purpose of providing oversight of reconstruction program funds to help ensure the success of the U.S. strategy in Afghanistan, it must constantly deconflict with numerous oversight organizations to avoid duplication.

Finally, SIGAR noted an added difficulty associated with successfully carrying out its mission, which is tied to the high turnover rate of military and civilian personnel in Afghanistan. This turnover can result in significant losses of institutional and subject matter-specific knowledge, as well as documentation that would assist SIGAR in its audits and investigations.

Observations and Suggestions by Silver Book Standard

OIGs have a special need for high standards of professionalism and integrity in light of their mission under the IG Act. The Silver Book standards are intended to guide the conduct of these official duties in a professional manner. The Silver Book standards were adopted by the federal IG community during the 25th anniversary year of the IG Act to memorialize a community-wide accepted framework that IGs could embrace to efficiently, effectively, and economically perform their mission.

The Silver Book sets forth this overall quality framework for managing, operating, and conducting OIG work. The framework addresses nine general areas and discusses practices in each of these nine areas. This report provides observations and suggestions for SIGAR to consider for improvement under these nine areas, which are presented in the order that they appear in the Silver Book. SIGAR's response and plan for implementation follow each suggestion.

Ethics, Independence, and Confidentiality

Silver Book Standard: The Inspector General and OIG staff shall adhere to the highest ethical principles by conducting their work with integrity. Objectivity, independence, professional judgment, and confidentiality are all elements of integrity.

SIGAR was created to conduct “independent and objective” audits and investigations. Standards designed to ensure that SIGAR adheres to the highest ethical principles encourage behaviors which are generally seen as critical to the functioning of an independent, impartial, diligent, and professional organization.

Since its establishment, SIGAR has worked to establish a public service culture grounded in government-wide ethical standards based upon 14 principles of ethical conduct for executive branch employees. The Office of Government Ethics concluded that SIGAR’s ethics program appears to meet required minimum standards for such a program. Our independent review established that SIGAR conducts required ethics orientation training for new employees; maintains training and annual financial disclosure records for its staff; provides employees with the opportunity to seek appropriate counseling for ethics-related issues, including post-employment issues; and has established a gift policy that is specifically tailored to Afghan culture. SIGAR believes it should provide, and is working toward, more effective in-country ethics counseling support and annual ethics training for staff wherever located as well as completing required ethics training plans.

SIGAR reported no established internal or external organizational impairments to its independence. Similarly, SIGAR reported that there were no known personal impairments on the part of its management or staff with regard to its work. SIGAR requires executives to provide annual declarations regarding potential impairments, as well as declarations by executives and individual staff with regard to every audit undertaken by SIGAR. During our review, we found that declarations were not obtained from staff with regard to each audit; however, when asked by the review team, SIGAR’s auditors in charge independently reported no external or personal impairments among staff.

Like most OIGs, SIGAR has established a policy for referring allegations of potential misconduct involving the IG and senior management to the CIGIE Integrity Committee. SIGAR’s policy provides that allegations involving the IG that are determined by the General Counsel to be “frivolous” may not be referred. Such a policy could create the appearance that a characterization of an allegation as “frivolous” and a subsequent decision not to refer it is improperly influenced by the General Counsel’s employment relationship. Through the end of our review, SIGAR had not received any allegation of potential misconduct of any nature involving the IG or management official since its inception.

Suggestion

We suggest that SIGAR consider revising its policy on referrals of allegations to require that any allegation involving the IG and other senior officials designated annually by the IG be referred to the Integrity Committee, without exception.

SIGAR Response

Accept. By September 30, 2010, SIGAR will have drafted and executed a specific policy regarding referrals of allegations of wrongdoing to the CIGIE and base it explicitly on language in section 11(d)(4) and (5) of the Inspector General Act of 1978, as amended. All language regarding non-frivolous allegations as the precondition of referral to CIGIE will be removed.

Professional Standards

Silver Book Standard: Each OIG shall conduct, supervise, and coordinate its audits, investigations, inspections, and evaluations in compliance with the applicable professional standards.

The work of an OIG must be done in compliance with applicable professional standards. SIGAR should conduct, supervise, and coordinate its audits according to the Yellow Book, and its investigations in accordance with the *Quality Standards for Investigations* and applicable Attorney General's Guidelines.

In our independent review of these two SIGAR component organizations, we observed deficiencies and significant noncompliance with these standards. The results of the audit and investigative peer reviews, along with SIGAR's responses, are included in Appendices IV and V, respectively. Because professional standards is one of the nine Silver Book standards included in the peer evaluation, we are summarizing the results of these component peer reviews below to ensure a complete and comprehensive view of SIGAR's operations.

Audit Organization Compliance with Standards

According to the July 2007 revision of the Yellow Book, high-quality auditing is essential for government accountability to the public and should provide independent, objective, fact-based, nonpartisan assessments of the stewardship, performance, and cost of government policies, programs, and operations. Government audits provide key information to stakeholders and the public to maintain accountability, help improve program performance and operations, reduce costs, and facilitate decision-making, among other things.

The Yellow Book provides a framework for performing high-quality audit work within the general standards of competence, integrity, objectivity, and independence. Compliance with these standards, along with the standards unique to conducting performance audits, which include planning the audit, supervising staff, obtaining sufficient appropriate evidence, preparing audit documentation, reporting, and conducting quality assurance, is the essence of the audit organization's responsibility under the IG Act.

The Yellow Book requires audit organizations to have an appropriate system of quality control, which has been suitably designed and complied with, to provide the audit organization with reasonable assurance of performing and reporting in compliance with these standards. The CIGIE *Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*, dated March 2009, provides guidance and procedures to ensure that external peer reviews are conducted in an appropriate and consistent manner. The review team

used this guide to conduct the external peer review of SIGAR's audit organization. The review covers audits issued from April 1, 2009 through March 31, 2010. Appendix IV includes the System Review Report, dated July 14, 2010, which contains a detailed discussion of the overall rating of pass with deficiencies and SIGAR's concurrence with all recommendations in that report.

SIGAR's system of quality control was suitably designed. The team noted that the draft policies and procedures in effect for reports issued through March 31, 2010, adequately covered areas such as independence, training, and processes for complying with Yellow Book standards. In light of the challenges that SIGAR continues to encounter, having formally documented policies and procedures detailing how audits are to be planned, supervised, documented, and reported, for all to follow, is necessary and critical. The audit organization formalized its policies and procedures on March 27, 2010.

However, compliance with these policies and procedures was inconsistent and incomplete. The review team specifically identified five deficiencies in the audit organization's practices that could create situations in which SIGAR would have less than reasonable assurance of performing and reporting on audits in conformity with the Yellow Book and its own policies and procedures. These deficiencies relate to implementing a quality assurance program, audit planning, documenting and supervising the audit, reporting, and independent referencing. In its response, SIGAR concurred with all seven recommendations in the report and stated that it is taking action to implement the recommendations, which it anticipates completing by September 30, 2010. Appendix IV discusses all five deficiencies and includes SIGAR's response to the peer review report.

Since its inception, SIGAR has been challenged by its information technology environment, which has been a significant barrier. In conducting the audit peer review, we noted that an automated working paper system would help SIGAR overcome some its deficiencies and more systematically monitor and manage its audits. During our review, we shared approaches that could assist SIGAR in overcoming this hurdle.

Suggestion

In addition to the recommendations included in Appendix IV and in light of SIGAR's organizational structure, we suggest that SIGAR continue to pursue the technological enhancements needed to effectively manage the documentation and supervisory aspects of its audits, and obtain additional information technology expertise to examine the environment and evaluate alternatives to address this situation.

SIGAR Response

Accept. In February 2010, SIGAR entered into preliminary discussions with a consultant group to obtain expertise and assistance for SIGAR's IT planning and analysis. The consultant is anticipated to start work by August 31, 2010.

Given the relative newness of SIGAR's audit organization, we specifically reviewed the entire portfolio of completed audit reports issued as of March 31,

2010, rather than following the traditional sampling approach. This approach allowed us to not only opine on the system of quality control but to also assess the level of improvement between earlier-issued reports and those reports issued more recently. We did not observe consistent improvement. However, throughout our review, we shared ideas with the audit organization leadership for overcoming many of the obstacles that SIGAR has encountered. During our exit meeting for the audit peer review and in discussions with staff while in Afghanistan, we became aware of other new initiatives and practices that the audit organization is currently undertaking to improve its processes. We believe these efforts, including the establishment of the quality assurance program, can help remediate the audit organization's deficiencies with respect to professional standards and provide further assurance of performing and reporting on audits in conformity with the Yellow Book and SIGAR's policies and procedures.

Suggestion

Given these initiatives, we suggest that SIGAR pursue with the CIGIE Audit Committee scheduling a follow-up peer review when appropriate.

SIGAR Response

Accept. Based on an internal assessment of progress in making improvements, SIGAR will request that CIGIE schedule the audit peer review follow-up to verify that deficiencies have been corrected. SIGAR anticipates requesting the follow-up by November 1, 2010.

Investigation Organization Compliance with Standards

All federal OIGs with law enforcement authority derived from the Inspector General Act of 1978 (as amended) operate under and are guided by the Attorney General Guidelines for Offices of Inspectors General with Statutory Law Enforcement Authority (2003). These Guidelines set forth wide-ranging standards that govern the exercise of statutory police powers by IGs and eligible employees and the role of federal prosecutors in providing guidance in the use of sensitive criminal investigative techniques. Such offices must also adhere to the Attorney General's Guidelines for Domestic Federal Bureau of Investigation Operations (2008), and the Attorney General's Guidelines Regarding the Use of Confidential Informants (2002). Adherence to these standards is tested through the quality assessment, or peer review process.

It is imperative that OIGs comply with these guidelines and the *Quality Standards for Investigations*, which are applicable to the investigative efforts of criminal investigators working for CIGIE-affiliated OIGs. These quality standards are comprehensive and relevant to a full range of government investigations, including all forms of misdemeanors and felonies (i.e., fraud, corruption, violence, and property, narcotics, cyber, and white-collar crime), background and security inquiries, whistleblower issues, research misconduct issues, administrative and programmatic matters, and special investigations requested by any appropriate authority. The standards contain three general standards—Qualifications, Independence, and Due Professional Care—and four qualitative standards—Planning, Execution, Reporting, and Information Management—that apply to the management and process functions performed by investigative personnel.

The peer review process culminates in a determination as to whether the reviewed investigative unit is either fundamentally in compliance with the Guidelines and other related standards, or is not. In the event the investigative unit is found to be noncompliant with these Guidelines, that determination and the specific findings leading to it are forwarded to the Attorney General for consideration and possible rescission or suspension of the OIG's exercise of law enforcement authorities.

The system of internal safeguards and management procedures for SIGAR's investigative unit in effect for the period ended April 16, 2010, was not in compliance with quality standards and the Attorney General Guidelines. This opinion was based on 10 reportable findings that represent weaknesses and opportunities for improvement. Specifically, the review identified four findings regarding investigative training, which was incomplete and undocumented; three findings related to documentation and information management, which ranged from arcane to non-existent for much of the review period; and two findings related to planning and priorities. SIGAR generally concurred with the findings in this report and made remediation of identified shortcomings a top priority. Appendix V contains a discussion of the findings and SIGAR's response.

The investigative peer review process does not specifically call for the review team to offer recommendations or suggestions. In the spirit of the peer evaluation, with the overall goal of suggesting opportunities for improvement based on the collective knowledge and experience of the review team, we offer the following suggestions related to the investigative peer review.

Suggestion

We suggest that SIGAR continue its efforts to finalize and communicate its investigative policies and procedures in an expedited manner, and establish methods to monitor compliance with these policies and procedures.

SIGAR Response

Accept. The Assistant Inspector General for Investigations (AIG-I) has made finalizing and communicating the Directorate's investigative policies and procedures a top priority. On July 23, 2010, the AIG-I issued an official, directorate-wide communication identifying, and mandating full compliance with, SIGAR's existing investigative policy, including the investigative policies temporarily adopted from the Special Inspector General for Iraq Reconstruction (SIGIR). All 19 of SIGAR's Special Agents are currently recertified and qualified in the use of firearms in accordance with Federal Law Enforcement Training Center (FLETC) standards; they are also current in required training and certification in the Department of Justice (DOJ) deadly force policy. By September 30, 2010, the specific policies noted by the peer review team to be lacking—firearms, use of force, and training policies—will have been fully codified, communicated, and implemented. The Directorate will implement other needed policies as appropriate. The Directorate also is establishing a comprehensive Self-Inspection Program to maintain reasonable assurance the Directorate is conducting its work in conformity with applicable professional standards.

Suggestion

We suggest that SIGAR pursue the adoption and deployment of a functional electronic information management system to enhance its investigative

operations. Throughout this report we cite the benefits of an information management system in managing an organization.

SIGAR Response

Accept. Adopting and deploying an electronic information management system is a top priority of the Investigations Directorate. By August 31, 2010, the AIG-I will have completed the statement of work, identifying a desirable system for an electronic information management system, and selecting a vendor by September 30, 2010.

Suggestion

We suggest that SIGAR pursue with the CIGIE Investigations Committee scheduling a follow-up review when appropriate.

SIGAR Response

Accept. The Investigations Directorate is moving swiftly toward full compliance with CIGIE standards and will pursue scheduling a follow-up review as soon as appropriate. SIGAR anticipates requesting the follow-up by November 1, 2010.

Ensuring Internal Control

Silver Book Standard: The IG and OIG staff shall direct and control OIG operations consistent with GAO's Standards for Internal Control in the Federal Government, which require that internal control be part of the OIG's management infrastructure to provide reasonable assurance that (1) operations are efficient and effective; (2) financial reporting is reliable; and (3) operations are in compliance with applicable laws, regulations, and professional standards.

Internal control is defined as processes designed to provide reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Internal controls promote efficiency and reduce the risk of asset loss. According to GAO, there are five key components of internal control: (1) Control Environment, (2) Risk Assessment, (3) Control Activities, (4) Information and Communication, and (5) Monitoring. The five components work in tandem to mitigate the risks of an organization's failure to achieve its objectives. For an organization to have a strong system of internal control, there also must be in place effective controls in the operations, compliance, and financial areas. The policies and procedures in place should be understood and followed and an organization-wide commitment to strong internal controls and effective risk management should be fostered.

Internal Risk Assessment

Internal risk assessment is an important element in establishing a good system of controls. Internal risks are associated with the risk of not achieving the OIG's objectives, such as those defined in strategic and annual performance plans, and identifying such risks helps form a basis for determining how these risks should be managed. Internal risk assessments are different from an assessment of risk associated with audit and investigative planning. For example, an internal risk

for an OIG organization is “compliance risk,” which includes the risk that the OIG audit or investigative work does not comply with professional standards.

We found no evidence that a comprehensive internal risk assessment was performed. In late 2009, SIGAR contracted for an organizational assessment report to serve as an internal risk assessment. In our opinion, this assessment did not adequately address the internal risks. This assessment focused more on organizational design options rather than identifying and assessing operational risks. The benefits of having a formal internal risk assessment process includes not only having a better understanding of the internal risk areas but also obtaining a better understanding of the mitigations and controls in place to reduce the risks. For example, mitigation for compliance risk would include having a quality assurance program, to include a sound quality control system, that reviews and monitors for ongoing compliance.

Suggestion

We suggest that SIGAR perform a more formal internal risk assessment that identifies internal risks, assesses likelihood of occurrence and significance, and addresses SIGAR’s key controls to mitigate the identified risks.

SIGAR Response

Accept. SIGAR will designate a Director of Risk Management by September 30, 2010, to lead SIGAR’s efforts in conducting a comprehensive internal risk assessment and querying other IGs to identify best practices in risk assessment and analysis. The assessment will include establishing and implementing a manager’s internal control program in accordance with OMB Circular A-123. The program will be based on standards established by the Comptroller General and address internal controls for the environment, risk assessment, control activities, information and communications, and monitoring.

System of Internal Control

SIGAR’s system of internal controls for administrative operations appears to be comprehensive, with adequate documentation supporting key control activities. These operations include (1) payroll processing, security clearance processing, and other human resource functions; (2) procurement of goods and services; (3) recording and safeguarding of SIGAR assets; (3) travel and expense reimbursement; and (4) financial reporting. Additionally, control and compliance monitoring activities are performed by other federal agencies, including the Office of Management and Budget and Department of the Army. SIGAR effectively relies on existing systems in other agencies for key processes such as employee reimbursements, procurement, personnel, and asset management.

However, the policies and procedures necessary to establish and sustain these controls should be completed. During our review, SIGAR had finalized 20 policies and procedures to establish internal controls, of which 14 were implemented prior to its request for a peer evaluation. At the end of our review, there were an additional 11 policies and procedures that had been drafted but not issued. SIGAR indicated that administrative policies from the Department of Defense, SIGIR, and Department of State were also used for internal control purposes.

Suggestion

We suggest that SIGAR ensure that its administrative policies are completed for all key administrative areas to ensure processes and procedures are clearly defined for SIGAR staff and, where applicable, incorporate Department of Defense and Department of State requirements.

SIGAR Response

Accept. SIGAR has identified key administrative areas requiring policies and by November 30, 2010, will have issued the completed policies. The policies and supplemental guidance will be accessible from SIGAR's internal website. In addition, the policies and guidance will be communicated to all SIGAR staff and questions answered at an all-hands staff meeting.

Maintaining Quality Assurance

Silver Book Standard: Each OIG shall establish and maintain a quality assurance program to ensure that work performed adheres to established OIG policies and procedures; meets established standards of performance, including applicable professional standards; and is carried out economically, efficiently, and effectively.

A quality assurance program is a periodic review of work processes to ensure that policies and procedures are being followed and professional standards are being met. These periodic reviews highlight opportunities for organizations to perform work more efficiently, and also identify training opportunities for staff. In addition, a quality assurance program increases the likelihood of ongoing compliance with professional standards and provides useful information to mitigate potential deficiencies in the audit and investigative processes.

At the time of our review, a quality assurance program did not exist within SIGAR's audit or investigation organizations. SIGAR's request for CIGIE to conduct this peer evaluation was viewed as a positive first step in the development of a quality assurance environment.

According to the Yellow Book, each audit organization performing audits in accordance with Yellow Book standards must internally establish a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements. The Yellow Book describes monitoring of quality as an ongoing, periodic assessment of work completed on audits and provides that an audit organization should analyze and summarize results of its monitoring procedures at least annually, with identification of any systemic issues needing improvement, along with recommendations for corrective action.

As discussed in more detail in Appendix IV, quality assurance was a deficiency noted in the audit peer review report, and recommendations were made to aid SIGAR in the development of its quality assurance program. SIGAR concurred with both recommendations and, during our review, initiated plans to establish and maintain such a program within the Office of Audits.

Suggestion

We suggest that SIGAR continue to make developing an effective quality assurance program a priority to address the deficiencies noted in the audit peer review and to help ensure quality going forward.

SIGAR Response

Accept. The Quality Control Director is continuing to develop and implement a robust quality assurance program. The program is well under way and includes using Appendix E in the CIGIE Peer Review Guide as the methodology for conducting an annual quality assurance review; soliciting comments from senior audit managers, auditors-in-charge, and referencers to identify systemic issues needing improvement; and making periodic recommendations to the AIG-A for corrective action. The most significant issues—in planning, documentation, supervision, independent referencing, and reporting—will be addressed first through staff meetings and management memos, training courses emphasizing auditing essentials, and periodic audit inspections. In addition, SIGAR is hiring an experienced auditor to serve as a full-time referencer for audit reports.

The investigative quality standards do not specifically require a quality assurance program; however, this Silver Book standard suggests that OIG offices should have a program that covers all aspects of the office, including audit and investigations. Additionally, a quality assurance program for the investigative organization is considered by the IG community as a better practice. At the time of our review, we were not aware of any plans for establishing a quality assurance program within the Office of Investigations.

Suggestion

In light of SIGAR's geographic and environmental challenges and the benefits that can be derived from such a program, we suggest that SIGAR consider establishing a quality assurance program for its investigative function.

SIGAR Response

Accept. We are enhancing quality assurance by establishing a comprehensive Self-Inspection Program in the Investigations Directorate to maintain reasonable assurance the Directorate is conducting its work in conformity with applicable professional standards. The Self-Inspection Program will be implemented by August 31, 2010.

Planning and Coordinating

Silver Book Standard: Each OIG shall maintain a planning system assessing the nature, scope, and inherent risks of agency programs and operations, whereby this assessment forms the basis for establishing strategic and performance plans, including goals, objectives, and performance measures to be accomplished by the OIG within a specific time period. The IG and OIG staff shall coordinate their activities internally and with other components of government to assure effective and efficient use of available resources.

Strategic planning is a key leadership and management function. It provides overall strategic direction to the organization as well as specifics on how the organization plans to achieve its success. Traditionally a strategic plan

establishes the mission, vision, goals, objectives, and measures that define the organization. Component plans are critical for detailing how each organizational unit will contribute to the successful completion of the plan. For audit and investigative units, such plans should periodically take a comprehensive and broad look at the universe of potential work, and conduct a risk-based assessment to prioritize what work needs to be done. Coordination is key to ensuring efficient and effective use of limited resources.

Strategic Plan

SIGAR recently developed a 5-year strategic plan that was approved on May 25, 2010, and posted on its external Web site. This plan includes SIGAR's mission, strategic vision, and a statement of core values. The plan also includes a discussion of five key goal areas with specific objectives, means of accomplishing those objectives, and specific measures of effectiveness. External factors were also presented along with strategies for addressing those factors.

According to SIGAR's strategic planner, the strategic plan was developed through a series of meetings and brainstorming sessions with key SIGAR managers. SIGAR also reviewed strategic plans from numerous other OIGs and applied those practices that best fit SIGAR. While the performance measures cited in the strategic plan appear to be comprehensive, no performance targets have been set. SIGAR management informed us that targets were not set because there was not enough baseline data to set meaningful measures.

Performance targets are essential to setting and measuring the performance expectations for an organization and then motivating the organization as well as individual employees to commit to achieving a certain level of success. Performance targets can be partially set by baseline measures, benchmark data, or some combination of both. At a minimum, establishing targets enables the collection of data that can later be used to refine the targets and increase their utility to management. Without setting any targets for defining success, SIGAR can neither objectively define its success nor measure its progress in achieving success.

Suggestion

We suggest that SIGAR adopt performance targets to guide the collection of performance data to enable SIGAR to define specifically the level of its success.

SIGAR Response

Accept. SIGAR issued its strategic oversight plan in March 2010 for fiscal years 2010-2014. SIGAR is collecting performance data to develop a baseline for fiscal year 2010 and will be adopting performance targets to guide the collection of performance data for fiscal year 2011. Moreover, the strategic plan will be reviewed and revised as needed to ensure its ongoing usefulness and relevance to SIGAR's oversight responsibilities.

In addition to performance targets, SIGAR does not have a comprehensive project management system that provides critical information to assist in the management of organizational and individual performance. Such a system would ensure the tracking and reporting of key audit, investigative, and general

management information related to project milestones, cycle time, staff days, and other critical performance management data that would be vital in managing the enterprise. The lack of key performance management data makes an objective evaluation of SIGAR's performance difficult, either externally or internally. Going forward, SIGAR should have processes in place to routinely track, trend, and report this information in order to continuously seek improvement opportunities.

Suggestion

We suggest that SIGAR implement a more comprehensive performance management system to provide a mechanism for collecting and reporting this key information to assist management in managing the enterprise and better defining individual and organizational success.

SIGAR Response

Accept. SIGAR employees are considered Department of Army civilians for the purpose of administration of pay, leave, benefits, and entitlements. Therefore, SIGAR will use the performance evaluation system as described in Army Regulation 690-400 as a basis for designing a performance evaluation system. This system will be in place by September 30, 2010. The system is designed to improve performance by communicating organizational goals and priorities, providing tools for supervisors and managers to assess performance systematically, and establishing the basis for effective supervision.

Audit and Investigation Component Plans

SIGAR put in place a *Strategic Plan for Audits*, dated March 2009. This plan, which is publicly available, established a framework that outlined the mission and goals for the audit organization, identified how the audit organization would address the tasks detailed in the enabling legislation, and listed potential audits that would be performed as a starting point for decisions on audit priorities. Some limited outcome measures were defined; however, no target goals were established. A formal risk assessment was not performed in developing this plan, and no analysis was performed to prioritize those areas warranting more immediate review. According to the plan, SIGAR intended to revisit the plan in early 2010 to update and revise it as necessary, considering progress made, lessons learned, work demands, and evolving problems in conducting work in Afghanistan. The Assistant Inspector General for Audits advised the review team that he does not intend to formally revisit the plan and considers the updating of the quarterly list of audits to be sufficient.

Based on interviews with stakeholders, we believe that SIGAR should revisit this decision. In the view of some stakeholders, SIGAR was not necessarily conducting the "right audits" and could benefit from their input, while others said that they were satisfied with the areas that SIGAR selected for audit. Some stakeholders specifically expressed concerns that high-dollar contracts were not being adequately overseen and audited to ensure appropriate use of reconstruction funds. However, stakeholders at all levels reported that SIGAR does not routinely solicit their input in its planning efforts. In our view, the absence of a process for periodic reassessment of the audit plan that considers stakeholder

input in light of changes in the environment creates an independent risk that audit efforts will not be targeted to the most relevant issues as conditions evolve.

SIGAR had not adopted a strategic plan for investigative work at the time of our review. The AIGI informed the team that a strategic plan was being developed. Such a plan would help the AIGI identify where to allocate scarce investigative resources in line with SIGAR's overall investigative strategy.

Suggestion

We suggest that SIGAR revisit its audit plan, using more input from stakeholders, and employ a risk-based assessment to systematically identify the most important work that needs to be done.

SIGAR Response

Accept. In conjunction with reviewing and revising the strategic oversight plan, the AIG-A will establish a team by September 30, 2010, to develop a plan to systematically obtain stakeholder input, identify areas of reconstruction program risk, and set work priorities consistent with SIGAR's legislative mandate. Among other activities, the team will reach out to other IGs and obtain input on best practices in developing a risk-based audit plan.

Suggestion

We suggest that SIGAR apply a risk-based process to its planning effort to identify where to concentrate its investigative efforts and deploy its limited resources.

SIGAR Response

Accept. Although the Investigations Directorate had applied a risk-based process in identifying areas in which to concentrate its efforts and deploy resources, this process was not documented. The AIG-I will formalize the process by September 30, 2010. The process will continue to focus on positioning investigators throughout Afghanistan in locations where fraud related to U.S. reconstruction spending is most likely to occur, consulting stakeholders on making decisions about the location of investigators and allocation of resources, and obtaining input from other IGs on best practices to use in developing a risk-based investigations process.

Suggestion

In the case of both audit and investigations, in developing the plan, an important element of the process should be input from stakeholders.

SIGAR Response

Accept. SIGAR responses above address this suggestion. It should be noted that SIGAR is unique because we report to the six "appropriate congressional committees" as defined in our enabling legislation—the Senate Committees on Appropriations, Armed Services, and Foreign Relations; the House Committees on Appropriations, Armed Services, and Foreign Affairs; the Secretary of State; and the Secretary of Defense.

Coordination of Audit Activities

An OIG's coordination of activities with its agency and other OIGs is critical to ensuring the effective use of resources. Such coordination can occur at both a

tactical and a more strategic, or higher level. We observed a number of tactical efforts that SIGAR participated in to coordinate its activities. For example, SIGAR participates in the Southwest Asia Planning Group, which reviews the different oversight agency planning activities and carries out a comprehensive deconflicting process to ensure that everyone knows what reviews are being planned and any potential duplication is avoided. In addition, SIGAR participates in the in-country IG Shura meetings and coordinates audit announcement letters with the other agencies to ensure that audit coverage is not duplicated. The IG also routinely visits Afghanistan to gain a better understanding of the challenges associated with the Afghanistan reconstruction effort and meet with agency officials.

In our interviews with other agencies involved in the oversight of Afghanistan reconstruction, SIGAR received positive comments regarding the coordination of its work with other agencies. Specifically, many stakeholders made favorable comments about SIGAR's effort to coordinate the initiation of new audits by allowing them to review and comment on the announcement letters. However, we did hear concerns from auditees in-country who indicated that more work should be done to prevent unnecessary duplication. Some stakeholders cited examples of multiple requests for the same information from different agencies.

In the case of SIGAR and others operating in a war zone, extremely heavy demands are placed on scarce resources, and all parties need to work efficiently and effectively together. For this reason, SIGAR and other audit organizations would be well served to coordinate closely for several reasons. First, coordinated efforts would reduce the burden of duplicative requests for the same information from the same few individuals. Second, once in receipt of needed information, the audit organizations involved are better able to memorialize, share, and update the information obtained for future use.

Suggestion

We suggest that SIGAR continue its coordination efforts at all levels and with multiple stakeholders to maximize the efficient use of resources and minimize duplication.

SIGAR Response

Accept. SIGAR will maintain diligence in its coordination with task force members and planning working groups to prevent duplication of efforts and leverage resources efficiently and effectively. This includes continued participation in the Southwest Asia (SWA) Planning Group; the Afghanistan-Pakistan SWA subgroup; in-country Shura meetings with the military and U.S. Embassy; vetting of individual audit announcement letters with other IGs to ensure audit coverage is not duplicated; and frequent communication with various task forces and other appropriate planning and working groups. Furthermore, SIGAR will continue its close working relationship with members of the International Contract Corruption Task Force (ICCTF) and the National Procurement Fraud Task Force, whose 10 members include SIGAR; SIGIR; the Federal Bureau of Investigation (FBI); the Department of Defense Inspector General; the USAID Inspector General; the Naval Criminal Investigative Service; the U.S. Army Criminal Investigation Command; the Air Force Office of Special Investigations; the Defense Criminal Investigative Service; and the Internal Revenue Service (IRS).

SIGAR continues to maintain a Special Agent assigned full-time to the ICCTF's Joint Operations Center in Washington, D.C., and conducts regular briefings on joint and independent investigative activity.

Coordination of Investigative Activities

One emerging coordination issue that could present challenges to SIGAR's ability to accomplish its mission relates to which agency has jurisdiction in leading investigative projects. In interviews with stakeholders, it was apparent that there is some disagreement on what agency has lead responsibilities in the conduct of investigations. This issue is mitigated somewhat by SIGAR cases being conducted mostly with joint task forces and SIGAR's participation in the International Contract Corruption Task Force. One view is that the agency that brings the allegation forward would have lead jurisdiction. Another view is that the affected organization should always have the lead on the case. The latter view could have severe limits on SIGAR's investigation program if SIGAR were to become a mere participant on all investigative cases. We believe this issue needs to be clarified to prevent misunderstanding between agencies.

Suggestion

We suggest that SIGAR clarify jurisdictional issues involving investigative projects with members of the International Contract Corruption Task Force to ensure a common understanding.

SIGAR Response

Accept. The Investigations Directorate will ensure there is clarity within the ICCTF regarding SIGAR's reconstruction oversight mission and continue to focus on task force matters that fall within its mandate.

Communicating Results of OIG Activities

Silver Book Standard: Each OIG shall keep agency management, program managers, and the Congress fully and currently informed of appropriate aspects of OIG operations and findings. OIGs shall assess and report to the Congress, as appropriate, on their own strategic and annual performance and the performance of the departments for which they have cognizance. All products issued should comply with applicable standards; conform to the OIG's established policies and procedures; and be objective, timely, useful, and adequately supported. Each OIG shall report expeditiously to the Attorney General whenever the IG has reasonable grounds to believe there has been a violation of criminal law.

Communicating the results of audit and investigative efforts to those who need the information to better fund, manage, and oversee agency programs and operations is a key OIG responsibility. Issuing high-quality reports, conducting effective briefings, testifying before the Congress, and ensuring timely communication with Department of Justice officials are the primary methods whereby OIGs communicate their results. This standard addresses practices related to keeping stakeholders informed on the agency and OIG performance, producing quality products that are useful and timely, and reporting expeditiously to the Attorney General.

Keeping Informed

SIGAR keeps the Congress and agency heads informed through the issuance of various written products on audit and investigative activities and frequent briefings on significant reviews. SIGAR has set up a congressional affairs office to keep its committees of jurisdiction current on SIGAR's activities. Representatives from this office arrange for coordinated briefings to discuss SIGAR's quarterly reports and audit reports, upon request. Stakeholders we interviewed were generally satisfied with SIGAR's process for communicating with committee staff and found SIGAR's congressional affairs staff to be responsive to questions and requests for information. SIGAR's public affairs office ensures that SIGAR's reports are available to the public in a timely manner and communicates with media representatives, as needed.

Quality Products

While the quarterly reports and frequent briefings appear to be adequate in order to keep the Congress informed, there were mixed views from stakeholders regarding the focus and usefulness of some of SIGAR's audit reports. Some comments were received in stakeholder interviews that suggested SIGAR should focus more on contract audit work in order to identify areas where more cost savings could be obtained. Other views were expressed that many of the audits were too superficial to provide for any meaningful actions. As noted under the **Planning and Coordinating** standard, the suggestion to systematically identify the most important work that needs to be done and seek more stakeholder input could result in more stakeholder satisfaction with the audit reports.

For audit reports to be of high quality, they need to be useful and comply with professional standards. In the audit peer review report, we noted two areas of deficiency related to SIGAR's audit reports. These deficiencies related to audit objectives and finding elements (i.e., criteria, condition, cause, and effect) and independent referencing. Anecdotally, several stakeholders expressed concerns with broadly stated objectives or objectives that appeared to expand during the course of the audit. As discussed in Appendix IV, SIGAR concurred with the four recommendations addressing these areas and cited corrective actions that it will undertake to remediate these deficiencies.

Attorney General Reporting

According to the IG Act, each OIG shall report expeditiously to the Attorney General whenever the IG has reasonable grounds to believe there has been a violation of criminal law. We found SIGAR's activities related to the expeditious reporting to the Attorney General to be adequate. SIGAR's investigative activities were primarily joint investigations with the Joint Operations Center and the International Contract Corruption Task Force, both of which had representation by the Department of Justice.

Managing Human Capital

Silver Book Standard: Each OIG should have a process to ensure that the OIG's staff members collectively possess the core competencies needed to accomplish the OIG mission. Such a process for ensuring that OIG staff possess the requisite qualifications should encompass processes for recruiting; hiring; continuously developing, training, and evaluating staff; and succession planning to assist the OIG in maintaining a workforce that is capable of meeting its mission.

As previously discussed in this report, an OIG needs to establish an overall strategic direction to guide it as it carries out its mission. Key to accomplishing the mission is hiring, developing, and retaining a cadre of professionals who fully understand the mission and possess the needed core competencies to get the job done.

Hiring the Right People

The timely hiring of members of a senior leadership team is critical to the success of any new organization. According to information obtained through interviews, delays in hiring two of SIGAR's senior leaders may have negatively impacted the organization. For example, significant delays in the hiring of the AIGI contributed to the inability of SIGAR to put into place an effective investigative program for over one year. Prolonged efforts to bring a certain individual on board to occupy that position and hire his or her own investigative staff ultimately proved unsuccessful when that individual turned SIGAR down. It was not until September 2009 that another candidate was hired as the AIGI. As discussed further below, the two staff hired for the investigative function during that time, both of whom were attorneys with no prior investigative experience, conducted their work without the benefit of investigative senior leadership.

Additionally, the leadership role of a Deputy IG is to provide critical support to the IG and to ensure efficient and effective day-to-day operations. SIGAR does not have a permanent Deputy IG located in the U.S.; rather, an individual was serving in that role in an acting capacity during our review while at the same time serving as Assistant Inspector General for Audits. Concerns were expressed by SIGAR staff that delays in permanently filling this position were having negative impacts on SIGAR's operations.

Suggestion

We suggest that in the future SIGAR carefully evaluate the operational impact that delays in recruiting senior leadership have on the organization and develop alternative plans to ensure negative impacts are not experienced.

SIGAR Response

Accept. SIGAR leadership is committed to making timely decisions in recruiting and hiring senior staff. SIGAR has identified seven mission critical positions and is developing succession plans to ensure that any vacancy of a critical position will not have a negative impact on the agency. The positions are Inspector General; Deputy Inspector General; Assistant Inspectors General for the Directorates of Management and Support, Audits, and Investigations; the Director of the Information Management Division; and the Director of Forward Operations. SIGAR has had a Principal Deputy Inspector

General position which has been occupied since January 2009 and posted at the U.S. Embassy, Kabul. His principal duties have been to facilitate the standup of SIGAR permanent operations in Afghanistan and serve as the SIGAR primary day-to-day representative to U.S. Government and Afghan Government officials. Recruitment for the Deputy Inspector General position in SIGAR headquarters is under way. Succession plans for key positions will have been completed by October 31, 2010.

In reviewing SIGAR's history, we also noted certain staff hiring efforts that, in retrospect, seemed to be problematic. For example, SIGAR created an inspection function and proceeded to staff it with engineers. SIGAR reported in its July 30, 2009 quarterly report that a number of inspectors had been hired. SIGAR's January 30, 2010 quarterly report indicated that the inspection function had subsequently been merged with the audit function. We were told that the engineers who transferred to the audit organization did not necessarily possess the auditing core competencies required for that function, and some have subsequently left SIGAR. SIGAR appears to have invested substantial effort on the inspections hiring initiative, at the expense of other hiring that may have served it better.

While SIGAR has acknowledged the need to hire a more diverse auditor workforce and is taking aggressive steps to do so, it needs to be cautious and carefully consider its specific staffing and skill-set needs to ensure it makes good hiring decisions. In that connection, some stakeholders have expressed concerns that SIGAR needs to do more contract audits to ensure that contract deliverables are received and funds are appropriately used. Increasing coverage in these types of audits may require a different mix of skills and calls for careful consideration of the skill sets of those brought on board. As referenced above, SIGAR hired attorneys to serve as investigators even though they did not meet the minimum qualifications for investigators and had no prior experience as special agents. In this case, though well-intentioned, these individuals did not possess investigative skills that they could put to immediate use to help accomplish SIGAR's mission. SIGAR has subsequently hired a number of qualified special agents, who appear to have the core competencies to successfully carry out the investigative workload.

We believe that as SIGAR addresses the items discussed in the **Planning and Coordinating** standard, it may also identify changes in the core competencies needed by all SIGAR staff to fully accomplish its mission.

Suggestion

We suggest that SIGAR re-evaluate staffing and skill-set needs in conjunction with efforts to improve its risk assessment and planning processes.

SIGAR Response

Accept. In conjunction with SIGAR's risk-based analysis and assessment, SIGAR will continuously evaluate staffing and skill-set needs.

The Audit Directorate has 39 auditors or program analysts on board with 16 more in various stages of the hiring process, for a total of 55. Our audit staff comes from a wide range of organizations: 29 have prior GAO experience; 20 have worked with one or more Federal Inspectors General; 13 have prior

experience working on Afghanistan issues; 7 have worked with SIGIR; 5 bring expertise in the Dari and Pashtu languages; and 2 have worked with the Wartime Contracting Commission.

The Investigations Directorate has assembled a staff of highly experienced professional investigators, analysts, and other personnel. The Directorate's investigators have previous experience with the FBI; IRS; Drug Enforcement Administration; U.S. Customs and Border Protection; Department of Interior; U.S. Army Criminal Investigations Command; Naval Criminal Investigative Service; and SIGIR. SIGAR's current 19 Special Agents are senior-level, career law enforcement officers with an average of 26 years of relevant, federal law enforcement experience. Many have advanced degrees and professional certifications in disciplines such as accounting, fraud examination, and white-collar crime. Additionally, all 19 Special Agents are recertified and qualified in the use of firearms in accordance with FLETC standards and are current in required training and certification in the DOJ deadly force policy. As the Directorate grows, it continues to devote substantial managerial effort to hiring employees who can help expand its investigative capabilities. For instance, Directorate managers are evaluating the advantages of hiring additional speakers of Afghanistan's native languages. In defining all new positions and filling all future vacancies, the Directorate also will be mindful of the importance of hiring employees with skill sets that improve risk assessment and planning.

Developing and Retaining the Right People

A key aspect of this Silver Book standard on managing human capital includes the formal evaluation of staff performance. This process also contributes to decisions related to performance pay and promotion decisions. SIGAR's policy regarding the evaluation of employee performance had not been finalized at the time of our review. The draft policy provides some guidance related to defining certain performance elements and performance expectations along with a rating scale to be used in employee evaluations; however, SIGAR has not finalized the policy and does not routinely conduct performance evaluations. It should also be noted that employees are hired on 13-month appointments, and a process does exist to allow satisfactory employees to request extensions on their appointments.

Suggestion

We suggest that SIGAR proceed with its effort to put in place a more formal performance appraisal process to ensure a more structured approach to evaluating performance and making decisions related to pay and promotions.

SIGAR Response

Accept. As previously noted, SIGAR employees are identified as Department of the Army civilians for the purpose of administration of pay, leave, benefits, and entitlements. Therefore, SIGAR will use the performance evaluation system detailed in Army regulations as a basis for designing a performance evaluation system. The new system will be in place by September 30, 2010.

Continuing professional development is a critical element in ensuring that staff possess the requisite competencies. Additionally, professional standards require a comprehensive process to ensure training requirements are met. The audit peer review team did not identify any concerns related to audit staff training.

As discussed in Appendix V, the investigative peer review did note deviations from the law enforcement training and qualifications requirements. It is important to note, however, that all of the more recently hired investigators are very experienced criminal investigators and have had academy-level training. Both SIGAR's current practice and recently adopted policies do comply with these requirements.

In addition, SIGAR's law enforcement personnel were authorized to maintain and carry firearms. As of the period of our review, no SIGAR-specific firearms training had occurred, though one interviewed SIGAR investigator did report participating with other agencies in a firearms session in Afghanistan in October 2009. Although SIGAR's firearms training was deficient, as demonstrated in the investigative peer review, SIGAR conducted a firearms training session in Afghanistan on May 13 and plans to take other actions to ensure future compliance. SIGAR's recently adopted policies comply with the firearms training requirement.

Suggestion

We suggest that SIGAR continue to establish and implement requisite training and document and retain records relating to training.

SIGAR Response

Accept. SIGAR will complete the procurement of tracking software for training by September 30, 2010, which will greatly assist SIGAR in the process of documenting and retaining training records.

Reviewing Legislation and Regulations

Silver Book Standard: Each OIG shall establish and maintain a system to review and comment on existing and proposed legislation, regulations, and those directives that affect the programs and operations of the OIG's agency or the mission and functions of the OIG.

SIGAR has not established and maintained a formal system to review and comment on existing and proposed legislation. SIGAR's rationale for not doing so is that it has the unique and time-limited responsibility to provide oversight of expenditures for Afghanistan reconstruction, a task performed by multiple offices in numerous agencies, rather than the more traditional oversight of permanent programs and operations of a single agency. While SIGAR reports dually to the Secretary of State and the Secretary of Defense, both respective departments have established OIGs with responsibility for reviewing legislation, regulations, and internal directives affecting those agencies.

SIGAR believes that its participation in the appropriations process and input to the legislative process fulfill its responsibilities in these areas. SIGAR has commented informally on issues directly affecting its mission and functions, insofar as that mission and those functions have been implicated in legislation affecting the IG community generally.

Receiving and Reviewing Allegations

Silver Book Standard: Each OIG shall establish and follow policies and procedures for receiving and reviewing allegations to ensure that an appropriate disposition, including appropriate notification, is made for each allegation.

SIGAR initially established a Hotline, as reported in its quarterly report, dated January 30, 2009, and over time developed a Hotline Review Committee to receive, review, and appropriately disseminate (or dismiss) allegations. The Hotline was publicized through English, and later tri-lingual, posters, with both telephone and Internet accessibility. To expedite the handling of complaints, the process was moved to the investigations organization and placed under the control and supervision of the Deputy AIGI. During the time of our review, the Deputy AIGI enhanced the process and personally conducted the intake and review process and assigned or disseminated complaint information, as appropriate. However, the review team noted that the written policy at the time of our review did not reflect the current practice.

Suggestion

We suggest that SIGAR ensure that the draft hotline policy is revised and made final to reflect the current practice.

SIGAR Response

Accept. The Investigations Directorate has drafted a revised hotline policy to reflect the current practice. The policy will be issued by September 30, 2010.

Final Observations

SIGAR is a young organization with a difficult mission, operating in a complex, wartime environment. Following its creation, SIGAR was hampered by funding limitations, difficulties with its hiring authority and ability to attract qualified staff, and logistical constraints on its assignments of personnel to the war zone. While subsequent legislation and efforts on its own and by other organizations on its behalf remediated the most pressing of these issues (funding and hiring authority, in particular), SIGAR continues to operate with handicaps to its efficiency, as noted in this report.

External problems alone, however, do not account for some of SIGAR's missteps. These missteps included (1) delays in the hiring of key management personnel, (2) inconsistent emphasis on strategic planning and agency risk assessments, (3) a failure to establish appropriate policies and procedures to govern its investigative work, and (4) a choice to focus on productivity rather than ensuring that audits were conducted in accordance with professional standards. While these missteps are significant, it is critical to note that the ramifications can be addressed. In fact, since the initiation of this review, SIGAR has been working aggressively to remediate many of the concerns we have identified. SIGAR concurred with the results of the audit and investigative peer

reviews and has begun to implement actions to correct the deficiencies and instances of noncompliance.

The ultimate internal goal for SIGAR, as with any IG, should be to ensure that it is doing the right work, that it is doing it right, according to standards, with the right people, and at the right time. As noted in SIGAR's quarterly report, dated April 30, 2010, three developments during the first quarter of the year will shape the Afghanistan reconstruction program going forward: the President's budget request for an additional \$20 billion in reconstruction funding, the Department of State's new strategy to build the capacity of Afghan institutions, and the international community's commitment to transition to control by the Government of the Islamic Republic of Afghanistan over its security and development. Each of these developments could significantly alter the fundamental risk environment surrounding SIGAR's operations and activities. Each development also gives rise to profound challenges to planning by an organization that is broadly charged with oversight of U.S. government programs and operations funded with appropriations for the reconstruction of Afghanistan.

In light of these developments and the likelihood of future changes in the region related to reconstruction efforts, it is our collective view based on the knowledge and experience of the review team that SIGAR should look to:

- Establish a robust, ongoing program of risk assessment and reassessment to better target its resources, be responsive to stakeholders, and adapt to the rapidly changing environment in which it operates;
- Continue to improve management processes, and in particular performance management and human capital, to ensure effective and efficient operations;
- Continue to develop and refine its audit and investigative processes to address deficiencies and instances of noncompliance and implement quality assurance activities to ensure ongoing compliance with professional standards; and
- Continue to work more effectively with stakeholders to meet their expectations.

We commend the IG for his willingness to seek an independent assessment of SIGAR's work standards; its policies, procedures and management structures; and its staffing. In addition to seeking an outside view, we believe that he should consider establishing stronger internal processes to foster an ongoing, frank internal dialogue whereby SIGAR will seek to continually challenge itself.

We appreciate the candor of SIGAR's external stakeholders, whose views on many subjects varied considerably, as well as the cooperation of the IG and his staff as we conducted our review.

SIGAR Comments and Our Evaluation

As reflected throughout this report, SIGAR's August 6, 2010 response letter contained its proposed actions to address the 22 suggestions that the review team made. For the most part, SIGAR expects to implement the actions by September 30, 2010. Additionally, the IG indicated that SIGAR will give top management attention to four specific areas of activity. As stated in the IG's response:

1. We are establishing a team to develop a robust process to systematically obtain stakeholder input, identify and mitigate risks, and set work priorities consistent with SIGAR's legislative mandate. Among other activities, the team will reach out to other Inspectors General and obtain input on best practices to use in a developing risk-based strategic plan for audit and investigations that is commensurate with SIGAR's mission and constraints.
2. We are correcting deficiencies identified in the peer reviews of audits and investigations by establishing and clarifying policies and procedures; developing checklists and other tools to ensure compliance; continuing to provide training; and conducting internal compliance inspections and follow-up on the recommendations made by the peer review teams.
3. We are enhancing quality assurance by both (a) continuing and expanding the Audit Directorate's program of quality control checks and activity monitoring to maintain reasonable assurance the Directorate is conducting its work in conformity with applicable professional standards and (b) establishing a comprehensive Self-Inspection Program in the Investigations Directorate by August 31, 2010. As part of the overall quality assurance initiative for Investigations, we are immediately putting into place an independent monitor with extensive experience in federal law enforcement policies, procedures, and standards. This monitor will act as a neutral expert in reviewing, evaluating, and to the extent necessary, further enhancing the comprehensiveness and effectiveness of SIGAR's responses to the peer review's suggestions.
4. We are developing systems to better assess performance of our organization as a whole, as well as of individual staff.

These four series of actions, together with the actions planned to address each suggestion in the report, should go a long way toward improving SIGAR's management, audit, investigative, and support operations and providing the level and quality of oversight of Afghanistan's reconstruction programs that the Congress intended and the taxpayer expects.

February 24, 2010, SIGAR Letter to CIGIE Chair**SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION**

February 24, 2010

The Honorable Phyllis K. Fong
Inspector General, U.S. Department of Agriculture
Chair, Council of Inspectors General on Integrity and Efficiency (CIGIE)

Dear Ms. Fong,

The Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) has been in operation for just over a year. Since October 2008, we have grown from a staff of 2 to a staff of 78, and we are now producing audit reports and quarterly reports on a regular basis, as well as conducting a substantial body of investigative work. We are continuing to grow. For example, we expect to hire 5 auditors each month through the summer of this year.

As we grow, I want to make sure that we establish (1) appropriate standards for our work and (2) the policies, procedures, and management structures needed to ensure that we consistently meet those standards. In addition, I want to make sure that we are assembling a team of highly qualified staff who can conduct the level and quality of oversight that the Congress intended and that the taxpayer expects. Accomplishing all of these goals quickly is challenging.

I know that it would be normal practice to wait until at least the third year of SIGAR's existence before asking CIGIE to conduct a peer evaluation of our organization. However, as you know, there have been calls for close scrutiny of SIGAR. Therefore, I am asking that CIGIE consider engaging with SIGAR now. I would like CIGIE to examine aspects of our audit, investigative, and support operations to assist us in identifying improvements that should be made and to ensure that we are moving in the right direction.

I look forward to working with CIGIE to improve SIGAR so we can make necessary improvements as we continue to grow. I look forward to discussing my request with you in more detail at your convenience. I can be reached at 703-602-3807.

Very respectfully,

A handwritten signature in black ink, appearing to read "Arnold Fields", is written over the typed name.

Arnold Fields
Special Inspector General for Afghanistan Reconstruction

400 ARMY NAVY DRIVE, ARLINGTON VA 22202

Appendix II**Objective, Scope, and Methodology**

In February 2010, SIGAR requested that CIGIE examine aspects of SIGAR's management, audit, investigative, and support operations. Specifically, the IG asked for assistance in determining whether SIGAR had established (1) appropriate standards for SIGAR's work, (2) policies, procedures, and management structures needed to ensure those standards were consistently met, and (3) a team of highly qualified experts to conduct the level and quality of oversight over Afghanistan's reconstruction programs expected by the Congress. The Chairs of CIGIE's Audit and Investigations Committees led a standards-based assessment of SIGAR's operations, to include (1) an external peer review of the SIGAR audit organization (Audit Peer Review),¹ (2) an external quality assessment review of SIGAR investigative operations (Investigation Peer Review),² and (3) a review of other components of SIGAR's management and operations, which are not specifically addressed in the Audit Peer Review and the Investigation Peer Review.

The peer evaluation covered the elements of the Silver Book, dated October 2003. These elements include ethics, independence, and confidentiality; professional standards; ensuring internal control; maintaining quality assurance; planning and coordinating; communicating results of OIG activities; managing human capital; reviewing legislation and regulations; and receiving and reviewing allegations. The review team also considered legislation establishing SIGAR, specifically Public Law 110-181 and Public Law 111-15, and any other statutes specifically applicable to SIGAR's operations, as identified by SIGAR.

Both SIGAR and the review team acknowledge that the Silver Book provides general standards and does not prescribe specific, mandatory standards for the operation of an OIG. Accordingly, this report does not express an opinion as to compliance by SIGAR with the Silver Book, but rather builds on the collective knowledge and experience of the review team to provide suggestions in those circumstances where, in their judgment, improvements could be made or efficiencies achieved. As appropriate, certain aspects of the audit and investigation peer reviews are discussed in the body of the report in relation to relevant Silver Book standards.

To conduct this review, team members from several OIGs were assigned specific tasks related to the Silver Book elements. Each team member coordinated with points of contact within SIGAR to gather the relevant information. Specifically, the review team:

- Gained an understanding of SIGAR's organization and reviewed SIGAR's policies and procedures.
- Interviewed various levels of SIGAR's professional staff to assess their understanding of and responsibilities for relevant policies and procedures.

¹ The Audit Peer Review was conducted in accordance with CIGIE's *Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*, based on requirement in the Yellow Book.

² The Investigation Peer Review was conducted in accordance with *Quality Standards for Investigations*.

Appendix II

- Coordinated to gain an understanding of SIGAR's audit and investigative functions and operations, as identified by the peer review teams.
- Used the knowledge obtained from the preceding steps, to review risk, determine the nature and extent of tests to perform, and conclude whether an in-country visit was necessary and appropriate.
- Reviewed documents, sought evidence or conducted tests, as appropriate, to determine SIGAR's adherence to policies and procedures.
- Interviewed stakeholders, including congressional committees of jurisdiction, the Department of Defense and its component organizations, the Department of State, the U.S. Agency for International Development, and the Department of Justice.

The review team conducted work from April 2, 2010 to June 30, 2010, in Arlington (Crystal City), Virginia, and Kabul, Afghanistan.

Appendix III**List of Stakeholders Providing Input**

Jasmeet Ahuja
Professional Staff Member
Committee on Foreign Affairs
U.S. House of Representatives

Aileen K. Alexander
Professional Staff Member
Committee on Armed Services
U.S. House of Representatives

Nick Arntson
Assistant Inspector General for Middle East
Region
Office of Inspector General
Department of State

Preeta Bansal
General Counsel and Senior Policy Advisor
Office of Management and Budget

COL Lawrence Brundidge
Command Inspector General
U.S. Forces-Afghanistan

Michelle Burton
Deputy Director
Narcotics Affairs Section
Department of State

Michael Casey
Professional Staff Member
Committee on Armed Services
U.S. House of Representatives

Todd C. Chapman
Senior Deputy Coordinating Director for
Development and Economic Affairs
U.S. Embassy Kabul

Lewis Conner
Financial Management Officer
Office of Financial Management
U.S. Agency for International Development

Carroll B. Correll
Internal Audit-North
U.S. Army Corps of Engineers

Margaret Daum
Staff Director
Ad Hoc Subcommittee on Contracting Oversight
United States Senate

LTC Steve Davis
Deputy Inspector General
U.S. Central Command

Donna Dinkler
Chief of Staff
Office of Inspector General
U.S. Agency for International Development

Nichole Distefano
Legislative Counsel
Office of Senator Claire McCaskill
United States Senate

COL John Ferrari
Acting Deputy Commander-Programs
NATO Training Mission-Afghanistan and
Combined Security Transition Command-
Afghanistan

Jeffrey J. Fitzpatrick
Assistant Regional Director
U.S. Drug Enforcement Administration
Department of Justice

Bill Frej
Outgoing Mission Director
U.S. Agency for International Development

Mark Gage
Deputy Staff Director
Committee on Foreign Affairs
U.S. House of Representatives

COL Mario Garcia
Inspector General
U.S. Central Command

Earl Gast
Incoming Mission Director
U.S. Agency for International Development

Jeremy Hayes
Military Legislative Aide
Office of Senator Tom Coburn
United States Senate

Sylvia Johnson
Counselor
Rule of Law
Department of State

Appendix III

Bob Jones
Legal Attaché
Federal Bureau of Investigation

COL Jeffrey Kent
Inspector General
Combined Security Transition Command-
Afghanistan

Michael V. Kostiw
Professional Staff Member
Committee on Armed Services
United States Senate

Thuy K. Loi
Assistant Inspector General for Investigations
Office of Inspector General
Department of State

Tiffany Marlowe
Financial Attaché
Department of the Treasury

Denise Mason
Internal Audit
Afghanistan Engineer District-South
U.S. Army Corps of Engineers

COL Michael McCormick
District Commander-North
U.S. Army Corps of Engineers

J.T. "Mickey" McDermott
Special Deputy Inspector General
Southwest Asia
Office of Inspector General
Department of Defense

MG Timothy McHale
Deputy Commanding General
U.S. Forces-Afghanistan

Kevin Milas
Management Counselor
U.S. Embassy Kabul

William G.P. Monahan
Counsel
Committee on Armed Services
United States Senate

Michael A. Negron
Legal Counsel
National Security Council

Michael V. Phalen
Senior Professional Staff Member
Committee on Foreign Relations
United States Senate

Daud Shah
Supervisory Financial Analyst
Office of Financial Management
U.S. Agency for International Development

Julie Shemintz
Senior Legal Advisor
Department of Justice

Michael Spangler
Counselor
Economic Affairs
Department of State

Fatema Z. Sumar
Professional Staff Member
Committee on Foreign Relations
United States Senate

John K. Tien
Senior Director for Afghanistan and Pakistan
National Security Council

Mary Ugone
Deputy Inspector General for Audits
Office of Inspector General
Department of Defense

Norvel Vandyke
Inspector General Assessments
U.S. Central Command

JoAnne Wagner
Deputy Counselor
Political-Military Affairs Section
Department of State

Ambassador Anthony Wayne
Coordinating Director for Development and
Economic Affairs
U.S. Embassy Kabul

Molly Wilkinson
General Counsel
Committee on Homeland Security and
Governmental Affairs
United States Senate

COL Kevin Wilson, Commander
Afghanistan Engineer District-South
U.S. Army Corps of Engineers

Appendix IV**System Review Report on SIGAR's Audit Organization**

Federal Deposit Insurance Corporation
3501 Fairfax Drive, Arlington, VA 22226

Office of Inspector General

July 14, 2010

The Honorable Arnold Fields
Special Inspector General for Afghanistan Reconstruction
400 Army Navy Drive
Arlington, Virginia 22202-4704

Subject: System Review Report on the Special Inspector General for Afghanistan
Reconstruction's Audit Organization

Dear General Fields:

We have completed the external peer review of the Special Inspector General for Afghanistan Reconstruction's audit organization, conducted in accordance with the *Government Auditing Standards* and Council of the Inspectors General on Integrity and Efficiency guidelines. Enclosed is the final System Review Report, which includes your response to the draft. We have also incorporated excerpts of your response into the relevant sections of the final report.

We agree with your proposed corrective actions to the recommendations. We thank you and your staff for your assistance and cooperation during the conduct of the review.

Sincerely,

/Signed/

Jon T. Rymer
Inspector General and
Chair, Audit Committee
Council of the Inspectors General on Integrity and Efficiency

Enclosure



Federal Deposit Insurance Corporation
3501 Fairfax Drive, Arlington, VA 22226

Office of Inspector General

System Review Report

July 14, 2010

Honorable Arnold Fields, Inspector General
Special Inspector General for Afghanistan Reconstruction

We have reviewed the system of quality control for the audit organization of the Special Inspector General for Afghanistan Reconstruction (SIGAR) in effect for the year ended March 31, 2010. A system of quality control provides the audit organization with reasonable assurance of conformity with *Government Auditing Standards* (commonly referred to as the Yellow Book). The elements of quality control are described in the Yellow Book.

SIGAR is responsible for designing a system of quality control and complying with it to provide SIGAR with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. SIGAR's system of quality control consists of its audit organization, headed by the Assistant Inspector General for Audit (AIGA), and its policies and procedures, as articulated in its Audit Policy and Procedures Manual (APPM) and carried out by the audit staff working both in the United States and Afghanistan.

We conducted our review in accordance with the Yellow Book and guidelines established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). During our review, we interviewed personnel in SIGAR offices located in Arlington, Virginia, and Kabul, Afghanistan, to obtain an understanding of the nature of SIGAR's audit organization and the design of SIGAR's system of quality control to assess the risks implicit in its audit function. Based on our assessments, we reviewed all audit engagements and selected administrative files to test for conformity with the Yellow Book and compliance with SIGAR's system of quality control. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it. Prior to concluding the review, we met with SIGAR management on June 18, 2010, to discuss the results of our review. Enclosure 1 to this report identifies the engagements we reviewed.

There are inherent limitations in the effectiveness of any system of quality control and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

Our responsibility is to express an opinion on the design of the system of quality control and SIGAR's compliance therewith based on our review. We believe the process we followed and the procedures we performed provide a reasonable basis for our opinion.

Appendix IV

In our opinion, the system of quality control for SIGAR's audit organization in effect for the year ended March 31, 2010, was suitably designed. Further, except for the deficiencies described below, SIGAR complied with its system of quality control and has reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. SIGAR has received a peer review rating of *pass with deficiencies*.¹

System of Quality Control Was Suitably Designed

SIGAR filled the AIGA, Deputy Assistant Inspector General for Audit (DAIGA), and two other audit positions by February 2009. The DAIGA is the senior audit position in Kabul, and established the audit presence in the region. Audit staff gradually increased over time and, as of June 18, 2010, SIGAR's audit organization was comprised of 34 staff, with 23 located in Arlington, Virginia, and 11 in Kabul, Afghanistan.

To guide the audit organization from the start, SIGAR adopted, for the most part, the policies and procedures of the Special Inspector General for Iraq Reconstruction and operated using those policies from February to May 2009. In May 2009, SIGAR formally issued its own draft APPM, which it updated and issued in final form on March 27, 2010. SIGAR recently issued two audit directives on continuing professional education and quality assurance and a policy statement on freedom from external impairments. SIGAR performed audit work and issued the reports covered in our review pursuant to the draft versions of the APPM.

Deficiencies Noted in the Compliance with the System of Quality Control

Our review identified five deficiencies in SIGAR's compliance with its system of quality control. A deficiency is one or more findings that the review team has concluded, due to the nature, causes, pattern, or pervasiveness, including the relative importance of the finding to the audit organization's system of quality control taken as a whole, could create a situation in which the audit organization would not have reasonable assurance of performing and/or reporting in conformity with applicable professional standards in one or more important respects. These deficiencies are as follows:

1. Implementing a Quality Assurance Program - The Yellow Book considers monitoring of quality as an ongoing, periodic assessment of work completed on audits and provides that an audit organization should analyze and summarize results of its monitoring procedures at least annually, to identify any systemic issues needing improvement and recommend corrective actions. A quality assurance program ensures that work performed adheres to established policies and procedures; meets established standards of performance, including applicable professional standards; and is carried out economically, efficiently, and effectively.

¹ Federal audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*.

The SIGAR APPM in effect over the period of our review did not expressly provide for a quality assurance program and those responsibilities were not being performed. As such, SIGAR had not conducted any quality assurance reviews for our team to review.

On March 29, 2010, SIGAR reassigned a Senior Audit Manager to the newly established position of Quality Control Director and, on May 24, 2010, issued a directive, *Quality Control and Assurance*, which provides that the Quality Control Director develop a plan to inspect, at least annually, a sample of reports and summarize the results. At the meeting on June 18, the Quality Control Director indicated that a quality assurance program had not been implemented sooner due to demands for productivity and timely issuance of audit reports. The AIGA also informed us that a process for reviewing quality control files of completed audits had begun and that one review had been completed. These reviews will be summarized in a quarterly report identifying any systemic issues needing improvement along with recommendations for corrective action.

Recommendation 1: As part of the emerging Quality Assurance Program, the AIGA should require use of the CIGIE peer review guide performance audit checklist (Appendix E) as a methodology for quality assurance reviews of completed audits.

Views of Responsible Official: Concur. The AIGA will require the use of Appendix E in the CIGIE Peer Review Guide as the methodology for conducting its annual quality assurance reviews. The APPM will be modified accordingly. The Quality Control Director has already begun using the guide.

Recommendation 2: The AIGA should meet the Yellow Book's annual summary requirements for the past year by soliciting auditors-in-charge and referencers to identify any systemic Yellow Book and APPM issues needing improvement and take appropriate corrective action.

Views of Responsible Official: Concur. The AIGA has directed the Quality Control Director to solicit comments to identify systemic issues needing improvement and will make recommendations to the AIGA for corrective action, as appropriate, and at least on a quarterly basis. The Quality Control Director has already begun this process.

2. **Planning** - Audit planning is critical to the audit process. The audit plan provides the roadmap to conclude on audit objectives and reduces audit risk to an appropriate level to provide reasonable assurance that the evidence is sufficient and appropriate to support the auditors' findings, conclusions, and recommendations. During our review, we noted two particular areas where the APPM had established the policies and procedures to be followed but compliance with these policies and procedures was inconsistent.
 - The APPM requires that four planning elements for internal control; computer-processed data; compliance with laws, regulations, and provisions of contracts; and fraud risk be considered to determine their significance to the audit objectives. When significance is established, auditors are required to plan procedures and obtain sufficient, appropriate evidence to support their

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conclusions. In the 10 audit plans supporting the 12 audits we reviewed, 5 of the 10 did not have evidence that these 4 elements were considered.

- The APPM also requires that audit plans be approved prior to the conduct of significant fieldwork. The 10 audit plans were either not approved or were approved close to the final report issuance date. Specifically, 8 audit plans were never approved and 2 others were approved 4 days and 31 days before the final report issuance date.

At the June 18 meeting, audit organization leadership commented that there were usually no formal meetings to specifically support audit plan development and that they chose to focus on productivity rather than implementing quality control activities. The representatives indicated that they were aware of these issues and have adopted a current process providing for audit plan development based on meetings, staff input, and formal approval. They also noted that, with the addition of more audit staff members, Senior Audit Managers now have increased involvement with audit planning, as they are now primarily supervising rather than performing the audits.

Recommendation 3: The AIGA should reiterate to the audit staff the Yellow Book and APPM requirements for (a) considering whether the four planning elements are significant to the audit objective, and, if so, preparing documentation of the detailed audit steps needed to obtain sufficient, appropriate evidence to support their conclusions and (b) approving audit plans prior to conducting significant fieldwork.

Views of Responsible Official: Concur. The AIGA will implement this recommendation through a memo to staff and at the next staff meeting. The memo will also be provided and explained to all future staff as part of their in-processing package. In addition, the AIGA is hiring additional Senior Audit Managers to ensure that supervisory review is conducted in a timely and appropriate manner, including the preparation of the audit plan and consideration of the four planning elements. Finally, the Quality Control Director will review the audit plan as part of the Quality Control File review for each engagement to ensure that (1) the appropriate documentation has been prepared to meet the requirements and (2) appropriate approval of audit plans occur prior to significant fieldwork.

3. **Documentation and Supervision** - The APPM states that audit documentation (commonly called work papers) are records developed while performing an audit, which provide sufficient detail to enable an experienced auditor having no previous connection to the audit to understand from the audit documentation the nature, timing, extent, and results of audit procedures performed, the audit evidence obtained and its source, and the conclusions reached, including evidence supporting the auditors' significant judgments and conclusions. SIGAR's APPM also states that all work papers should be clearly identified with the preparer's name, date prepared, title, source, and purpose; and finally it states that supervisors should review audit documentation for Yellow Book compliance and overall sufficiency and appropriateness of evidence. Incomplete audit documentation can reduce the effectiveness of audit supervision and other quality

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control measures designed to ensure that findings, conclusions, and recommendations are supported.

Based on our review, work papers for 4 of 12 audits were not prepared and organized consistent with the APPM. A majority of the work papers we reviewed lacked documentation of purpose, source, and conclusion, and the work papers did not identify the preparer and reviewer, which serves as evidence of supervisory review, and the dates these activities were completed.

The final version of the APPM, issued March 27, 2010, provides for further assurance, stating that each document should also include the name of the reviewer, and the Quality Control Director will review audit documentation for conformity with standards and the APPM.

Recommendation 4: The AIGA should take steps to enforce adherence to the APPM and its quality control system and place increased emphasis on ensuring that (a) audit documentation clearly indicates the nature, timing, and extent of audit procedures, consistent with Yellow Book requirements and (b) supervisory review of the audit work that supports the findings, conclusions, and recommendations occurs and is documented.

Views of Responsible Official: Concur. The AIGA will communicate the importance of adherence to the APPM in a memo to staff and at the next staff meeting. The memo will also be provided and explained to all future staff as part of their in-processing package. Furthermore, documentation capabilities will be facilitated through the development and deployment of a document management system that the AIGA expects will allow secure, timely, accurate transfer and storage of data files between Arlington, Virginia and Kabul, Afghanistan. Having an effective document management system and hiring additional Senior Audit Managers will help to ensure that audit documentation procedures are followed and supervisory review of the audit work has occurred and been documented. Finally, the Quality Control Director will review audit documentation as part of the Quality Control File review for each engagement to ensure that the proper supervisory steps were taken.

4. **Reporting** - SIGAR's APPM requires that audit objectives be communicated in a clear, specific, neutral, and unbiased manner. The APPM also requires that all four finding elements - criteria, condition, cause, and effect - be described in the report and recommendations should logically flow from findings and conclusions and clearly state the corrective action to be taken. The APPM further requires that reports include an explanation of any significant internal controls assessed, the scope of the assessment work, and any significant deficiencies. When auditors meet these requirements, readers of SIGAR's audit reports will be presented with a clear and concise summarization of the audit process, findings, conclusions, and recommendations.

Our review determined that SIGAR's audit reports were not always prepared in accordance with the APPM. Specifically we found that:

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- Objectives for 6 of 12 reports were not expressed in a clear and concise manner.
- The 4 finding elements necessary to address objectives were not clearly presented in 7 of the 12 reports. Further, recommendations did not flow logically from findings and conclusions in 6 of the 7 reports.
- The scope of work on internal control was not described in any of the 12 reports.

Recommendation 5: The AIGA should ensure that, in accordance with the APPM, audit objectives are expressly (a) identified in a clear and concise manner in the first paragraph of the report and the Scope and Methodology appendix and (b) concluded upon in a results of audit section in the report body.

Recommendation 6: The AIGA should ensure that all finding elements are developed unless determined during planning and fieldwork that certain finding elements are not necessary in relation to the audit objectives. The AIGA should also ensure that report recommendations logically flow from the findings and conclusions and that audit reports explain the extent of the internal control assessment and deficiencies.

Views of Responsible Official: Concur 5 and 6. The AIGA will communicate the importance of reporting in a memo to staff and at the next staff meeting. In addition, the AIGA hired a writer/editor in February 2010 to provide substantive review on reports throughout report development and writing. The AIGA also plans to hire a full-time report reviewer to support auditors in reporting the findings and ensuring that the report clearly and concisely states the audit objectives, recommendations flow logically from the findings and conclusions, and internal controls are assessed, noting any deficiencies found.

5. **Independent Referencing** - The APPM provides that independent referencing is an integral part of the audit quality control process that helps to ensure the draft and final reports are accurate and adequately supported by the audit documentation. In our review, we found that independent referencing was not completed for five audits. In one audit, the independent referencing process ceased after the audit team addressed 14 of the 54 referencing comments. SIGAR issued both the draft and final reports of this audit without addressing the unanswered referencing comments. In the 4 other audits with open referencing comments, one had 4 open comments from a universe of 53, another had 4 open comments from a universe of 18, a third had 27 open comments from a universe of 86, and the fourth had 24 open comments from a universe of 240.

Audit organization leadership acknowledged that early in SIGAR's history, other pressing priorities prevented a strong commitment to complete independent referencing reviews. We were advised that difficulties in independent referencing also resulted from hiring staff from various agencies and conducting work in two locations (and time zones), some auditors had not previously referenced, and others used different processes for referencing. However, audit organization leadership asserted that reports will not be issued in the future without completed independent referencing reviews.

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Recommendation 7: The AIGA should reiterate the APPM requirements for completing the independent referencing process for draft and final reports.

Recommendation 8: The AIGA should (a) provide independent referencer training to audit staff and (b) develop and implement an independent referencer checklist to help ensure that audit quality initiatives are met.

Views of Responsible Official: Concur 7 and 8. The AIGA will reiterate the independent referencing requirements to audit staff at the next staff meeting and in a memo to staff and has included a referencing module in the 2-day training for auditors in August 2010. A referencing checklist will be developed by September 30 to help ensure audit quality. The AIGA is also considering hiring a full-time auditor dedicated to referencing.

Enclosure 2 includes SIGAR's full response to the recommendations in this report.

As is customary, we have issued a letter dated July 14, 2010 that sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report. SIGAR's response to that letter is included as an enclosure to the letter.

/Signed/

Jon T. Rymer
Inspector General and
Chair, Audit Committee
Council of the Inspectors General on Integrity and Efficiency

Enclosures

Appendix IV

SCOPE AND METHODOLOGY (Enclosure 1)

We tested compliance with the SIGAR audit organization's system of quality control to the extent we considered appropriate. These tests included a review of the 12 audit reports issued by SIGAR during the period April 1, 2009 through March 31, 2010. The SIGAR APPM in effect over the period of our review did not expressly provide for a quality assurance program and those responsibilities were not being performed. As such, SIGAR had not conducted any quality assurance reviews of the audits issued during our review period.

The CIGIE *Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*, dated March 2009, was used in the conduct of the review. We visited SIGAR's offices in Arlington, Virginia, and Kabul, Afghanistan.

Reviewed Audit Reports Issued by SIGAR

No.	Date	Title
09-1	05/19/2009	<i>Contract Oversight Capabilities of the Defense Department's Combined Security Transition Command - Afghanistan (CSTC-A) Need Strengthening</i>
09-3 ²	07/30/2009	<i>A Better Management Information System Is Needed to Promote Information Sharing, Effective Planning, and Coordination of Afghanistan Reconstruction Activities</i>
09-4	08/27/2009	<i>Actions Needed to Resolve Construction Delays at the Counter-Narcotics Justice Center</i>
09-5	09/9/2009	<i>Increased Visibility, Monitoring, and Planning Needed for Commander's Emergency Response Program in Afghanistan</i>
09-6	9/22/2009	<i>Strategy and Resources Needed to Sustain Afghan Electoral Capacity</i>
09-7	09/30/2009	<i>Documenting Detention Procedures Will Help Ensure Counter-Narcotics Justice Center Is Utilized As Intended</i>
10-1	10/28/2009	<i>Barriers to Greater Participation by Women in Afghan Elections</i>
10-2	12/16/2009	<i>Afghanistan's High Office of Oversight Needs Significantly Strengthened Authority, Independence, and Donor Support to Become an Effective Anti-Corruption Institution</i>
10-3	12/18/2009	<i>Actions Needed for a More Strategic Approach to U.S. Judicial Security Assistance</i>
10-4	01/15/2010	<i>Afghanistan Energy Supply has Increased, but an Updated Master Plan is Needed, and Delays and Sustainability Concerns Remain</i>
10-6 ³	01/20/2010	<i>Contract Delays Led to Cost Overruns for the Kabul Power Plant, and Sustainability Remains a Key Challenge</i>
10-7	03/01/2010	<i>The Tofg Bridge Construction Is Nearly Complete, but Several Contract Issues Need to Be Addressed</i>

² Report 09-2 was identified as a "letter report" and did not state that the work was performed in accordance with the Yellow Book; therefore, it was excluded from our count.

³ SIGAR did not use report number 10-5.

SIGAR RESPONSE TO DRAFT SYSTEM REVIEW REPORT (Enclosure 2)



SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION

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400 Army Navy Drive

Arlington, VA 22202-4704

www.sigar.mil

Arnold Fields, Inspector General

July 9, 2010

Honorable Jon T. Rymer
Inspector General, Federal Deposit Insurance Corporation and
Chair, Audit Committee, Council of the Inspectors General
on Integrity and Efficiency (CIGIE)

Thank you for the opportunity to comment on the draft System Review Report, which stated that SIGAR's audit organization was suitably designed for the year ending March 31, 2010. This report concluded that, with the exception of 5 deficiencies, SIGAR complied with its system of quality control and has reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

SIGAR is appreciative of having been evaluated by the peer review team early in the life of our organization so that problems could be surfaced early and corrective actions taken promptly. We believe it is important to note that SIGAR's first auditor was hired in January 2009, and by June 2010 SIGAR had recruited and hired 35 auditors and analysts for the audit directorate. The rapid growth in staff, coupled with the need to develop procedures and simultaneously conduct fieldwork, constrained our ability to properly document all the actions necessary to conduct frequent quality control checks and review activities. However, we expect to conduct quality assurance reviews in a timely manner and analyze and summarize the results of our monitoring procedures at least annually, as required. In addition, SIGAR has developed other quality control and assurance measures to ensure that key audit steps are taken and documented.

We concur with all of the recommendations in the report. We have already taken some actions to implement the recommendations and plan to complete implementation by September 30, 2010. Moreover, we recognize that quality control and assurance is a continuous function requiring vigilance. The Assistant Inspector General for Audits (AIGA) is taking a multi-faceted approach to correct the deficiencies you have identified. We have established an ongoing quality assurance program to continually monitor our performance. In August, we plan a two-day training course on auditing standards, practices, and procedures to address issues highlighted by the peer review team. Other measures include:

- discussing peer review results at the next all-hands staff meeting in August 2010,
- developing checklists, such as for independent referencing,
- modifying the policy manual,
- clarifying guidance as appropriate,
- providing quality assurance and audit skills training to all audit staff, and
- conducting follow-up on peer review recommendations.

Appendix IVImplementing a Quality Assurance Program

Recommendation 1: As part of the emerging Quality Assurance Program, the AIGA should require use of the CIGIE peer review guide performance audit checklist (appendix E) as a methodology for quality assurance reviews of completed audits.

Response: Concur. AIGA will require the use of Appendix E in the CIGIE Peer Review Guide as the methodology for conducting its annual quality assurance reviews. The Audit Policy and Procedures Manual (APPM) will be modified accordingly. The Quality Control Director has already begun using the guide.

Recommendation 2: The AIGA should meet the Yellow Book's annual summary requirements for the past year by soliciting auditors-in-charge and referencers to identify any systemic Yellow Book and APPM issues needing improvement and take appropriate corrective action.

Response: Concur. The AIGA has directed the Quality Control Director to solicit comments to identify systemic issues needing improvement and will make recommendations to AIGA for corrective action, as appropriate, and at least on a quarterly basis. The Quality Control Director has already begun this process.

Planning

Recommendation 3: The AIGA should reiterate to the audit staff the Yellow Book and APPM requirements for (a) considering whether the four planning elements are significant to the audit objective, and if so, preparing documentation of the detailed audit steps needed to obtain sufficient, appropriate evidence to support their conclusions and (b) approving audit plans prior to conducting significant fieldwork.

Response: Concur. The AIGA will implement this recommendation through a memo to staff and at the next staff meeting. The memo will also be provided and explained to all future staff as part of their in-processing package. In addition, the AIGA is hiring additional Senior Audit Managers to ensure that supervisory review is conducted in a timely and appropriate manner, including the preparation of the audit plan and consideration of the four planning elements. Finally, the Quality Control Director will review the audit plan as part of the Quality Control File review for each engagement to ensure that (1) the appropriate documentation has been prepared to meet the requirements and that (2) appropriate approval of audit plans occur prior to significant fieldwork.

Documentation and Supervision

Recommendation 4: The AIGA should take steps to enforce adherence to the APPM and its quality control system and place increased emphasis on ensuring that (a) audit documentation clearly indicates the nature, timing, and extent of audit procedures, consistent with Yellow Book requirements and (b) supervisory review of the audit work that supports the findings, conclusions, and recommendations occurs and is documented.

Response: Concur. The AIGA will communicate the importance of adherence to the APPM in a memo to staff and at the next staff meeting. The memo will also be provided and explained to all future staff as part of their in-processing package. Furthermore, documentation capabilities will be facilitated through the development and deployment of a document management system that AIGA expects will allow secure, timely, accurate transfer and storage of data files between Arlington, Virginia; and Kabul, Afghanistan. Having an effective document management system and hiring additional senior audit managers will help to ensure that audit documentation procedures are followed and supervisory review of the audit work has occurred and been documented. Finally, the Quality Control Director will review audit documentation as part of the Quality Control File review for each engagement to ensure that the proper supervisory steps were taken.

Reporting

Recommendation 5: The AIGA should ensure that, in accordance with APPM, audit objectives are expressly (a) identified in a clear and concise manner in the first paragraph of the report and the Scope and Methodology appendix, and (b) concluded upon in a results of audit section in the report body.

Recommendations 6: The AIGA should ensure that all finding elements are developed unless determined during planning and fieldwork that certain finding elements are not necessary in relation to the audit objectives. The AIGA should also ensure that report recommendations logically flow from the findings and conclusions and that audit reports explain the extent of the internal control assessment and deficiencies.

Response: Concur (5) and (6). The AIGA will communicate the importance of reporting in a memo to staff and at the next staff meeting. In addition, the AIGA hired a writer/editor in February 2010 to provide substantive review on reports throughout report development and writing. The AIGA also plans to hire a full-time report reviewer to support auditors in reporting the findings and ensuring that the report clearly and concisely states the audit objectives, recommendations flow logically from the findings and conclusions, and internal controls are assessed, noting any deficiencies found.

Independent Referencing

Recommendation 7: The AIGA should reiterate the APPM requirements for completing the independent referencing process for draft and final reports.

Recommendation 8: The AIGA should (a) provide independent referencing training to audit staff and (2) develop and implement an independent referencing checklist to help ensure that audit quality initiatives are met.

Response: Concur (7) and (8). AIGA will reiterate the independent referencing requirements to audit staff at the next staff meeting and in a memo to staff and has included a referencing module in the two-day training for auditors in August 2010. A referencing checklist will be developed by September 30 to help ensure audit quality. AIGA is also considering hiring a full-time auditor dedicated to referencing.

SIGAR Peer Evaluation

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Thank you again for the opportunity to comment and for responding to my request for assistance so quickly and professionally.

Sincerely yours,

/Signed/

Arnold Fields, Inspector General
Special Inspector General for Afghanistan Reconstruction

**Report on the Quality Assessment Review of the Investigative
Operation of SIGAR**

**Report on the Quality Assessment Review of the
Investigative Operation of the Office of Special Inspector
General for the Afghanistan Reconstruction**

Conducted at

Arlington, Virginia and Kabul, Afghanistan

by

Offices of Inspector General of

Tennessee Valley Authority

Department of Defense

Department of State

Department of Interior

Department of Agriculture

Agency for International Development

The Honorable Richard W. Moore

Inspector General, TVA

July 2010

Appendix V**Table of Contents****Opinion Letter on the Investigative Operations Quality Assessment Review****Attachment 1 Report with Findings****Attachment 2 Listing of Sampled Closed Investigations Files****Attachment 3 SIGAR Inspector General's Comments**

Report on the External Quality Assessment Review

July 14, 2010

Via Electronic Transmission

General Arnold Fields
Special Inspector General for Afghanistan Reconstruction
2221 South Clark Street
Suite 800
Arlington, Virginia 22202

Subject: *Report on the Quality Assessment Review of the Investigative Operations of the Office of Inspector General for the Special Inspector General for Afghanistan Reconstruction (SIGAR)*

Dear General Fields:

We have reviewed the system of internal safeguards and management procedures for the investigative function of the Office of Special Inspector General for Afghanistan Reconstruction in effect for the period ended April 16, 2010. Our review was conducted in conformity with the PCIE/ECIE Quality Standards for Investigations, the Quality Assessment Review guidelines established by the Council of the Inspectors General on Integrity and Efficiency, and the Attorney General's Guidelines for Office of Inspectors General with Statutory Law Enforcement Authority, as applicable.

We reviewed compliance with SIGAR's system of internal policies and procedures to the extent we considered appropriate. The review was conducted at the headquarters office in Arlington, Virginia. Additionally, we reviewed all case files for investigations closed since the inception of SIGAR's investigative function (Attachment Two – Listing of Sampled Closed Investigations Files).

In performing our review, we have given consideration to the prerequisites of Section 6(e) of the Inspector General Act of 1978 (as amended) and Section 812 of the Homeland Security Act of 2002 (Pub.L. 107-296). Those documents authorize law enforcement powers for eligible personnel of each of the various offices of presidentially appointed Inspectors General. Those powers may be exercised only for activities authorized by the Inspector General Act of 1978, other statutes, or as expressly authorized by the Attorney General.

In our opinion, the system of internal safeguards and management procedures for the investigative function of SIGAR in effect for the period ended April 16, 2010, was not in compliance with the quality standards established by the PCIE/ECIE, the CIGIE, and the Attorney General guidelines. Our opinion is based on the 10 reportable findings provided to you in Attachment One which represent weaknesses and opportunities for improvement. In our view, the safeguards and management procedures in this organization did not provide reasonable assurance of conforming with professional standards in the conduct of its investigations from the inception of SIGAR to April 16, 2010. Your comments, dated July 9, 2010, are included as Attachment Three.

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While we find that SIGAR was not in compliance as outlined above, the review team has concluded that the implementation of new policies and procedures along with remediation of the findings are likely to result in full compliance in the near future and in all likelihood in less than six months. You and your staff exhibited a complete willingness to embrace opportunities for improvement and to implement recommendations as quickly as possible.

This report is being forwarded to the Attorney General of the United States pursuant to applicable law for action he may deem appropriate.

Finally, I want to extend my sincere gratitude to you and your staff for the professionalism and courtesies extended to the review team both in Arlington, Virginia, and particularly in Kabul, Afghanistan. Our in-country review in Afghanistan demonstrated to me personally the critical nature of the work being done by SIGAR personnel in a volatile war zone environment.

Sincerely,



Richard W. Moore
Chair, Investigations Committee
Council of the Inspectors General
on Integrity and Efficiency

Enclosure

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FINDINGS

1. **Investigations Directorate Policies and Procedures:** In sum and substance, there were nearly no official investigative policies and procedures in place prior to March 2010 and, therefore, no investigative activities in compliance therewith. Policies and procedures found in the *"SIGAR Agent Manual"* were almost entirely verbatim copies of policies and procedures borrowed from the Special Inspector General for Iraq Reconstruction (hereafter SIGIR). Many of these borrowed policies and procedures bore watermarks (evidently as received from SIGIR) indicating they were in draft form. Policies not coming from the SIGIR manual were largely formulated and formally adopted in the weeks immediately preceding the Quality Assessment Review (QAR) and were virtual mirrors of the QAR standards which lacked implementation processes. This finding covers the period prior to March 25, 2010, and applies to every aspect of the standardized CIGIE *Qualitative Assessment Review Guidelines for Federal Offices of Inspector General* (May 2009) (Appendices B and C-1).
2. **The Attorney General Guidelines for Offices of Inspector General with Statutory Law Enforcement Authority** (2003) (Section IV(A)) require that OIGs certify that individuals exercising law enforcement powers have completed Basic Criminal Investigator Course at Federal Law Enforcement Training Center (FLETC) or a comparable course of instruction. SIGAR's Investigations Directorate effectively began in early 2009 with two investigators and later, in the fall of 2009, an Acting Assistant Inspector General (Investigations) (A-AIGI). One of the two investigators had received academy-level training. Neither the other investigator nor the A-AIGI, both experienced licensed attorneys, had received such training. This is considered worthy of note in the context of the truncated period of review. In effect, half of the investigators (n=1) for roughly half the operational duration of the agency's existence (seven months) did not meet the law enforcement training requirements set forth in the *Attorney General Guidelines for Offices of Inspector General with Statutory Law Enforcement Authority* (2003) (Section IV(A)). The QAR team did note, however, that all of the more recently hired investigators have had academy-level training and are generally very experienced criminal investigators. SIGAR's current practice and recently adopted policies do comply with this requirement.
3. **The Attorney General Guidelines for Offices of Inspector General with Statutory Law Enforcement Authority** (2003) (Section IV(A)) also require that the OIG provide periodic refresher training to its agents. SIGAR's Investigations Directorate had no infrastructure which captured specific training received during the review period, and as such, there were insufficient training records to substantiate agency-wide compliance with this standard. No clear anecdotal evidence mitigated this finding.
4. **The Attorney General Guidelines for Offices of Inspector General with Statutory Law Enforcement Authority** (2003) (Section IV(B)) require that eligible individuals receive initial and periodic firearms training and recertification in accordance with FLETC standards. SIGAR's Investigations Directorate had no infrastructure which captured firearms training received during the review period, and as such, there were insufficient training records to substantiate agency-wide compliance with this standard. No clear anecdotal evidence mitigated this finding.

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5. The *Attorney General Guidelines for Offices of Inspector General with Statutory Law Enforcement Authority* (2003) (Section IV(C)) require that OIGs receive training on and adopt Department of Justice (DOJ) deadly force policy. SIGAR's Investigations Directorate had no infrastructure which captured training received relating to the DOJ deadly force policy during the review period. As such, there were insufficient training records and no clear anecdotal evidence to substantiate agency-wide compliance with this standard.
6. The *Quality Standards for Investigations*, Qualitative Standards, Section A, p. 8, require that OIG investigative organizations establish organizational and case specific priorities and develop objectives to ensure that individual case tasks are performed efficiently and effectively. SIGAR's Investigations Directorate lacked an adopted, documented and agency-wide prioritization document during nearly all of the review period.
7. The *Quality Standards for Investigations*, Qualitative Standards, Section A, p. 8, also require a basic, single-source planning document that presents the organization's goals, allocation of resources, budget guidance, performance measures, and a guide for managers to implement these plans. SIGAR had not, at the time of onsite review, adopted such a planning document in the form of a Strategic Plan or other similar instrument.
8. The *Quality Standards for Investigations*, Qualitative Standards, Section D, pp. 12, 13, require that an organization have an organizational component responsible for record maintenance and specific procedures to be performed. SIGAR did not, prior to the review, have such a component identified. This standard is in the context of information management standards which dictate that investigative data be stored in a manner allowing effective retrieval, cross-referencing, and analysis. Prior to late November 2009, files were practically maintained in raw form in Afghanistan. In November 2009, a simple but generally effective and efficient case management system was developed at SIGAR's headquarters. Though no policy was put in place at the time, a practice did develop which sufficiently centralized information management functions. The most debilitating variable in this regard noted by the peer review team, and shared by SIGAR management, is the lack of an electronic file maintenance system. The team noted that SIGAR management is aggressively pursuing the identification of such a system, and information management issues are likely to diminish rapidly following adoption and deployment.
9. The *Quality Standards for Investigations*, Qualitative Standards, Section D, pp. 13, 14, require that an organization's management information system collect the data needed to assist management in performing its responsibilities, measuring its accomplishments, and responding to external customers. SIGAR's Investigations Directorate information management system did not exist in any identifiable capacity until approximately late November 2009. While the file management system created in November 2009 is adequate for day-to-day operations, the system at the time of review lacked the power to assist management in the conduct of its responsibilities. As noted above, the peer review team universally agreed that the adoption and deployment of a functional electronic information system would reduce SIGAR's information management related issues.
10. The *Quality Standards for Investigations*, Qualitative Standards, Section D, p. 14, require that case files be established immediately upon the opening and assignment of investigations. SIGAR's Investigations Directorate file management system was not in place until November 2009. As such, beyond "working files" maintained by investigators in the field, it was impossible for the peer review team to independently validate compliance with this standard. However, the peer review team did note that practices in place by the time of the onsite review did comply with this requirement.

Attachment 2**Listing of Sampled Closed Investigations Files:**

1. 100-AF-0001
2. 500-AF-0002
3. 100-AF-0003
4. 300-AF-0004
5. 200-AF-0005
6. 200-AF-0006
7. 200-AF-0008
8. 200-AF-0009
9. 200-AF-0010
10. 600-AF-0011
11. 300-AF-0012
12. 600-AF-0013
13. 300-AF-0014
14. 100-AF-0015
15. 200-AF-0016
16. 300-AF-0017
17. 600-AF-0018
18. 200-AF-0019
19. 200-AF-0020
20. 600-AF-0021
21. 902L1-AF-0022
22. 300-AF-0023
23. 911HL-AF-0024
24. 200-AF-0026
25. 200-AF-0035
26. 300-AF-0036
27. 200-AF-0037
28. 500-AF-0039
29. 300-AF-0040
30. 300-AF-0041
31. 300-AF-0043

Appendix V



SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION

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Arnold Fields, Inspector General

July 9, 2010

Honorable Richard W. Moore
Chair, Investigations Committee
Council of the Inspectors General
on Integrity and Efficiency (CIGIE)

I appreciate the opportunity to review your draft report on the Quality Assessment Review of the investigative operations of my office. I also thank you for the professionalism you and the peer review team exhibited during the conduct of this demanding and precedent-setting review. It is traditional for a newly established inspector general to operate three or more years before undergoing a CIGIE peer review. However, I requested early assistance to ensure that I am moving in the right direction. I believe the results of your assessment will provide that assistance as I build the investigative capacity of this organization.

As you are aware, the Investigations Directorate is relatively new. The Special Inspector General for Afghanistan Reconstruction (SIGAR) did not exist for the first six and a half years of the U.S. reconstruction effort in Afghanistan. Initial funding was inadequate and served only to create a limited support team and begin constructing the Audit Directorate. It wasn't until the summer of 2009 that SIGAR received adequate funding to begin fully staffing its directorates. Consequently, I have been behind the curve in building the capacity necessary to address my investigative mandate.

Upon the availability of funding, the directorate has grown from a staff of only two investigators in July 2009 to a team of 15 special agents, one trial attorney, and one investigative analyst. There are an additional six special agents and support staff selected and in the hiring process. I have hired senior investigators with an average of 28 years of federal law enforcement experience. Their expertise spans a broad spectrum of complex white collar crimes including contract fraud, procurement fraud, money laundering, and public corruption.

I am now in a stronger position to more effectively conduct my investigative work and respond to the results of the findings set forth in your report. I generally concur with those findings and have made remediation of identified shortcomings a top priority. My specific comments to your report are as follows:

Finding 1 – Investigations Directorate Policies and Procedures

SIGAR Policy Memorandum 10-2, documented at Section B of the SIGAR Special Agent Manual, reports the rationale of SIGAR's decision to formally adopt SIGIR policy (in the interim), as it

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completed its evaluation, formulation, and implementation of official SIGAR policy.

Until July 2009, SIGAR investigators were hired by SIGIR and detailed to SIGAR. This arrangement advanced SIGAR's early effort to meet its investigative mandate. I believe it also supported the spirit of Congress' intent for the U.S. to benefit from its experience in Iraq by utilizing SIGIR's resources to facilitate the initial U.S. response to the oversight mission in Afghanistan. The intent of Congress regarding the use of personnel, facilities, and other resources of SIGIR is specifically evident in SIGAR's enabling legislation, the 2008 National Defense Authorization Act, Section 1229(h)(6), where Congress directed that:

Upon the request of the Inspector General [for Afghanistan], the Special Inspector General for Iraq Reconstruction –

(a) may detail, on a reimbursable basis, any of the personnel of the Office of the Special Inspector General for Iraq Reconstruction to the Office of the Inspector General for Afghanistan Reconstruction for the purpose of carrying out [SIGAR's mission]; and

(b) may provide, on a reimbursable basis, any of the facilities or *other resources* of the Office of the Special Inspector General for Iraq Reconstruction to the Office of the Inspector General for Afghanistan Reconstruction for the purpose of carrying out [SIGAR's mission]. [Emphasis added.]

In addition to the investigators hired by SIGIR and detailed to SIGAR, SIGIR's Assistant Inspector General for Investigations, Mr. Jon Novak, assisted the Inspector General in evaluating concerns relative to establishing the organization's investigative capacity. Thus, until July 2009, SIGAR's Investigations Directorate was organizationally linked to SIGIR and bound by SIGIR policy, rendering SIGAR's continued adherence to SIGIR policies subsequent to July 2009 reasonable and proper.

Policy Memorandum 10-2 also addresses the "Draft" watermark present on many of the SIGIR policies adopted by SIGAR. SIGAR's retention of the watermarks was not an oversight. SIGIR has not finalized its investigative policy, and the SIGAR manual reflects the most current version of SIGIR's investigative policy as of the official date of adoption. Given the similarities of SIGAR and SIGIR in organizational structure, mission, and mandate, SIGAR (in the interim) is utilizing the SIGIR policy drafts, as is SIGIR, as its formal investigative policy.

SIGAR has begun to draft independent investigative policies and guidelines to address its mission in Afghanistan. In light of the relatively early growth state of SIGAR's Investigative Directorate, hiring investigators and developing cases has been the highest priority. SIGAR is now in a position to focus on establishing its own policies. The policies will include implementation processes.

Finding 2 – Qualifications of Investigators

In the summer of 2009, upon receiving adequate funding to establish its Investigations Directorate, SIGAR's greatest priority was to build investigative capacity through the strategic hiring of qualified, experienced investigators. SIGAR remained focused on that priority and steadily achieved its hiring

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goals well before the peer review process began. All of SIGAR's 15 investigators are now academy-level trained, highly-experienced criminal investigators.

Finding 3 – Refresher Training

All of SIGAR's on board investigators are experienced, career, federal law enforcement officers with current, mission-relevant expertise, and none have been employed with SIGAR beyond the period of one-year. SIGAR deemed it mission-critical to immediately employ the services of these newly hired investigators, while evaluating and implementing appropriate training policy. SIGAR has begun to draft training policy that provides for mandatory periodic refresher training in a number of law enforcement subject matter areas, including trial process; federal criminal and civil legal updates; interviewing techniques and policy; law of arrest, search, and seizure; and physical conditioning, and defensive tactics as required by the Attorney General Guidelines.

Finding 4 – Firearms Training and Recertification

Investigators assigned to SIGAR headquarters in Arlington, Virginia have not been issued weapons and therefore are not currently required to meet firearms training certification standards. Prior to the issuance of weapons to headquarters investigators, SIGAR will be in compliance with the Attorney General Guidelines pertaining to training and recertification and will maintain the appropriate certification records. The six SIGAR investigators assigned to Afghanistan have been issued weapons and are in compliance with the training and recertification requirements. The certification records are maintained at the SIGAR office in Afghanistan by the Deputy Assistant Inspector General for Investigations.

The adopted SIGIR firearms and use of force policy provides the training required by the Attorney General Guidelines. Also, SIGAR has prepared a draft of an independent firearms and use of force policy mandating the required training.

Finding 5 – Deadly Force Policy

SIGAR has adopted the Department of Justice deadly force policy. The SIGIR firearms and use of force policy adopted by SIGAR, and the draft of SIGAR's independent firearms and use of force policy, mandate deadly force training in accordance with the Attorney General Guidelines referenced in Finding 4. SIGAR provides instruction on the Department of Justice deadly force policy to every armed investigator during each Quarterly Firearms Qualifying (QFQ) session, during which the investigators are required to certify their receipt and review of the policy by signing a QFQ Deadly Force Review Sheet. These sheets are maintained at the SIGAR office in Afghanistan by the DAIG for Investigations.

Finding 6 – Priorities and Objectives

During the initial period subject to review, SIGAR lacked an adopted, documented, agency-wide prioritization document specifying that individual case tasks are performed efficiently and effectively. This deficiency has been remedied and SIGAR is currently in full compliance with this requirement.

Appendix V**Finding 7 – Planning Document**

At the time of the onsite review, the Investigations Directorate had not adopted a strategic plan or other similar instrument to present the organization's goals, allocation of resources, budget guidance, performance measures, and guide for managers to implement these plans. Relevant excerpts from a working draft of the strategic plan were implemented in SIGAR's overall Five-Year Strategic Oversight Plan approved by the Inspector General in May 2010. The working draft of the Investigations Directorate plan is near finalization and implementation is anticipated by July 31.

Findings 8 & 9 – Record Maintenance and Information Management System

As the peer review team noted, SIGAR is aggressively pursuing the identification of an electronic file management system. Implementing such a system is one of the Investigations Directorate's top priorities.

Finding 10 – Case Files

As noted by the peer review team, SIGAR was in compliance with these requirements at the time of the onsite review.

Thank you again for taking the time and effort to conduct this peer evaluation.

Very respectfully,



Arnold Fields, Inspector General
Special Inspector General for Afghanistan Reconstruction

Appendix VI

SIGAR Response to Peer Evaluation

Arnold Fields, Inspector General

SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION

 Main: 703-602-3840
 400 Army Navy Drive
 Arlington, VA 22202-4704
 www.sigar.mil

August 6, 2010

Honorable Phyllis K. Fong
 Inspector General, U.S. Department of Agriculture
 Chair, Council of the Inspectors General
 on Integrity and Efficiency (CIGIE)

Dear Ms. Fong:

SIGAR is working aggressively to implement the suggestions made in the peer evaluation draft report we received on July 16, 2010, and to remediate the concerns identified earlier in CIGIE's peer reviews of the Audits and Investigations Directorates. We accept all of the CIGIE team's suggestions and expect to have implemented them by September 30, 2010. We are providing our detailed responses to those suggestions in the attachment to this letter.

We appreciate that the capstone report acknowledges that the peer review was conducted far earlier in SIGAR's existence than would be the norm and that the scope of the peer review was unprecedented. Not only did the CIGIE team employ 26 auditors and investigators, but this is the first time CIGIE has produced a capstone report on the overall operations of an Inspector General. We also appreciate the acknowledgement in the capstone report that SIGAR is a young organization and that the peer review standards are intended to be applied to more mature organizations.

We have instituted processes to ensure high-quality work and to accomplish our mission in Afghanistan with the greatest success possible. We are continuing to address all the areas needing improvement and are giving top management attention to 4 specific areas:

- (1) We are establishing a team to develop a robust process to systematically obtain stakeholder input, identify and mitigate risks, and set work priorities consistent with SIGAR's legislative mandate. Among other activities, the team will reach out to other Inspectors General and obtain input on best practices to use in developing a risk-based strategic plan for audit and investigations that is commensurate with SIGAR's mission and constraints.
- (2) We are correcting deficiencies identified in the peer reviews of audits and investigations by establishing and clarifying policies and procedures; developing checklists and other tools to ensure compliance; continuing to provide training; and conducting internal compliance inspections and follow-up on the recommendations made by the peer review teams.

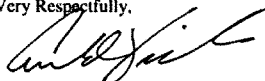
Appendix VI

(3) We are enhancing quality assurance by both (a) continuing and expanding the Audit Directorate's program of quality control checks and activity monitoring to maintain reasonable assurance the Directorate is conducting its work in conformity with applicable professional standards and (b) establishing a comprehensive Self-Inspection Program in the Investigations Directorate by August 31, 2010. As part of the overall quality assurance initiative for Investigations, we are immediately putting into place an independent monitor with extensive experience in federal law enforcement policies, procedures, and standards. This monitor will act as a neutral expert in reviewing, evaluating, and to the extent necessary, further enhancing the comprehensiveness and effectiveness of SIGAR's responses to the peer review's suggestions.

(4) We are developing systems to better assess performance of our organization as a whole, as well as of individual staff.

We will be contacting CIGIE within the next several months to schedule follow-up reviews.

Very Respectfully,



Arnold Fields, Inspector General
Special Inspector General for Afghanistan Reconstruction

Attachments: 1

cc: The Honorable Jon Rymer, Inspector General FDIC
The Honorable Richard Moore, Inspector General TVA
Mr. Ben Wagner, Deputy Inspector General TVA

Appendix VI**Attachment 1: Responses to Peer Evaluation Suggestions**

1. We suggest that SIGAR consider revising its policy on referrals of allegations to require any allegation involving the IG and other senior officials designated annually by the IG be referred to the Integrity Committee, without exception.

Accept. By September 30, 2010, SIGAR will have drafted and executed a specific policy regarding referrals of allegations of wrongdoing to the CIGIE and base it explicitly on language in section 11(d)(4) and (5) of the Inspector General Act of 1978, as amended. All language regarding non-frivolous allegations as the precondition of referral to CIGIE will be removed.

2. In addition to the recommendations included in Appendix III and in light of SIGAR's organizational structure, we suggest that SIGAR continue to pursue the technological enhancements needed to effectively manage the documentation and supervisory aspects of its audits, and obtain additional IT expertise to examine the environment and evaluate alternatives to address this situation.

Accept. In February 2010, SIGAR entered into preliminary discussions with a consultant group to obtain expertise and assistance for SIGAR's IT planning and analysis. The consultant is anticipated to start work by August 31, 2010.

3. Given these initiatives, we suggest that SIGAR pursue with the CIGIE Audit Committee scheduling a follow-up peer review when appropriate.

Accept. Based on an internal assessment of progress in making improvements, SIGAR will request that CIGIE schedule the audit peer review follow-up to verify that deficiencies have been corrected. SIGAR anticipates requesting the follow-up by November 1, 2010.

4. We suggest that SIGAR continue its efforts to finalize and communicate its investigative policies and procedures in an expedited manner, and establish methods to monitor compliance with these policies and procedures.

Accept. The Assistant Inspector General for Investigations (AIG-I) has made finalizing and communicating the Directorate's investigative policies and procedures a top priority. On July 23, 2010, the AIG-I issued an official, directorate-wide communication identifying, and mandating full compliance with, SIGAR's existing investigative policy, including the investigative policies temporarily adopted from the Special Inspector General for Iraq Reconstruction (SIGIR). All 19 of SIGAR's Special Agents are currently recertified and qualified in the use of firearms in accordance with Federal Law Enforcement Training Center (FLETC) standards; they are also current in required training and certification in the Department of Justice (DOJ) deadly force policy. By September 30, 2010, the specific policies noted by the peer review team to be lacking—firearms, use of force, and training policies—will have been fully codified, communicated, and implemented. The Directorate will implement other needed policies as appropriate. The Directorate also is establishing a comprehensive Self-Inspection Program to

Attachment 1: Responses to Peer Evaluation Suggestions

maintain reasonable assurance the Directorate is conducting its work in conformity with applicable professional standards.

5. We suggest that SIGAR pursue the adoption and deployment of a functional electronic information management system to enhance its investigative operations. Throughout this report we cite the benefits of an information management system in managing an organization.

Accept. Adopting and deploying an electronic information management system is a top priority of the Investigations Directorate. By August 31, 2010, the AIG-I will have completed the statement of work, identifying a desirable system for an electronic information management system, and selecting a vendor by September 30, 2010.

6. We suggest that SIGAR pursue with the CIGIE Investigations Committee scheduling a follow-up review when appropriate.

Accept. The Investigations Directorate is moving swiftly toward full compliance with CIGIE standards and will pursue scheduling a follow-up review as soon as appropriate. SIGAR anticipates requesting the follow-up by November 1, 2010.

7. We suggest that SIGAR perform a more formal internal risk assessment that identifies internal risks, assesses likelihood of occurrence and significance, and addresses SIGAR's key controls to mitigate the identified risks.

Accept. SIGAR will designate a Director of Risk Management by September 30, 2010, to lead SIGAR's efforts in conducting a comprehensive internal risk assessment and querying other IGs to identify best practices in risk assessment and analysis. The assessment will include establishing and implementing a manager's internal control program in accordance with OMB Circular A-123. The program will be based on standards established by the Comptroller General and address internal controls for the environment, risk assessment, control activities, information and communications, and monitoring.

8. We suggest that SIGAR ensure that its administrative policies are completed for all key administrative areas to ensure processes and procedures are clearly defined for SIGAR staff, and where applicable, incorporate Department of Defense and Department of State requirements.

Accept. SIGAR has identified key administrative areas requiring policies and by November 30, 2010, will have issued the completed policies. The policies and supplemental guidance will be accessible from SIGAR's internal website. In addition, the policies and guidance will be communicated to all SIGAR staff and questions answered at an all-hands staff meeting.

Appendix VI**Attachment 1: Responses to Peer Evaluation Suggestions**

9. We suggest that SIGAR continue to make developing an effective quality assurance program a priority to address the deficiencies noted in the audit peer review and to help ensure quality going forward.

Accept. The Quality Control Director is continuing to develop and implement a robust quality assurance program. The program is well under way and includes using Appendix E in the CIGIE Peer Review Guide as the methodology for conducting an annual quality assurance review; soliciting comments from senior audit managers, auditors-in-charge, and referencers to identify systemic issues needing improvement; and making periodic recommendations to the AIG-A for corrective action. The most significant issues—in planning, documentation, supervision, independent referencing, and reporting—will be addressed first through staff meetings and management memos, training courses emphasizing auditing essentials, and periodic audit inspections. In addition, SIGAR is hiring an experienced auditor to serve as a full-time referencer for audit reports.

10. In light of SIGAR's geographic and environmental challenges and the benefits that can be derived from such a program, we suggest that SIGAR consider establishing a quality assurance program for its investigative function.

Accept. We are enhancing quality assurance by establishing a comprehensive Self-Inspection Program in the Investigations Directorate to maintain reasonable assurance the Directorate is conducting its work in conformity with applicable professional standards. The Self-Inspection Program will be implemented by August 31, 2010.

11. We suggest that SIGAR adopt performance targets to guide the collection of performance data to enable SIGAR to define specifically the level of its success.

Accept. SIGAR issued its strategic oversight plan in March 2010 for fiscal years 2010-2014. SIGAR is collecting performance data to develop a baseline for fiscal year 2010 and will be adopting performance targets to guide the collection of performance data for fiscal year 2011. Moreover, the strategic plan will be reviewed and revised as needed to ensure its ongoing usefulness and relevance to SIGAR's oversight responsibilities.

12. We suggest that SIGAR implement a more comprehensive performance management system to provide a mechanism for collecting and reporting this key information to assist management in managing the enterprise and better defining individual and organizational success.

Accept. SIGAR employees are considered Department of Army civilians for the purpose of administration of pay, leave, benefits, and entitlements. Therefore, SIGAR will use the performance evaluation system as described in Army Regulation 690-400 as a basis for designing a performance evaluation system. This system will be in place by September 30, 2010. The system is designed to improve performance by communicating organizational goals and

Attachment 1: Responses to Peer Evaluation Suggestions

priorities, providing tools for supervisors and managers to assess performance systematically, and establishing the basis for effective supervision.

13. We suggest that SIGAR revisit its audit plan, using more input from stakeholders, and employ a risk-based assessment to systematically identify the most important work that needs to be done.

Accept. In conjunction with reviewing and revising the strategic oversight plan, the AIG-A will establish a team by September 30, 2010, to develop a plan to systematically obtain stakeholder input, identify areas of reconstruction program risk, and set work priorities consistent with SIGAR's legislative mandate. Among other activities, the team will reach out to other IGs and obtain input on best practices in developing a risk-based audit plan.

14. We suggest that SIGAR apply a risk-based process to its planning effort to identify where to concentrate its investigative efforts and deploy its limited resources.

Accept. Although the Investigations Directorate had applied a risk-based process in identifying areas in which to concentrate its efforts and deploy resources, this process was not documented. The AIG-I will formalize the process by September 30, 2010. The process will continue to focus on positioning investigators throughout Afghanistan in locations where fraud related to U.S. reconstruction spending is most likely to occur, consulting stakeholders on making decisions about the location of investigators and allocation of resources, and obtaining input from other IGs on best practices to use in developing a risk-based investigations process.

15. In the case of both audit and investigations, in developing the plan, an important element of the process should be input from stakeholders.

Accept. SIGAR responses in #13 and #14 above address this suggestion. It should be noted that SIGAR is unique because we report to the six "appropriate congressional committees" as defined in our enabling legislation—the Senate Committees on Appropriations, Armed Services, and Foreign Relations; the House Committees on Appropriations, Armed Services, and Foreign Affairs; the Secretary of State; and the Secretary of Defense.

16. We suggest that SIGAR continue its coordination efforts at all levels and with multiple stakeholders to maximize the efficient use of resources and minimize duplication.

Accept. SIGAR will maintain diligence in its coordination with task force members and planning working groups to prevent duplication of efforts and leverage resources efficiently and effectively. This includes continued participation in the Southwest Asia (SWA) Planning Group; the Afghanistan-Pakistan SWA subgroup; in-country Shura meetings with the military and U.S. Embassy; vetting of individual audit announcement letters with other IGs to ensure audit coverage is not duplicated; and frequent communication with various task forces and other appropriate planning and working groups. Furthermore, SIGAR will continue its close working relationship with members of the International Contract Corruption Task Force (ICCTF) and the

Appendix VI**Attachment 1: Responses to Peer Evaluation Suggestions**

National Procurement Fraud Task Force, whose 10 members include SIGAR; SIGIR; the Federal Bureau of Investigation (FBI); the Department of Defense Inspector General; the USAID Inspector General; the Naval Criminal Investigative Service; the U.S. Army Criminal Investigation Command; the Air Force Office of Special Investigations; the Defense Criminal Investigative Service; and the Internal Revenue Service (IRS). SIGAR continues to maintain a Special Agent assigned full-time to the ICCTF's Joint Operations Center in Washington, D.C., and conducts regular briefings on joint and independent investigative activity.

17. We suggest that SIGAR clarify jurisdictional issues involving investigative projects with members of the International Contract Corruption Task Force to ensure a common understanding.

Accept. The Investigations Directorate will ensure there is clarity within the ICCTF regarding SIGAR's reconstruction oversight mission and continue to focus on task force matters that fall within its mandate.

18. We suggest that in the future SIGAR carefully evaluate the operational impact that delays in recruiting senior leadership have on the organization and develop alternative plans to ensure negative impacts are not experienced.

Accept. SIGAR leadership is committed to making timely decisions in recruiting and hiring senior staff. SIGAR has identified seven mission critical positions and is developing succession plans to ensure that any vacancy of a critical position will not have a negative impact on the agency. The positions are Inspector General; Deputy Inspector General; Assistant Inspectors General for the Directorates of Management and Support, Audits, and Investigations; the Director of the Information Management Division; and the Director of Forward Operations. SIGAR has had a Principal Deputy Inspector General position which has been occupied since January 2009 and posted at the U.S. Embassy, Kabul. His principal duties have been to facilitate the standup of SIGAR permanent operations in Afghanistan and serve as the SIGAR primary day-to-day representative to U.S. Government and Afghan Government officials. Recruitment for the Deputy Inspector General position in SIGAR headquarters is under way. Succession plans for key positions will have been completed by October 31, 2010.

19. We suggest that SIGAR re-evaluate staffing and skill-set needs in conjunction with efforts to improve its risk assessment and planning process.

Accept. In conjunction with SIGAR's risk-based analysis and assessment, SIGAR will continuously evaluate staffing and skill-set needs.

The Audit Directorate has 39 auditors or program analysts on board with 16 more in various stages of the hiring process, for a total of 55. Our audit staff comes from a wide range of organizations: 29 have prior GAO experience; 20 have worked with one or more Federal

Attachment 1: Responses to Peer Evaluation Suggestions

Inspectors General; 13 have prior experience working on Afghanistan issues; 7 have worked with SIGIR; 5 bring expertise in the Dari and Pashtu languages; and 2 have worked with the Wartime Contracting Commission.

The Investigations Directorate has assembled a staff of highly experienced professional investigators, analysts, and other personnel. The Directorate's investigators have previous experience with the FBI; IRS; Drug Enforcement Administration; U.S. Customs and Border Protection; Department of Interior; U.S. Army Criminal Investigations Command; Naval Criminal Investigative Service; and SIGIR. SIGAR's current 19 Special Agents are senior-level, career law enforcement officers with an average of 26 years of relevant, federal law enforcement experience. Many have advanced degrees and professional certifications in disciplines such as accounting, fraud examination, and white-collar crime. Additionally, all 19 Special Agents are recertified and qualified in the use of firearms in accordance with FLETC standards and are current in required training and certification in the DOJ deadly force policy. As the Directorate grows, it continues to devote substantial managerial effort to hiring employees who can help expand its investigative capabilities. For instance, Directorate managers are evaluating the advantages of hiring additional speakers of Afghanistan's native languages. In defining all new positions and filling all future vacancies, the Directorate also will be mindful of the importance of hiring employees with skill sets that improve risk assessment and planning.

20. We suggest that SIGAR proceed with its effort to put in place a more formal performance appraisal process to ensure a more structured approach to evaluating performance and making decisions related to pay and promotions.

Accept. As noted in the response to question #12, SIGAR employees are identified as Department of the Army civilians for the purpose of administration of pay, leave, benefits, and entitlements. Therefore, SIGAR will use the performance evaluation system detailed in Army regulations as a basis for designing a performance evaluation system. The new system will be in place by September 30, 2010.

21. We suggest that SIGAR continue to establish and implement requisite training and document and retain records relating to training.

Accept. SIGAR will complete the procurement of tracking software for training by September 30, 2010, which will greatly assist SIGAR in the process of documenting and retaining training records.

22. We suggest that SIGAR ensure that the draft hotline policy is revised and made final to reflect the current practice.

Accept. The Investigations Directorate has drafted a revised hotline policy to reflect the current practice. The policy will be issued by September 30, 2010.

APPENDIX B



SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION

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Arnold Fields, Inspector General

October 29, 2010

Honorable Phyllis K. Fong
Inspector General, U.S. Department of Agriculture
Chair, Council of the Inspectors General
on Integrity and Efficiency (CIGIE)

Dear Ms. Fong,

SIGAR has worked diligently to remediate all of the concerns identified in the audit and investigations peer reviews and to implement the suggestions made in the overall peer evaluation report.

The *Peer Evaluation of the Special Inspector General for Afghanistan Reconstruction* report, dated August 2010, included two suggestions for follow-up peer reviews of audit and investigative operations:

Given these initiatives, we suggest that SIGAR pursue with the CIGIE Audit Committee scheduling a follow-up peer review when appropriate.

We suggest that SIGAR pursue with the CIGIE Investigations Committee scheduling a follow-up review when appropriate.

SIGAR's response to both suggestions, stated in the peer evaluation report, was to pursue scheduling a follow-up review by November 1, 2010. We propose that the follow-up peer review focus on the recommendations made in the System Review Report and Quality Assessment Review for audits and investigations, respectively. We would not expect, nor advocate, the CIGIE audit community to commit the resources to the extent assembled for the overall evaluation. As such, we are requesting a follow-up peer review which would address the extent to which we have implemented the specific recommendations by the end of calendar year 2010. This letter represents implementation of those two suggestions.

Please let us know the specific timing for such a review.

Sincerely yours,

Arnold Fields, Inspector General
Special Inspector General for Afghanistan Reconstruction



Council of the
INSPECTORS GENERAL
on INTEGRITY and EFFICIENCY

November 9, 2010

The Honorable Arnold Fields
 Special Inspector General
 for Afghanistan Reconstruction
 400 Army Navy Drive
 Arlington, Virginia 22202-4704

Dear General Fields:

In your letter dated October 29, 2010, to the Chair of the Council of the Inspectors General on Integrity and Efficiency (CIGIE), you advised that you were implementing two of the suggestions included in the Peer Evaluation of the Special Inspector General for Afghanistan Reconstruction report, dated August 10, 2010. Specifically, you were pursuing with the CIGIE Audit and Investigations Committees the scheduling of follow-up reviews. In your letter, you proposed that the reviews focus on the recommendations made in the System Review Report and Quality Assessment Review for audits and investigations, respectively, and address the extent to which your office has implemented the specific recommendations. The CIGIE Chair forwarded your letter to me, as Chair of the Investigations Committee, and to Jon Rymer, in his capacity as Chair of the Audit Committee, and we are providing separate responses to you.

The purpose of this letter is to advise you that the Tennessee Valley Authority Office of the Inspector General (OIG) will conduct a follow-up review to determine if the Special Inspector General for Afghanistan Reconstruction (SIGAR) has, in fact, remediated the deficiencies identified in the Quality Assessment Review of August 2010. Paul Houston of my office and Chris Fair of the Department of Defense OIG (Defense Criminal Investigative Service) will conduct a focused, limited-scope review to assess the progress of SIGAR in remediating the findings that resulted in an opinion of noncompliance for your investigations component. You will receive an engagement letter for this work defining the scope of the work to be completed and setting mutually agreeable dates for the field work and issuing the report. Our report will be forwarded to the CIGIE Chair and to the Attorney General upon completion. We will add this report and supporting documentation to the files supporting the Quality Assessment Review. That addition, however, will not affect the outcome of the review.

Please be advised that the focused, limited-scope review described above will not qualify as a separate external peer review of your investigations component. A peer review, governed by the CIGIE *Qualitative Assessment Review Guidelines for Federal Offices of Inspector General* (May 2009) and based on the requirements in the PCIE/ECIE *Quality Standards for Investigations* (December 2003) and applicable *Attorney General Guidelines* is a backward-looking review, requiring a peer review team to examine and opine on the investigation component's system of quality control over a period of time. Peer reviews generally cover a one-year period to ensure that there are sufficient investigative reports, policies, and systems to review and test for compliance and arrive at an opinion.

The Honorable Arnold Fields
Page 2
November 9, 2010

SIGAR will be scheduled for a full-scope investigations peer review that will cover the period October 1, 2010, (the effective date of your new policies and procedures) through September 30, 2011. The CIGIE Investigations Committee is currently updating its peer review schedule for the next three years, and I will ensure that your review is appropriately scheduled.

Please call me if you wish to discuss what I have proposed.

Very truly yours,

A handwritten signature in black ink, appearing to read "Richard W. Moore". The signature is fluid and cursive, with the first name "Richard" being more prominent.

Richard W. Moore
Chair, Investigations Committee
Council of the Inspectors General
on Integrity and Efficiency

cc: The Honorable Phyllis Fong, CIGIE Chair

November 18, 2010



Gordon S. Heddell
Inspector General
Department of Defense

before the
Senate Committee on
Homeland Security and Governmental Affairs
Subcommittee on Contracting Oversight

on

"Oversight of Reconstruction Contracts in Afghanistan
and the Role of the Special Inspector General"

REVISED

Chairman McCaskill, Ranking Member Brown, and distinguished members of this subcommittee, thank you for the opportunity to appear before you this afternoon to discuss our oversight efforts in Afghanistan.

As the principal oversight agency within the Department of Defense, the DoD IG is committed to providing effective and meaningful oversight of U.S. contingency operations in Southwest Asia. Our priorities are to improve the effectiveness of DoD programs and to assist DoD and the Congress in identifying and deterring waste, fraud, and abuse of taxpayer monies. Most importantly, we aim to ensure the health, safety, and welfare of our troops. Today I will discuss the efforts of my auditors, investigators, and evaluators in providing effective oversight in the region.

Before that, I would like to state that the coordination and cooperation among the various oversight agencies to support our country's collective Southwest Asia effort is a great success story and a notable achievement/milestone in the development of effective oversight of contingency operations.

PRESENCE IN THE REGION

Since the start of operations in Southwest Asia, over 200 DoD IG personnel have been deployed into the region for a significant amount of time, providing "boots on the ground" oversight. Today, the DoD IG is operating at its highest level in Southwest Asia. At the beginning of this month, 50 DoD IG personnel were deployed in Iraq, Afghanistan, Kuwait, and Qatar on six to 12 month rotations. In addition to approximately 25 auditors, 2 evaluators and 18 Defense Criminal Investigative Service (DCIS) special agents working out of seven offices – three in Afghanistan, three in Iraq, and one in Kuwait – there are also teams of auditors, agents, inspectors and engineers constantly entering and exiting the region on temporary duty assignments. In fact, I will be making a trip to Afghanistan in the near future.

During FY 2010, on average, we had 12 auditors stationed on the ground in Afghanistan focusing in the areas of contracting, financial management, construction, and safety. In addition, up to 12 additional auditors per month traveled temporary duty assignments to Afghanistan to augment the in-country teams or perform other oversight involving contracting, financial management, and construction issues. In FY 2011, we are targeting to have 17 auditors deployed to Afghanistan and an additional five auditors deployed to Qatar as a rear detachment for Afghanistan oversight continuing our oversight emphasis on contracting, financial management, and construction issues, as well as oversight efforts related to the \$14.2 billion in additional funding for Afghan Security Forces. The personnel deployed to Qatar will travel in and out of Afghanistan on TDY, as needed, to complete their fieldwork.

DCIS has a current in-theater work force consisting of 15 DCIS agents and one administrative assistant currently deployed in support of Overseas Contingency Operations (OCO). DCIS personnel in Afghanistan in FY 2011 are projected to remain at the current level of 8 DCIS agents. These agents investigate matters involving corruption, theft, procurement fraud, bid-rigging, product substitution and conflicts of interest. Our investigative efforts in the region have identified corrupt business practices, loss of U.S. funds through contract fraud, and theft of critical military equipment destined for Coalition Forces in Southwest Asia.

In FY 2010, the Special Plans & Operations (SPO) directorate of the DoD IG placed two personnel on the ground in Kabul and has plans to place two additional personnel in Kandahar in FY 2011. These evaluators conduct assessments, liaison with the commands, and support TDY teams coming into Afghanistan.

EFFECTIVE AND EFFICIENT COORDINATION

The DoD IG has primary responsibility within the DoD for providing oversight of defense programs and funds appropriated to the Department at home and around the world, to include Southwest Asia. In this role, the DoD IG oversees, integrates, and attempts to ensure there are no gaps in the stewardship of DoD resources. In furtherance of this responsibility, the DoD IG is committed to maintaining an effective working relationship with other oversight organizations, including other Federal agencies, to minimize duplication of efforts and to leverage resources to provide more comprehensive coverage. Effective interagency coordination, collaboration, and partnerships within the oversight community are essential to providing comprehensive reviews of wartime programs and expenditures to identify whether critical gaps exist and recommend actions to address those gaps. Based on our experience in Southwest Asia, we have established mechanisms to augment our core oversight coordination processes to better coordinate, report, and share our plans, activities, and results in a contingency environment.

Special Deputy Inspector General for Southwest Asia. The Special Deputy Inspector General for Southwest Asia (SDIG-SWA) is my senior level representative in Southwest Asia who acts on my behalf to coordinate and deconflict oversight efforts within Southwest Asia. The SDIG-SWA spends the majority of his time forward deployed to Southwest Asia and continues to improve the communications within the Defense and Federal oversight community by offering an authoritative source to coordinate and facilitate various oversight efforts within the legal authorities of the DoD IG. The SDIG-SWA also serves as a liaison with DoD leadership and the supporting commands in Southwest Asia to identify oversight requirements and to facilitate interaction with oversight organizations.

The SDIG-SWA serves as chairperson of the Southwest Asia Joint Planning Group, established in April 2007 as the principal Federal interagency forum to promote coordination and cooperation among the member organizations toward the common

objective of providing comprehensive Southwest Asia oversight. The Joint Planning Group, which meets quarterly or more frequent as needed, is made up of representatives from over 25 DoD and Federal oversight agencies or functional components. The Southwest Asia Joint Planning Group facilitates the compilation and issuance of the Comprehensive Oversight Plan for Southwest Asia in response to the FY 2008 National Defense Authorization Act, and also issued two reports that provided oversight observations¹ and summarized the challenges² impacting Operations Enduring and Iraqi Freedom.

A recent initiative of the SDIG-SWA, as the chairperson of the Southwest Asia Joint Planning Group, is the development of a comprehensive strategy for the oversight of the training, equipping, and mentoring of the Afghanistan National Security Forces. More than 50 percent of reconstruction funds are going to this critical mission and the success of efforts in this area is critical to achieving the goals of the United States. The DoD IG, working with the other members of the Southwest Asia Joint Planning Group, plans to have this strategy completed in the second quarter of FY 2011. Once this strategy is finalized, the group will develop a comprehensive strategy for the oversight of contracts and contingency contracting in Afghanistan. SIGAR reported in its October 30, 2010, quarterly report that DoD, DoS, and USAID had obligated more than \$17.7 billion to as many as 6,900 contractors and other entities from fiscal year 2007 to fiscal year 2009. We plan to have the strategy for oversight of contracting in Afghanistan completed by the fourth quarter of FY 2011.

Southwest Asia Comprehensive Oversight Plan. The DoD IG, in coordination with multiple federal Inspectors General and DoD oversight agencies, issues the Comprehensive Oversight Plan for Southwest Asia which includes the planned and

¹ DoD OIG Report No. SDIG-SWA-10-01.

² DoD OIG Report No. D-2008-086.

ongoing oversight efforts of the Inspectors General of the Department of Defense, Department of State, and the U.S. Agency for International Development; the Special Inspector General for Iraq Reconstruction; the Special Inspector General for Afghanistan Reconstruction; and the ongoing efforts of the Government Accountability Office. The plan also includes the planned and ongoing audit work of the U.S. Army Audit Agency, Naval Audit Service, and Air Force Audit Agency. We update the Comprehensive Plan annually, with the plan covering Fiscal Year 2011 to be issued later this month. Key updates to the plan since its first issuance have been the inclusion of asset accountability audits as requested by the Commander, U.S. Central Command, and Section 852³ required oversight efforts within the Defense oversight community.

Afghanistan-Pakistan Subgroup. In May 2009, the Southwest Asia Joint Planning Group established a new subgroup to coordinate oversight work solely in Afghanistan and Pakistan. This subgroup was established because of concerns expressed by senior U.S. Government and DoD officials regarding the seemingly overwhelming planned and ongoing oversight pertaining to Afghanistan and Pakistan, the large amounts of U.S. resources that will be expended, and the supplemental funding that several of the statutory inspectors general received specifically for the oversight of program activity. This subgroup, chaired by the Inspector General for the U.S. Agency for International Development, first met in June 2009 and has met periodically since then. To provide a focus on Afghanistan and Pakistan related oversight, the subgroup issues the Afghanistan-Pakistan Comprehensive Oversight Plan, a subset of the Comprehensive Oversight Plan for Southwest Asia. The subgroup plans to issue another plan in November 2011.

³ P.L. 110-417, Section 852, "Comprehensive Audit of Spare Parts Purchases and Depot Overhaul and Maintenance of Equipment for Operations in Iraq and Afghanistan," October 14, 2008.

Other Coordinating Activities. In addition to the Southwest Asia Joint Planning Group, we participate in the tri-weekly U.S. Forces-Afghanistan oversight Shura. This forum provides another opportunity for each of the oversight community in-country representatives to update the status of their current and planned projects. This forum is also used to notify U.S. Forces-Afghanistan and the NATO Training Mission-Afghanistan/Combined Security Transition Command-Afghanistan of findings so that corrective action can be taken immediately instead of waiting for reports to be issued. The Shura is chaired by the Chief of Staff for U.S. Forces-Afghanistan. The Command also uses the Shura as an opportunity to brief the oversight community on Command programs. For example, at one Shura, the Command provided a briefing on its Commander's Emergency Response Program, an area in which the DoD IG, Army Audit Agency, and the Special Inspector General for Afghanistan Reconstruction were and continue to coordinate ongoing and future oversight.

Our Auditing component has always had an effective and comprehensive coordination process both internal to DoD oversight agencies and Federal oversight agencies, and uses several means to coordinate audit efforts with other oversight agencies. First, in developing our annual audit plan, including Southwest Asia related projects, we vet the proposed plan with the Service Audit Agencies (Army Audit Agency, Naval Audit Service, and Air Force Audit Agency) to identify potential duplication of effort. Second, in announcing the start of audit projects, we coordinate each proposed audit with the Service Audit Agencies, the Government Accountability Office and the Special Inspectors General for Iraq and Afghanistan Reconstruction based on the proposed oversight. Third, the Deputy Inspector General for Auditing meets quarterly with the Service Audit Agency Chiefs to discuss current issues and efforts, including areas of potential duplication or concerns.

In developing SPO assessment projects, we make every effort to coordinate with other Federal oversight organizations. Further, due to the complex operational nature of SPO assessments, SPO makes great efforts to coordinate with respective commands to 1)

solicit input on the issue areas that we have identified, 2) solicit input on any other areas that should be assessed, and 3) generate support for the assessment topic and especially for the in-country portion of the assessment. To this end, we always coordinate through the CENTCOM IG, the IGs of the respective commands in country, and, as appropriate, with general officers in the in-theater commands.

Coordination of Investigations. Because of the magnitude and scope of alleged criminal activity relating to Overseas Contingency Operations, DCIS continues to collaborate with its mission partners including the Department of Justice, in order to combat fraud, waste and abuse in Southwest Asia and to successfully prosecute criminal violations. In addition, DCIS is involved in various task forces to deconflict and maximize collaborative efforts.

DCIS maintains a close working relationship with the International Contract Corruption Task Force (ICCTF), which was formed to maximize collaborative efforts to effectively investigate and prosecute fraud and corruption criminal cases involving Southwest Asia. The primary goal of the ICCTF is to combine the resources of multiple investigative agencies to effectively and efficiently investigate and prosecute cases of fraud, waste, and abuse related to U.S. Government spending in Iraq, Kuwait, and Afghanistan. The task force, with its main operational body, the Joint Operations Center, is an effective fraud and corruption fighting team. The ICCTF has proven to be very efficient in avoiding duplication of efforts and effective in the sharing of resources. Perhaps most importantly, the ICCTF has led to prompt dissemination of relevant information to all ICCTF members.

DCIS is also assigned as a member of the Task Force 2010 and works with mission partners such as the Department of Homeland Security, SIGAR, FBI and Afghan investigators in an effort to develop greater visibility of the flow of contracting funds below the prime contractor level in order to better employ contracting in support of counterinsurgency operations. The task force fuses, augments, and drives existing efforts

to provide actionable information regarding key contracting networks, money flows, and linkages to better utilize contracting dollars intended for the Afghan people.

DoD IG ACCOMPLISHMENTS IN AFGHANISTAN

DoD IG oversight efforts in Afghanistan, including collaborative efforts with other agencies, have identified issues with the Afghan National Police Training; shoddy construction; poor contract oversight, millions of dollars needlessly wasted; risks to life and safety; bribery, fraud, and corruption; weaknesses in the visibility, accountability, and transfer of weapons, equipment, and facilities funded with Afghanistan Security Forces funds. In addition, we continue to find challenges in the Afghan National Forces training efforts. Other areas of focus include military construction efforts, implementation of information operations, force protection, Afghanistan National Police training, and the management and execution of the expected additional \$14.2 billion in Afghanistan Security Forces funds.

Highlights of Key Afghan Related Audits: DoD IG audits have had a significant impact on improving Afghanistan reconstruction efforts. In September 2005, we first reported on the lack of adequate contract administration in Afghanistan to include inadequate requirements definition, ineffective use of competition, use out-of-scope items, and improperly awarded task orders. Our primary focus areas in Afghanistan remain contract administration and oversight, management and execution of the Afghanistan Security Force funds, military construction, and the training of the Afghanistan National Police (ANP). A few highlights include:

- ***Afghan National Police Training Program.*** As we have testified previously before this Subcommittee, the Department of State Civilian Police Program contract did not meet DoD's needs in developing the ANP to provide security in countering the growing insurgency in Afghanistan. Specifically, DoS did not

maintain adequate oversight of Government-furnished property; maintain contract files as required by the Federal Acquisition Regulation; always match goods to receiving reports; or follow internal control procedures requiring in-country contracting officer's representatives to review contractor invoices to determine if the costs were allowable, allocable, or reasonable prior to paying and validating deliverables. The DoS and DoD agreed to have DoD assume contractual responsibility for the primary ANP training program, which includes Regional Training Centers, basic ANP training, mentoring within the Afghan Ministry of Interior, and DoD police mentor teams embedded in ANP units in districts throughout Afghanistan. DoD and DoS IGs recently announced a joint follow up review that will include an assessment of the transition of the ANP training contract from DoS to DoD, assessing the cost, performance measures, and planning efforts associated with the transfer to ensure enhanced contract oversight. Additionally, once the contract is transitioned from DoS to DoD we will evaluate DoD contracts related to ANP to include contract award, management, and funds allocation.

- **Construction Effort.** We identified inadequate contingency construction contracting procedures which resulted in shoddy construction work at Bagram Air Field and New Kabul Compound. For example, at Bagram Air Field, we identified projects that were accepted in substandard condition and required \$3.4 million in extensive rework to bring newly constructed buildings in Afghanistan up to standard. The Combined Security Transition Command-Afghanistan (CSTC-A) accepted the New Kabul Compound facilities where force protection on the compound was inadequate, the communication infrastructure was incomplete, and there was no plan for continued building maintenance. Additionally, officials from U.S. Army Corps of Engineers, Afghanistan Engineer District, and Combined Security Transition Command-Afghanistan did not monitor threat levels during construction, did not conduct required annual evaluations for

compliance with force protection standards, and did not adequately coordinate or plan the construction or maintenance at New Kabul Compound. This resulted in more than \$1.4 million in additional spending to fix inadequate communication and force protection deficiencies. New Kabul Compound sat vacant for a year because forces could not occupy facilities until conditions were corrected.

- ***Inadequate Oversight.*** As we identified in our report, “Contingency Contracting: A Framework for Reform,” May 14, 2010, one of the most frequent contract administration weaknesses we found was in contract oversight and surveillance. With our recently completed and ongoing oversight efforts of OCO contracting, we continue to identify a lack of sufficient and adequate contracting oversight. As discussed previously, one of the most significant deficiencies with the management of the DoS contract for the training of the Afghan National police was the lack of adequate contracting officer representatives to oversee the contractor. Other oversight efforts have also identified inadequate quality assurance surveillance plans for construction projects, the lack of actual oversight personnel and the contracting officer not requesting that the contractor for the Parwan Detention facility extend their bank guaranty letter to cover warranty work required and not properly notifying the contractor of warranty work required to address failures, defects, or damage by the end of the warranty period to preserve the Government's warranty rights.
- ***Afghan Security Forces Fund.*** Through our previous series of reviews of the management and execution of the Afghanistan Security Forces (ASF) funding we noted deficiencies with accountability, visibility, and transfer of weapons; faulty construction and unsafe working conditions; failure to meet contract requirements for real property; inadequate processes to transfer real property to the Afghans; and inadequate controls over the inventory or accountability of equipment transferred to the Afghans. In FY 2011, we will continue our oversight of the ASF funds as NATO Training Mission-Afghanistan (NTMC-A)/CSTC-A is expected to

receive about \$11.6 billion in ASF funds for sustainment, infrastructure, equipment and transportation, and training and operations activities.⁴ Oversight will include the transition of the ANP training program from DoS to DoD, DoD management of ANP, procurement of vehicles and equipment, payroll, and facilities construction.

- ***Life and Safety.*** Throughout our oversight efforts the DoD IG is attentive to issues we identify related to the safety of Service members, DoD civilians, and contractors. We identified several safety issues which we addressed through the use of quick-action memorandums. For example, we identified problems with buildings constructed in Afghanistan . Specifically, the contractor did not adequately install and maintain the electrical and fire suppression systems so that they operated in accordance to contract requirements and applicable building codes. We found serious issues with the New Kabul compound design and construction, which resulted in potential risks to the life and safety of U.S. personnel.

DCIS Highlights in Afghanistan: DCIS has been engaged in investigations involving DoD operations in Iraq, Kuwait, and Afghanistan since 2003. As a result of the magnitude and scope of alleged criminal activity relating to OCO, DCIS has made criminal investigations of contract fraud and corruption related to U.S. operations and reconstruction efforts in Iraq and Afghanistan an agency priority. As of September 30, 2010, DCIS had a total of 241 open investigations related to Overseas Contingency Operations and the agents in Southwest Asia were actively working 41 investigative cases or proactive projects in theater. DCIS will continue to focus on protecting the warfighter by investigating significant fraud and corruption impacting crucial DoD operations throughout Southwest Asia, with particular emphasis on schemes that

⁴ An additional 2.6 billion was appropriated for ASF in the FY 2010 Supplemental Appropriations Act, P.L. 111-212, to remain available until September 30, 2011.

potentially affect the health, safety, welfare, and mission-readiness of U.S. troops assigned to theater.

One area where we have directed a great deal of investigative attention has been the Commander's Emergency Relief Program and other civil works project contracts awarded to Afghan companies. CERP funds are intended to swiftly provide payment to local contractors for civil work projects. The CERP bolsters the "Afghan First" program which promotes hiring Afghan companies and Afghan personnel to construct needed roads and facilities to support the development and expansion of the Afghan government and organizations, but have proven problematic. For example, the use of U.S. currency and vouchers versus electronic funds transfers and a payment process with critical internal control weaknesses makes this program vulnerable in an environment and culture where fraud and corruption are habitual.

Of the 241 open investigations related to Overseas Contingency Operations, 68 percent of those investigations are related to bribery and financial crimes. Eleven percent of the investigations are related to theft, eight percent are kickback investigations, and eight percent are product substitution investigations. The remaining five percent of the OCO investigations relate to general crimes, technology transfer, and terrorism investigations.. The following are two significant case examples that demonstrate the successful collaborative effort with our mission partners in Southwest Asia:

Between January and February 2010 a former U.S. Army sergeant stationed in Afghanistan admitted to aiding and abetting a co-conspirator's solicitation and acceptance of more than \$400,000 in bribes from a government contractor, all in exchange for his co-conspirator's creation and submission of fraudulent paperwork permitting that contractor to steal fuel from Forward Operating Base Shank. The sergeant also admitted to helping his co-conspirator conceal the money in various locations in and around FOB Shank. The total value of the fuel stolen during the course of the scheme was at least \$1.39 million. This case resulted in the former U.S. Army

sergeant pleading guilty to bribery in connection with a fuel theft scheme to solicit bribes from a government contractor in Afghanistan. As a result, a second former U.S. Army sergeant was charged with a single count of conspiracy to commit theft of government property in a criminal complaint filed in Eastern District of Virginia on June 24, 2010. The sergeants were stationed at FOB Shank, in support of U.S. military operations in Afghanistan. The sergeant that pled guilty had responsibilities that included supervision of FOB Shank's fuel redistribution process. At sentencing, he faces a maximum penalty of 15 years in prison and a fine of \$250,000; twice the gross gain or loss from the scheme; or three times the value of the payments solicited or received. The two former sergeants have also been suspended by the Department of Army. This was a joint investigation by the following members of the ICCTF: DCIS, Army CID and FBI.

On August 7, 2009, two dual Afghan/U.S. citizens pled guilty after being charged with conspiracy and bribery in connection with a scheme to offer \$1 million in bribes to a U.S. Army contracting official to influence the award of a road construction contract in Afghanistan. The two subjects allegedly offered a bribe of \$1 million to the Contracting Officer's Representative in return for the award of the Commander's Emergency Response Program project. The CERP project was for the construction of a road from Pule Alam, Afghanistan to Akundkhel, Afghanistan. The subjects estimated they could construct the road for about \$9 million; however, they intended to bid \$18 million for the project and offered the COR \$1 million in exchange for the COR's influence in awarding them the contract. The contractors threatened that if they did not get the award, they would use their political connections to blacklist the awardees and DoD's efforts to fulfill the contract would be severely disrupted. On November 13, 2009, the subjects were each sentenced to 48 months confinement followed by 36 month of propation, and ordered to pay \$30,000 in fines. This case was the result of efforts by the International Contract Corruption Task Force members, including DCIS, the FBI and Army CID.

Overall Southwest Asia statistical data (including Afghanistan) for DCIS investigations since September 27, 2003 to present consists of 180 criminal charges ; 88 arrests; 120

felony convictions; 44 debarments; 155 suspensions; \$55,899,148 in fines, penalties and other monetary recoveries; \$19,469,964 in forfeitures; \$2,239,293 in recovered property and \$203,335,400 paid to the U.S. in restitution.

For Afghanistan alone, since August 5, 2004 to present, DCIS investigations have resulted in: 71 criminal charges; 37 arrests; 44 convictions; six debarments; 31 suspensions; \$5,395,782 in fines, penalties and other monetary recoveries; \$546,627 in forfeitures; \$17,198 in recovered government property and \$55,239,385 paid to the U.S. in restitution.

Special Plans and Operations:

SPO has conducted a number of assessments that have had relatively immediate impact on national security challenges in Afghanistan, including:

- Identifying contracting-related bottlenecks that would impede development of the infrastructure necessary to support expansion of the Afghan National Security Forces.
- Improving the capability of the U.S. military to provide accountability and control of weapons and ammunition supplied to the Afghan National Security Forces, thus limiting fraud, waste and abuse concerning this equipment and protecting a significant investment of U.S. funds used in its purchase.
- Increasing the capacity of the U.S. Security Assistance Office to provide equipment required to rapidly expand the Afghan National Security Forces.
- Implementing a U.S. Congressionally-legislated requirement and DoD directive for the U.S. Security Assistance Office oversight of sensitive defense technology supplied the Afghan National Security Forces.

- Identifying significant constraints that could have prevented execution of U.S. plans to expand the Afghan National Security Forces, thereby facilitating their growth and capability to operate without dependency on U.S. forces.

LESSONS LEARNED REGARDING OVERSIGHT

As an organization we have gained valuable experience in terms of establishing an in-theater presence and deploying auditors, investigators, evaluators and inspectors. An in-theater presence is essential to ensuring visibility of oversight operations as well as reaching out to the military and civilian leadership in-theater to ensure our oversight is meaningful, effective, and on target.

One of the most important lessons we have learned is the value of having the Special Deputy IG for Southwest Asia as our single point of contact in the region for coordinating oversight efforts and to ensure effective communication with the senior civilian leadership and the Commanders in the theater. This is key for minimizing the impact on the daily operation of the activities we visit, and provides those activities a single point of contact.

Another important lesson learned is that contracting in a contingency environment presents many challenges. In May 2010, we summarized our experiences in the report "Contingency Contracting: A Framework for Reform". This report identified key systemic contingency contracting issues and identified actions that need to be taken to correct these issues for future contracting. DoD components, including NTM-A/CSTC-A and the Army Contracting Command, proactively leveraged this product as a tool to improve their contracting efforts. NTM-A/CSTC-A referred to the report as an "...absolutely first rate document on best and worst practices of contracting in a contingency environment."

The U.S. and coalition efforts to establish, support, and maintain a sovereign, free and democratic Afghanistan require a broad spectrum of U.S. and coalition capabilities, both military and civilian. The oversight organizations within their respective statutory authorities and standing expertise need to be proactively engaged. It is absolutely essential that the full spectrum of the supporting oversight community (Inspectors General, Service audit and investigative agencies, GAO, and others) work in concert to ensure effective and efficient oversight.

I want to assure the committee that we are intensifying our oversight in Afghanistan and providing leadership in an effort to ensure interservice and interagency collaboration. Fostering an open dialogue and coordinating and integrating our efforts within the oversight community are critical to providing effective oversight in Afghanistan. The Federal oversight community has established an historic and unprecedented level of cooperation and coordination, including all the members present today. We are collectively deterring and detecting fraud, waste, and abuse, improving efficiencies in operations as well as protecting our warfighters, civilians, and contractors.

In closing, I would like to thank the Subcommittee for the opportunity to discuss our work in Afghanistan and look forward to continuing our strong working relationship with the Congress and with all oversight organizations in Southwest Asia. I look forward to answering any questions you may have.

TESTIMONY OF HAROLD W. GEISEL
DEPUTY INSPECTOR GENERAL

U.S. DEPARTMENT OF STATE AND
THE BROADCASTING BOARD OF GOVERNORS

BEFORE THE

UNITED STATES SENATE
COMMITTEE ON HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
AD HOC SUBCOMMITTEE ON CONTRACTING OVERSIGHT

ON

OVERSIGHT OF RECONSTRUCTION CONTRACTS
IN AFGHANISTAN AND THE ROLE OF
THE SPECIAL INSPECTOR GENERAL

NOVEMBER 18, 2010

Thank you Chairman McCaskill and Ranking Member Brown for the opportunity to address the role of the Department of State's Office of Inspector General (OIG) in providing and coordinating oversight with other inspectors general in Afghanistan, as well as an opportunity to comment on the feasibility and advisability of creating a permanent inspector general (IG) to oversee contingency operations.

1. Role of the Department of State OIG in Afghanistan.

Our oversight role in Afghanistan includes performing audits, evaluations, inspections, and investigations with respect to activities that are funded and managed by the Department of State. These funded and managed programs include activities such as worldwide protective services for diplomats, embassy security, counternarcotics and police training programs, as well as construction and maintenance of U.S. embassies. Our Middle East Regional Office (MERO) has an office in Kabul with "boots on the ground" to provide quick and timely evaluations of high risk, high dollar programs. In addition, our Office of Investigations provides on-the-ground investigative support in Afghanistan, and our Offices of Audits and Inspections also perform work there.

MERO's Kabul office was funded by Congress in FY 2009 and established in September 2009 to execute OIG oversight activities in Afghanistan and coordinate with other OIGs there. Due to the early successes of the Kabul MERO office, Embassy Kabul requested that we increase the number of permanently assigned staff, which we have done.

Since August 2009, MERO has issued seven reports on contract and performance evaluations and limited-scope reviews of Department of State programs in Afghanistan. In the next few months, MERO expects to issue two more reports on operations and maintenance support contracts. In addition, field work is underway for reviews of several Bureau of International Narcotics and Law Enforcement Affairs' programs and contracts in Afghanistan. Also, the Office of Audits just began a new joint audit with the Department of Defense (DOD) OIG on Afghanistan National Police Force training, and is working with the Special Inspector General for Afghanistan Reconstruction on issues related to the civilian uplift.

Over the past year, OIG's findings and recommendations issued to the Department of State have led to critical program and operational improvements. For example, the Bureau of Diplomatic Security has taken steps to enhance its in-country oversight and management of the personal protective services contractor and has re-instated testing by explosives detection canines of a mandatory scent for an explosive found in Afghanistan. As a result of recommendations stemming from MERO's review of explosives detection canines, the Bureau of Diplomatic Security is hiring an employee to direct and oversee the canine training and testing program, has improved methods of obtaining fresh non-hazardous testing materials, and has tightened and clarified procedures for the storage and handling of testing materials.

In its recent evaluation of the Kabul Embassy Security Force, MERO found several weaknesses in guard training and qualifications, as well as issues related to the contractor's management of U.S. Government-

furnished property and testing by explosives detection canines. OIG fully expects that State Department compliance with these recommendations will strengthen this vital program.

The inspection of Embassy Kabul resulted in 116 formal recommendations to improve planning, program and operational oversight and support, and accountability throughout the mission.

We have provided the committee with a list of audits, evaluations, and inspections related to Department of State operations in Afghanistan that have been issued by our office since 2004. We have used Congressional resource increases since 2009 – in both supplemental and the appropriations base – to greatly increase the number of completed and planned audits, evaluations, and inspections in Afghanistan during 2009 and 2010. Approximately 25 percent of our ongoing or planned oversight for the Middle East and South Asia regions, which include 33 countries, will take place in or are otherwise related to Afghanistan.

In January 2009, with congressional support, we created the Middle East Investigative Branch, which provides robust investigative support in Afghanistan. From FY 2004 to FY 2008, the Office of Investigations reported only four active investigations related to Iraq and the greater MERO region; none of those investigations were performed in Afghanistan. With the increase in resources provided by Congress since 2008, we have been able to assign criminal investigators to overseas locations in the MERO region. The Office of Investigations, together in partnership with the International Contract Corruption Task Force, is now

reporting 27 active investigations in the MERO region, nine of which relate to Afghanistan. Additionally, we have had noteworthy, recent successes in the area of suspensions and debarments.

In 2010, the Office of Investigations successfully worked with the Office of the Procurement Executive to achieve suspension and debarment actions against five Department of State contractors, three of which related to investigations in Afghanistan. That compares to only one reported debarment action in the previous five years combined. We intend to encourage this upward trend with continuing investigations and an audit on the Department of State's Suspension and Debarment program by OIG's Office of Audits starting in January 2011.

2. Coordination of efforts between and among inspectors general, SIGAR, agency officials, and the Department of Justice in contingency operations in Afghanistan and around the world.

Coordination occurs at several levels within the oversight community to reinforce the efficiency of oversight efforts. In Washington DC, coordination occurs first through the Southwest Asia Joint Planning Group (SWA-JPG), chaired by the DOD IG, which meets quarterly to plan ongoing activities to ensure minimum duplication of oversight and maximum cooperation. There is also a separate subgroup of the South West Asia Planning Group – the AFPAK Working Group – which meets to address oversight work in Afghanistan and Pakistan. This working group is where IG coordination, de-confliction, and agreement occur, resulting at times in concurrent or joint work with other OIGs. OIG personnel from the

Department of State, USAID, DOD, GAO, and SIGAR are members of the AFPAK group.

Informal coordination regarding oversight work in Afghanistan and elsewhere in the region also takes place at the Assistant Inspector General and lower levels between these same organizations, as well as others such as the OIGs in the Department of Homeland Security, Defense Intelligence Agency, and the Central Intelligence Agency. These groups will continue to play a vital role and serve as the model for new and flexible groups formed in response to future contingency operations regardless of where they occur in the world.

In Afghanistan, there are additional coordination groups. The IG *Shura* is facilitated in-country by U.S. Forces-Afghanistan and the DOD OIG. Participants meet monthly and include representatives from all OIG offices operating in Afghanistan, including office directors from DOD, USAID, State Department, and SIGAR. Embassy Kabul also established an Oversight Working Group chaired by Ambassador Keith that meets monthly. Its membership includes senior OIG personnel assigned in Afghanistan from the Department of State, USAID, and SIGAR. This group also meets monthly. The physical co-location of the State Department OIG and SIGAR offices at the embassy, as well as weekly meetings between the two office directors, aids effective planning and execution of oversight projects on the ground.

Oversight redundancy is reduced to the greatest extent possible by these coordinating bodies; however, at times there can be an appearance

of duplication of work when the OIGs conduct oversight on programs that have multiple sources of funding and focus. Each agency or department OIG is responsible for the oversight of funds and programs within its department. When programs such as Rule of Law have multiple funding streams, the coordinating bodies de-conflict the oversight work. As a whole, mechanisms created in the past couple of years to improve coordination and de-confliction of oversight efforts have been successful and the lessons learned could be readily adapted for future contingencies, no matter where they occur in the world.

3. Feasibility and advisability of creating a permanent Inspector General to oversee contingency operations.

The novel concept of creating a permanent Inspector General to oversee contingency operations merits serious discussion. It is useful to consider the creation of the Special Inspector General for Iraq Reconstruction (SIGIR) which was created in part by Congress, in reaction to insufficient oversight (including a lack of "boots on the ground") in Iraq. SIGIR performed a valuable oversight role in Iraq, supported by hiring authorities not available to permanent IGs as well as generous resources.

The Department of State OIG suffered for years with flat-lined budgets and insufficient staffing to conduct effective oversight in contingency areas. We worked with Congress to successfully address the resource issues hampering effective oversight of high-cost, high-risk State Department programs in critical crisis and post-conflict areas.

Congress subsequently provided us with significant additional funding and resources beginning with the FY 2008 supplemental bill and continuing through FY 2011. We delivered effective oversight once given proper resources. The creation of the Middle East Regional Office and Middle East Investigative Branch have vastly increased our oversight and investigative capacity in the region. For example, during a five-year stretch when OIG's budget was flat-lined (from Fiscal Years 2004 through 2008), OIG produced 11 audits or inspections related to Afghanistan. Through strong Congressional support, OIG has produced 12 audits or inspections in Afghanistan alone in the past two years.

Existing departmental OIGs have proven their ability to work well together and with the special IGs over the past two years to provide effective, coordinated oversight in contingency operations. They have existing processes, organizational structures, and institutional knowledge of the programs within their departments that facilitate efficient oversight of those programs and eliminate the learning curve that would be required of a contingency IG. Moreover, in an era of fiscal restraint, creating a permanent IG to oversee contingency operations might not be prudent. Millions of "start-up" dollars would be required to establish and sustain a new bureaucracy.

Current organizations already in existence, such as the South West Asia Planning Group and the International Contract Corruption Task Force, could be used for interagency coordination or as models for the fast creation of other coordination groups for new contingencies around the world as the need arises. These groups have the means, methodology,

and practices in place to facilitate efficient, cost-effective oversight through planning, coordination, and de-confliction.

In addition, should a new investigative unit need to be established, there would be potential technical and legal challenges inherent in creating a case management system and investigative manual, a firearms program, plus evidence handling/storage and digital forensics capabilities. Lastly, the current pool of qualified auditors, inspectors, and investigators who are willing to deploy to contingency areas is limited, and the creation of a new IG for contingency operations would create more competition for these sparse resources.

Once again, I thank you Chairman McCaskill and Senator Brown for the opportunity to appear today and I am ready to answer any questions.

Annex to Testimony of Harold W. Geisel, DOS Deputy Inspector General**Completed OIG projects related to Afghanistan, 2004 – 2010**

September 2010	Performance Evaluation of the Bureau of Diplomatic Security Kabul Embassy Security Force, (MERO-A-10-11)
September 2010	Limited-Scope Review of the Bureau of Diplomatic Security's Oversight of Explosives Detection Canine Programs, (MERO-I-10-14)
August 2010	Limited-Scope Review of Policies and Procedures for Vetting Foreign Service Nationals at Embassy Kabul in Afghanistan, (MERO-I-10-10)
July 2010	Review of Support for Employees Who Are Serving or Have Served in High Stress, High Threat, Unaccompanied Posts, (ISP-10-44)
March 2010	The Bureau of International Narcotics and Law Enforcement Affairs Air Wing Program in Afghanistan and Pakistan, Performance Audit, (MERO-A-10-03)
March 2010	Memorandum Report, Broadcasting Board of Governors Operations in Kabul (ISP-IB-10-48)
February 2010	Embassy Kabul, Afghanistan, (ISP-I-10-32A) and classified annex (ISP-S-10-32A)
February 2010	DOD Obligations and Expenditures of Funds Provided to the Department of State for the Training and Mentoring of the Afghan National Police (Joint Report – MERO-A-10-06; DOGIG-2010-042)
December 2009	Status of the Bureau of International Narcotics and Law Enforcement Affairs Counternarcotics Programs in Afghanistan, Performance Audit, (MERO-A-10-02)
November 2009	Humanitarian Mine Action Programs in Afghanistan, (ISP-I-10-11)
August 2009	Performance Evaluation of the U.S. Training Center Contract for Personal Protective Services in Afghanistan, (MERO-A-09-08)
January 2008	Inspection of Rule of Law Programs in Afghanistan, (ISP-I-08-09)
September 2007	Accounting for Government-Owned Personal Property Held by Selected Contractors in Afghanistan, (AUD/IQO-07-48)

July 2007	Interagency Assessment of the Counternarcotics Program in Afghanistan, (ISP-I-07-34)
February 2006	The Broadcasting Board of Governors' Operations in and Broadcasting to Afghanistan, (ISP-IB-06-02)
January 2006	Security Management Inspection Embassy Kabul, Afghanistan, (ISP-S-06-13A)
January 2006	Mission Inspection, Embassy Kabul, (ISP-I-06-13A)
July 2005	Inspection of the Bureau of International Narcotics and Law Enforcement Affairs, (ISP-I-05-14)
October 2004	Evaluation and Analysis of Cost and Schedule Data for the Kabul Embassy Compound Project, (AUD/CG-04-34)
September 2004	Audit of DynCorp WPPS contract in Afghanistan, (AUD/PPA-04-45)
June 2004	Mission Inspection, Embassy Kabul, (ISP-I-04-35)
March 2004	Inspection of the International Broadcasting Bureau's Transmitting Station in Sri Lanka, (IBO-I-04-02)
January 2004	Inspection of the Bureau of South Asian Affairs, (ISP-I-04-12)

Ongoing/Planned Projects**Office of Audits**

- Audit of the Afghan National Police Training Program – jointly with DODIG (PTS code 11AUD3001)
- Audit of the Civilian Uplift in Afghanistan – jointly with SIGAR (PTS code 11AUD3003)

Middle East Regional Office (MERO)Work completed; report issuance expected in December 2010/January 2011

- Performance Evaluation of PAE Operations and Maintenance Support Contract at Embassy Kabul, Afghanistan, MERO-I-10-15
- Performance Evaluation of the PAE Task Order for Operations and Maintenance Support to the Bureau of International Narcotics and Law Enforcement Affairs' Counternarcotics Compounds in Afghanistan, MERO-I-11-02

Ongoing work, as of November 2010

- Performance Evaluation of the Bureau of Population, Refugees and Migration's Program to Reintegrate and Resettle Afghan Refugees
- Performance Evaluation of the Bureau of International Narcotics and Law Enforcement Affairs' Corrections System Support Program in Afghanistan
- Performance Evaluation of the Bureau of International Narcotics and Law Enforcement Affairs' Corrections System Support Program Construction Contracts in Afghanistan
- Performance Evaluation of the Bureau of International Narcotics and Law Enforcement Affairs' Operations and Maintenance Support Contract with the Major Crimes Task Force in Afghanistan

Office of InspectionsFY 2011 Planned work

- Inspection of the Bureau of South and Central Asian Affairs
- Inspection of the Office of the Special Representative for Afghanistan and Pakistan
- Compliance Follow-up Review of Inspection of Embassy Kabul, Afghanistan

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TESTIMONY OF

MICHAEL CARROLL,

DEPUTY INSPECTOR GENERAL,

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

BEFORE THE

SUBCOMMITTEE ON CONTRACTING OVERSIGHT OF THE

SENATE COMMITTEE ON HOMELAND SECURITY AND

GOVERNMENTAL AFFAIRS

“OVERSIGHT OF RECONSTRUCTION CONTRACTS IN AFGHANISTAN
AND THE ROLE OF THE SPECIAL INSPECTOR GENERAL”

NOVEMBER 18, 2010

Madam Chairman and Ranking Member Brown, I am pleased to appear before you to testify on behalf of the Office of Inspector General (OIG) of the U.S. Agency for International Development (USAID) and to be joined by my distinguished colleagues from the Departments of State and

Defense. Today I would like to provide you with information about our oversight role in Afghanistan and coordination with other oversight and law enforcement entities operating abroad. In addition, I would like to share some perspectives on the proposal to create a permanent inspector general to oversee contingency operations.

The Role of USAID OIG in Afghanistan

USAID OIG oversees USAID programs around the globe, and we exercise especially vigorous oversight of USAID activities in Afghanistan. We regard oversight of USAID programs in Afghanistan as our top priority. Because of the scale of the U.S. assistance effort in Afghanistan and the high risk of waste, fraud, and abuse, our office in Kabul will soon be the largest of our eight overseas regional and country office locations.

In the current budget environment—provided we receive no additional funding for our high-priority programs—we recognize that we will need to substantially curtail oversight of USAID development assistance programs in other regions of the world to maintain the existing level of oversight in Afghanistan, as well as in other high-priority areas such as Pakistan, Iraq, and Haiti. We are preparing to sacrifice oversight elsewhere because of the importance of these efforts.

Our extensive commitment to oversight efforts in Afghanistan is nothing new. In fact, our Afghanistan oversight program dates back to November 2002—5 years before the establishment of the Special Inspector General for Afghanistan Reconstruction (SIGAR). Through our work over these years, we have instituted effective systems for detecting and investigating allegations of waste, fraud, and abuse in development assistance programs. Drawing on our strong in-country presence we: (1) execute a comprehensive plan of program audits on USAID's performance, (2) perform financial audits of contractors and grantees, (3) conduct outreach to promote fraud awareness, and (4) conduct proactive and reactive investigations. Together, these efforts have reinforced the quality and integrity of U.S. development assistance and delivered important returns to taxpayers. Our presence and outreach work help deter those who would attempt to defraud the U.S. Government.

To date—at a cost of just over \$10 million—we have completed 39 performance audits and reviews of USAID programs and made 160 corresponding recommendations. In addition to this performance-focused work, we have scrutinized project finances and issued financial audits of more than \$800 million in USAID program expenditures.

Collectively, these audits have identified more than \$114 million in sustained questioned costs and funds to be put to better use.

While executing a robust audit program in Afghanistan, we have simultaneously built up a high-yield investigative enterprise there. Our criminal investigators have all of the traditional law enforcement authorities—including those for search, seizure, and arrests—and extensive training and expertise in investigating complex contract procurement fraud schemes.

In developing investigative partnerships and support, we rely on traditional law enforcement agencies, such as the Federal Bureau of Investigation, and on members of the statutory inspector general community. We have good working relationships with these organizations and have produced notable investigative results.

For example, we recently conducted a complex investigation of a contractor that has implemented reconstruction programs in Iraq and Afghanistan. The investigation spanned 5 years, produced more than 350 boxes of evidence, and required a 50-page affidavit for a search warrant. The investigation resulted in two guilty pleas and a settlement of \$69 million for criminal and civil violations.

Our office has opened 97 Afghanistan-based investigations addressing the full range of criminal activity—from theft, product substitution, and accounting fraud to solicitation of kickbacks. As of September 30, 2010, these investigations had led to 22 referrals for prosecution, 12 indictments, 9 convictions, and 48 administrative actions, such as contract terminations and debarments. In total, our investigative work has resulted in savings and recoveries of approximately \$152 million.

This history of effective engagement in Afghanistan has been predicated on the strength and resiliency of our workforce. Over the years, we have been fortunate to enlist skilled professionals who possess the knowledge and experience needed to conduct assertive oversight in conflict areas. That these employees are willing to be separated from friends and family, to do without certain basic amenities, and to endure the threat of violence demonstrates their commitment to the U.S. Government and the American taxpayer.

Their work—and that of our staff members in other parts of the world who support them—has yielded significant returns for taxpayers. For each dollar OIG has expended on oversight in Afghanistan since fiscal year 2003, we have returned a total of \$26 in sustained questioned costs, funds to be put to better use, and investigative savings and recoveries.

Law Enforcement and Oversight Coordination

We dedicate an exceptional amount of time and resources to coordination in Afghanistan. Although we are committed to effective coordination, coordination requirements in Afghanistan could be reduced if the statutory inspectors general did not have to coordinate with a special inspector general that has cross-jurisdictional authorities.

We engage in a number of forums to share information and coordinate with other oversight organizations. We participate in the Southwest Asia Joint Planning Group and chair the Afghanistan-Pakistan Subgroup, the focal point for sharing information and coordinating planned audits, reviews, and inspections. In addition to participating in these planning groups, our Country Director in Afghanistan regularly meets with other oversight bodies in the Inspector General Shura and routinely engages with oversight counterparts in person and by telephone and e-mail. OIG representatives also participate in Task Force 2010 and other efforts that are seeking evidence of diversion of U.S. assistance funds to insurgents. We also consult with Agency staff at the USAID mission and at headquarters in developing our oversight plans.

On the investigative front, we frequently conduct joint investigations with law enforcement counterparts and actively participate in the National Procurement Fraud and International Contract Corruption Task Forces. We work closely with U.S. prosecutors on all investigative matters within our jurisdiction subject to U.S. prosecution and, when appropriate, coordinate and collaborate with local law enforcement and prosecutors to bring cases to a successful conclusion in Afghanistan.

The establishment of SIGAR, with authorities that overlap those of the statutory inspectors general, has contributed to confusion and inefficiencies in audits and investigations. For example, USAID implementing partners are confused about whom to work with to address allegations of fraud, waste, and abuse. In addition, in January—2½ months after we issued an audit report on difficulties that a USAID power sector program had encountered in the construction of the Kabul power plant—SIGAR issued a similar report. The SIGAR report reiterated several of the findings we noted in our report, such as problems with sustainability of the Kabul power plant, the ability of the Afghan Government to collect revenue from users to support the plant, and cost overruns from the contractor. Although SIGAR's work in this area may have provided some marginal

value, we believe that the concerned parties would have been better served by less redundancy.

The Advisability of Creating a Permanent Inspector General for Contingency Operations

Contingency operations have become a prominent feature of our international engagement in recent years. The critical national security implications of our efforts in Afghanistan and Iraq, the kinetic operating environments in those countries, evolving control settings, and dynamic host-country governance conditions all dictate a need for intensive oversight.

Given the need for such intensive oversight, some may suggest that it would be productive to establish a permanent inspector general for contingency operations to oversee the subset of civil-military operations in conflict zones. We caution against such a move because it is unclear that a permanent inspector general of this kind would improve the oversight of civilian-military operations. Responding to the intensive oversight requirement by establishing a new bureaucracy is unnecessary because Congress has already created oversight organizations with the capacity to meet this requirement.

The statutory inspectors general for State, Defense, USAID, and other agencies serving abroad can, with adequate funding, respond effectively to future contingency operations in their respective areas of responsibility and provide the necessary oversight. Each of our organizations has unmatched knowledge of and experience working with the organizations that we oversee. We have a deeply ingrained institutional understanding of past management challenges and lessons learned from previous contingency operations. We bring this knowledge to bear on assessments of new contingencies and share this knowledge with our Agency counterparts. In addition to the work of the statutory inspectors general, the Government Accountability Office provides an overarching view of multiagency programs such as those in Afghanistan and Iraq.

An example of a statutory inspector general's ability to react quickly and effectively to an emerging large-scale operation is the earthquake in Haiti. To help USAID guard against waste, fraud, and abuse in Haiti following the January 2010 earthquake, for example, we produced a comprehensive oversight plan, which included audits, fraud awareness activities, and an investigative strategy. We also prepared a report for the USAID Administrator, providing examples of issues that we had observed in past humanitarian assistance efforts and suggestions for improving their

implementation in the future. We took all these actions within weeks of the disaster.

Another reason for not establishing a permanent inspector general comes from information in the Special Inspector General for Iraq Reconstruction's recent report on applying lessons from Iraq, which points out that there were no stabilization and reconstruction operations during 30 of the past 60 years. We therefore question what the mandate of this position would be in the absence of such efforts.

Agency inspectors general also have a track record of working together to ensure comprehensive oversight of multiagency matters. Offices of inspector general (OIGs) routinely participate in joint investigations and frequently conduct joint audits and reviews of interagency programs and activities both domestic and international. At Congress's direction, inspectors general across the government have come 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. For Pakistan, we have coordinated 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.

This type of effective oversight coordination was in place in Afghanistan before SIGAR's establishment. Almost a full year before SIGAR came into being, our office was actively engaged in an Afghanistan Working Group with representatives of the Government Accountability Office 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. The working group offered to furnish Congress with quarterly reports on the progress of Afghanistan assistance like those that SIGIR was producing at the time in Iraq. Because the Afghanistan Working Group was already in place, our office opposed the formation of SIGAR as a costly duplication of existing institutions and an unnecessary additional layer of bureaucracy.

The prospects of a successful civil-military campaign in Afghanistan have not been improved by multilayered reporting requirements and oversight institutions. Rather, the resulting intensified need for coordination and deconfliction has diverted valuable time from audit and investigative work and program management. Now that an external peer review has identified weaknesses in SIGAR's systems and controls, some see a solution in folding SIGAR into a larger organization with the same overlapping authorities. Rather than replicate the inefficient arrangement in Afghanistan, we encourage Congress and the Administration to invest in the established statutory inspectors general that have served them well for so many years.

Thank you for this opportunity to address the Subcommittee. We appreciate your interest in our work and perspectives on these important topics. I would be happy to answer any questions you may have at this time.

Testimony of

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At a Hearing on

“Oversight of Reconstruction Contracts in Afghanistan
and the Role of the Special Inspector General”

Before the

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Committee on Homeland Security and Governmental Affairs

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Chairman McCaskill, Ranking Member Brown, and distinguished members of the Subcommittee, thank you for inviting me to discuss this timely issue.

ROLE OF A SPECIAL INSPECTOR GENERAL (SIG)

The Special Inspector General for Iraq Reconstruction (SIGIR) was created by the Congress seven years ago as part of a bill to support Iraq, which included an \$18.4 billion appropriation for reconstruction activities.¹ As the first of what are now three federal Special Inspectors General, SIGIR is uniquely positioned to report on the challenges inherent in contingency oversight and accountability.² SIGs can be an extremely effective cross-cutting accountability tool in complex, multi-agency operations. My testimony today lays out the advantages and challenges

¹ PL 108-106, November 2003.

² The Special Inspector General for Afghan Reconstruction (SIGAR) was created in January 2008 by PL 110-181; the Special Inspector General of the Troubled Asset Relief Program (SIGTARP) was created in October 2008 by PL 110-343.

of the SIG model and concludes that the U.S. government would benefit from the creation of a permanent SIG for contingency operations.

WHAT MAKES SIGs UNIQUE AND EFFECTIVE?

Cross-jurisdictional Mandate

One of the unique characteristics of a SIG is its cross-jurisdictional mandate that allows a Special Inspector General to transcend the stovepipes of federal agencies and examine complex operations funded and managed by multiple federal agencies. In doing so, SIGs must work closely with the permanent offices of Inspectors General, which retain vital institutional oversight and overlapping jurisdiction, and with the Government Accountability Office (GAO), which provides the Congress with government-wide accountability. An effectively operating SIG serves as the focal point for triaging crosscutting oversight issues. It must ensure de-confliction and coordination among all involved oversight entities and promptly act to close the coverage gaps that often arise in the chaos inherent in complex contingency operations.

Focused Mission

SIGs possess a unique mission that is tightly focused on a country, fund, or special problem, rather than on the continuing operations of a federal agency. Permanent agency IGs confront myriad critical oversight duties; the efficient execution of those duties could suffer if an IG must divert limited oversight resources to address an unexpected contingency operation. Ongoing demands on IGs are not suspended in the wake of contingencies; SIGs are a proven, efficient way to ensure the vigorous protection of the taxpayers' interests.

The Congress established the SIG model in response to exceptionally difficult oversight problems that required targeted expertise. In practice, SIGs should provide a scalable complement to standing IGs, ensuring adequate oversight of U.S. funds in fluid and unstable situations, which are susceptible to fraud, waste, and abuse.

Coordination Point

The cross-jurisdictional aspect of SIGs puts a premium on their ability to work closely with the permanent IGs and with GAO. SIGs can be the focal point for crosscutting issues, ensuring de-confliction and coordination among the many involved oversight entities. To meet this duty, I formed the Iraq Inspectors General Council (IIGC) in 2004, which has held quarterly de-confliction meetings involving all entities with oversight responsibility for Iraq reconstruction funds. The Congress recognized the importance of coordinated oversight when it made SIGIR and SIGAR responsible for planning certain interagency security and reconstruction audits under Section 842 of the National Defense Act for Fiscal Year 2008.

Adequate Budget

Due to their complex mission, SIGs require sufficient funding to execute their mandate. In our enabling legislation, the Congress provided SIGIR with \$75 million in “no-year funding,” which effectively fueled our start-up in 2004. This generous appropriation enabled SIGIR to develop and adequately resource ambitious oversight plans that quickly deployed a substantial contingent of auditors, inspectors, and investigators on the ground in Iraq within weeks of agency start-up. Since 2004, the Congress and the Administration have been consistently supportive of SIGIR’s budget requests, ensuring that we received the necessary funds to carry out our mission.

Flexible Hiring

Another essential characteristic of SIGs is their flexible hiring authority provided under 5 USC 3161. The capacity to rapidly hire staff, along with the authority to hire experienced annuitants, provides SIGs with critical tools in ensuring that the right people are hired at the right time for the right tasks to execute contingency oversight. This flexibility provides SIGs with a fundamental advantage over permanent IGs, who must contend with inevitably more extended federal hiring timelines.

More than a third of SIGIR’s staff employed over the past seven years has been drawn from the pool of recent retirees. This model has proved effective, providing highly experienced individuals with the expertise to operate effectively in small teams in remote locations and to produce outstanding work products quickly. Retirees are also not daunted by the temporary nature of their jobs. Applying this lesson, a more permanent structure – like a Special Inspector General for Overseas Contingency Operations – would operate more efficiently if provided a “hybrid” hiring authority that ensures a flexibility attuned to the unique challenges accompanying contingency operations.

War-zone Enabled

Permanent IGs must draw from their permanent civil service staff those who are willing to serve in a war zone, which reduces resources available for existing oversight obligations. Moreover, potentially serving in a war zone is not a condition of employment for agency IG staff; thus, the oversight duties must be accomplished by volunteers. A SIG’s staff is hired specifically with the understanding that they will be serving in war zone or under unstable conditions.

The availability of sufficient personnel resources is a significant oversight issue. As a practical matter, there exists a limited number of people with the right skill set and the willingness to work in a war zone or unstable contingency environment. The expeditionary oversight model demands a high degree of coordination to ensure the necessary internal controls. Success depends on, among other things, robustly planned management tools suitable for contingency environments and well-developed information technology platforms. SIGs tailor their

operational capacities to function in these anomalous, dangerous environments, using a combination of permanently deployed staff located in the war zone supplemented by expeditionary teams that surge forward to provide additional oversight resources. The key to this model's success for SIGIR has turned on maintaining effective professional relations and open lines of communication with management in theater.

In 2007–2008, during the height of sectarian violence in Iraq, SIGIR lost one auditor in a mortar attack and had six others injured. Despite such challenges and a loss like this, the large in-country presence of SIGIR personnel, with many years of experience working in Iraq, has made a substantial difference on the ground – deterring crime, delving deeply on a daily basis into oversight issues, and providing real-time feedback geared toward improving the reconstruction program's economy, efficiency, and effectiveness.

Dynamic Organizational Model

Their necessary flexibility allows SIGs to be agile, so they can change business practices to meet dynamic needs. When rapid oversight is required – a recurrent constant in contingency operations – SIG teams can be quickly formed and deployed. When new skill sets are needed, flexible hiring authority allows the prompt and appropriate composition of audit, investigation, inspection, and evaluation teams. For example, when inspectors and engineers were needed to fan out across Iraq to report on diverse brick-and-mortar projects, SIGIR quickly stood up teams of accredited federal auditors and licensed professional engineers to meet that need. When large-scale construction gave way to security assistance and capacity building, SIGIR's inspection teams were decommissioned and an evaluation team was formed to report on the effects and outcomes of reconstruction programs and projects. By their very nature, overseas contingency operations constantly evolve; effective oversight must keep pace with that rate of change, working in concert with concurrent priorities of the permanent IGs and other oversight organizations with jurisdiction.

Highly Independent

SIGs are not institutionally embedded in any particular agency, and thus do not reflect the culture of any particular department. They combine the true independence of the GAO with the powers of a permanent IG – such as the power to conduct criminal investigations and issue related subpoenas. Their independent voice is critical in fast-moving interagency stabilization and reconstruction operations where there is little or no incentive for the managers carrying out the program to admit problems.

Quarterly Reports

The mandate for SIGIR's Quarterly Reports (vice semiannual reports as with permanent IGs) arises from SIGIR's initial enabling legislation; the other two SIGs have a similar mandate. For

nearly seven years, SIGIR has provided comprehensive, independent reporting on the complex process of Iraq's reconstruction in Quarterly Reports to the Congress, the Departments of State and Defense, and the taxpayers. More than a summary of audit reports, SIGIR's Quarterly Report contains a compendium of current information and accompanying analyses drawn from numerous sources, providing an integrated view into the U.S. government's large-scale Iraq reconstruction program. No document so consolidates the funding sources so as to display in detail the complete extent of the U.S. multi-billion dollar effort in Iraq. The Quarterly Reports have helped improve understanding of the challenges in Iraq, informing policy decisions throughout the course of the contingency. As a sign of their increasing utility to managers, the U.S. Ambassador to Pakistan recently asked the U.S. Agency for International Development Inspector General (USAID-IG) to begin publication of reports styled on the SIGIR Quarterly Report.

Issue-area Expertise

The creation of a SIG results in the growth of issue-area expertise, improving not just oversight but also government-wide understanding of the targeted problem. In SIGIR's case, this expertise has enabled greater understanding of overseas contingency contracting, the U.S. capacity to execute stability and reconstruction operations, and the successes and failures of the lengthy Iraq reconstruction program. Flexible hiring has ensured that SIGIR has relevant experts in areas such as contingency contracting oversight, local language and culture, development in conflict environments, white-collar criminal investigations, and federal grant management. SIGIR thus has developed a strong core of expert personnel who have years of experience in civilian-military contingency oversight. Indeed, SIGIR may arguably be the only executive institution that has had a consistent mandate for most of the Iraq program, with a number of our Baghdad staff having lived in-country for up to six years. A permanent contingency SIG structure could retain and develop this expertise, making it available for rapid worldwide deployment on short notice and ensuring the capture and application of contingency lessons learned and best practices.

WHAT ARE THE BIGGEST CHALLENGES FOR A SIG?

Start-up Is Hard

Starting up any government endeavor presents difficult challenges. Starting one that is to operate overseas in a conflict zone is especially difficult. SIGIR has constantly strived to produce timely audits and investigations while simultaneously creating and enhancing its own internal controls, policies, procedures, and quality assurance. We pursued these goals by initially adopting the policies of other IG offices and modifying them to fit our unique model. Through this process, SIGIR developed a unique set of SIG-specific policies and controls, which it has since shared with the other two SIGs. I am proud to note that SIGIR received a "pass with no deficiencies" on our recent audit peer review, the highest rating possible. This success is

testament to years of hard work, effective collaboration with our fellow IGs, and the outstanding efforts put forth by my experienced audit staff.

Maintaining Staff Is Harder

Once established, a SIG immediately runs into a significant second challenge: keeping and developing a core of competent staff. The current SIG model is temporary, which means each of the existing SIGs has a projected end date. At several points in SIGIR's lifespan, we approached the potential end of our legislated existence and then had our mandate extended by the Congress. In fact, the law governing SIGIR's termination and jurisdiction has been changed six times over the past seven years. These changes produced unique management challenges. Mid-career staff often felt compelled to seek more permanent employment elsewhere when the end of SIGIR's existence appeared to be approaching. SIGIR has managed these challenges by using a mix of detailees and contractors to supplement full-time government employees. Although the ability to expand and contract staff remains a key strength of a SIG, this flexibility must be balanced against the need to retain a high-quality core staff to ensure a consistent level of quality assurance, to build in best practices, and to maintain institutional knowledge.

Fluctuating Budgets Are Challenging

Another unique attribute of a SIG is the widely varying budgets under which it works from year to year. A SIG's workload will change with the size of the contingency program it oversees. It cannot have the long-term perspective of a permanent IG. SIGIR's largest annual expenditure was \$38 million in FY 2009 when the Iraq reconstruction program had just come off its peak. Yet just two years later SIGIR is in the process of ramping down, operating on \$22 million for fiscal year 2011 – a drop of 42% – and with a drop in staff from 140 to 74.³ As a result, organizational structures need to remain fluid. When done effectively, this business model is very economical for the taxpayer. However, a hybrid model that allows for a stable core with flexible contingency-based modules would likely provide improved quality and effectiveness of oversight.

Coordination Is Essential

As pointed out earlier, the overlapping jurisdiction of a SIG with several permanent IGs necessitates close and frequent coordination from management on down to prevent overburdening the entities receiving oversight, to ensure that information on investigations can be quickly shared, and to eliminate potential duplication or gaps in oversight coverage of complex programs. The “842 Planning Efforts”⁴ mandated by the Congress require the Department of Defense Office of Inspector General (DoD OIG) and the Special Inspectors

³ Numbers are approximate. For precise numbers on SIGIR's budget, please see <http://www.sigir.mil/about/budget.html>

⁴ Section 842 of PL 110-181, National Defense Authorization Act for FY 2008

General for Iraq and Afghanistan to produce audit plans that ensure coordinated and comprehensive coverage of issues of high importance. Interagency coordination is already widespread in the area of criminal investigations to leverage the comparative advantages and tools of various law-enforcement partners.

SIGIR INNOVATIONS ARE LESSONS LEARNED

One of the hallmarks of SIGIR is innovation. A strong mandate, adequate resources, and the opportunity to shape the organization from the ground up have provided SIGIR with the capacity and latitude to effectively meet the needs and expectations placed upon it. SIGIR's mandate – to provide oversight of Iraq reconstruction and to make recommendations on policies that promote economy, efficiency, and effectiveness – has led it to develop specialized capabilities and products. Among them are:

Quarterly Reports

Aggressive timelines and highly refined data collection and analysis methods allow SIGIR to produce comprehensive views of the entire Iraq reconstruction program. At 150 to 250 pages in length, and with in-depth analysis performed on data gathered within weeks of its publication, these reports – all posted on the Internet in Arabic and English – are widely relied upon by civilian and military managers and leaders, as well as the Congress, academic institutions, and the general public. The extensive use of the most current graphic techniques to enhance analysis has allowed SIGIR to provide useful and timely information to policymakers.

Iraq Inspector General Council (IIGC)

Created by SIGIR at the start of its lifespan, the IIGC has served for years as a key forum for formal coordination and de-confliction among all of the oversight entities operating in Iraq. It is a model that has influenced both SIGAR and SIGTARP. Now, as SIGIR begins to wind down, the IIGC is being transformed into a working group of the more recently constituted Southwest Asia Joint Planning Group (SWA JPG) led by DoD OIG. This change will reduce redundancy and ensure longevity of planning well beyond SIGIR's temporary lifespan. The SWA JPG includes all the members of the IIGC, and SIGIR will continue to lead the new working group focused on the Iraq issue to ensure continued collaboration.

Audit Innovations

SIGIR's Audit Directorate developed innovative procedures that resulted in a high volume of top-quality products averaging less than six months from announcement to publication. Factors contributing to the productivity of SIGIR Audits include the selection of highly experienced audit staff (the *average* experience of a SIGIR auditor is 24 years), careful scoping of jobs to focus on a few key questions rather than on broader program reviews more the purview of GAO or the permanent IGs, and tight timelines and quality-control mechanisms. SIGIR also provides

weekly feedback to DoD and DoS management in Iraq, ensuring that any problem uncovered in the course of an audit can be immediately addressed. We structure our work so as to increase the chance that we can report, within our original audit product and its short time-frame, not just that we have found a problem but that management has considered our report and settled on a solution.

Contingency Investigations

SIGIR designed its investigative model to meet the difficult, changing requirements of major criminal and civil investigations in contingency operations and Iraq reconstruction. Our Investigations Directorate has operated closer to a “lean” business model in that we retained or acquired only those staff with the extensive, specialized, and diverse experience required, in the locations where the investigative work needed to be performed. As the caseload evolved, personnel were hired or released, and temporary offices across the United States were opened or closed. Our investigators include specialists in Iraqi language and culture, experts at tracing funds domestically and internationally, and contingency contract specialists. They have an average of more than 30 years of experience each, including extensive experience in war zones. We have also used SIGIR engineers and our satellite imagery analyst in our investigations.

SIGIR’s investigative program would not have been nearly as successful without close and productive relationships with our counterparts in many other investigative entities. Domestically, SIGIR has worked with many federal investigative agencies with overlapping jurisdiction; especially the Army Criminal Investigation Command and the Defense Criminal Investigative Service. We also have developed productive working relationships with several foreign investigative organizations, which have led to the filing of charges by foreign prosecutors against their own citizens, yielding several convictions, in South Korea, the United Kingdom, and Iraq for crimes involving U.S. funds.

A New Model for Prosecutions

In 2009, SIGIR created the SIGIR Prosecutorial Initiative, or SIGPRO, comprising three highly experienced prosecutors whom SIGIR hired and then detailed to the Criminal Division of the Department of Justice where they support Assistant United States Attorneys, other Justice officials, and foreign prosecutors, as well as handle their own caseloads. The initiative addresses the need for more support to investigations on the prosecution front. SIGPRO prosecutors are currently involved in more than 30 significant actions ongoing at the Department of Justice as well as more than 110 ongoing SIGIR investigations. Singularly focused on Iraq-related cases, this initiative contributed to a rise in prosecutorial activity in FY 2010 of approximately 73% when compared with the average of prosecutorial activity over the previous three fiscal years (FY 2007–FY2009).

Auditor-Engineer Teams

Another SIGIR innovation was the creation of auditor-engineer teams to make hundreds of inspections at reconstruction projects around Iraq. The resulting body of 170 reports has been instrumental in providing for improved quality assurance and program management of the Iraq reconstruction program. A further innovation was the use of Iraqi engineers to conduct 96 limited on-site inspections and satellite imagery to triage potentially problematic projects, thus eliminating the risks associated with sending out teams when not necessary. SIGIR's Inspections Directorate, which was recently closed due to the wind-down of brick-and-mortar projects in Iraq, received multiple awards from the Council of Inspectors General for Integrity and Efficiency for the bravery of its members and the superior reports produced.

Evaluating the Reconstruction Effects

One of SIGIR's newest innovations is the Evaluations Directorate which uses a multifaceted approach – including studies of Iraqi views about the U.S. program – to evaluate the outcomes and effect of the \$50 billion U.S. investment in Iraq reconstruction. SIGIR Evaluations seeks to better understand the longer-term impact and consequences, both intended and unintended, of a cross-section of major U.S.-funded projects and programs.

Aid effectiveness is a challenging question confronting the United States and other donor countries around the world, and aid effectiveness in post-conflict or contingency operations is an even more challenging question. Although the United States has spent billions of dollars on stabilization, reconstruction, and development programs, very little evidence has been collected and analyzed to determine what works and what does not. The SIGIR Evaluations Directorate aims to begin addressing this knowledge gap in Iraq.

Crosscutting Forensics

Yet another innovation created to meet a special congressional requirement⁵ is the crosscutting forensic audit and investigative effort underway at SIGIR. Special teams of auditors and investigators using some of the latest data-mining technologies and techniques have collaborated to conduct a 100% review of all contract and financial transactions for each of the main funding sources for Iraq reconstruction. More than 180,000 transactions valued at more than \$40 billion have been reviewed to date, and 53 investigative cases have been opened. SIGIR is building the model for this new work and simultaneously sharing lessons learned with SIGAR as it looks into the Afghanistan program.

⁵ The forensic audit requirement was added to SIGIR's mandate in December 2006 in PL 109-440.

Lessons Learned Initiative

Finally, and perhaps most relevant, is SIGIR's Lessons Learned Initiative. Utilizing the body of work developed over seven years and its years of on-the-ground experience, SIGIR identified key lessons that would provide value to policymakers and managers in Iraq and published three specialized publications on human resources, contracting, and program management that will be relevant to ongoing and future contingency operations. A fourth product, *Hard Lessons: The Iraq Reconstruction Experience* is now used as a resource and training tool for managers and professionals working in Iraq and Afghanistan. Its follow-up, *Applying Hard Lessons*, discusses ways to organize the U.S. government to conduct stabilization and reconstruction operations more effectively – as well as to oversee them more effectively.

WHAT HAS SIGIR ACCOMPLISHED?

In nearly seven years of operation, SIGIR has issued 177 audits, produced 171 assessments and evaluations, saved or recovered \$151 million, challenged \$38 million in payments, suggested putting \$678 million to better use, conducted investigations resulting in the indictment of 53 individuals and the convictions of 44, and achieved \$140 million in additional monetary results from its investigations.

This work, along with our 27 Quarterly Reports to the Congress and 5 lessons learned publications, has led to several important changes in reconstruction policy, law, and program management practices.

Tours of duty for stabilization personnel have been lengthened, anticorruption and rule-of-law programs in Iraq have been reorganized, Provincial Reconstruction Teams now operate within new strategic frameworks, the asset-transfer and award-fee processes have been improved, and policies for use of funds like the Commander's Emergency Response Program have been refined. Contingency contracting problems that we identified have been and are continuing to be addressed.

SIGIR's lessons learned in program management directly contributed to Emergency Acquisition Guidance issued by the Office of Federal Procurement Policy. From Baghdad to Kabul, policies and instructions are reflecting the impact of focused, resourced, aggressive oversight.⁶ Through it all, SIGIR has benefited from its partnership with permanent Inspectors General, and with a wide range of law enforcement, contracting, and contingency organizations throughout

⁶ Gen. Petraeus memos on Contingency Contracting and *Applying Iraq's Hard Lessons* are two examples.

government, and the SIGIR organization and staff have received widespread recognition for their work.⁷

COORDINATION

We cannot overstate the importance of coordinating with fellow oversight and law-enforcement agencies. Nor can we overstate the importance of coordinating with departmental and agency management. From the beginning, SIGIR ensured that memoranda of understanding were implemented with our key partners. No audit is announced before first ensuring that other oversight organizations are consulted and have no conflicting jobs underway, and that relevant background information is exchanged.

On the investigation front, SIGIR created and housed the SPITFIRE task force, the first major task force that investigated criminal activity in Iraq. We have subsequently been a major contributor on all of the other task forces operating in the United States and Iraq that investigate criminal activity in U.S.-funded reconstruction programs. SIGIR's SIGPRO attorneys also prosecute the cases of other investigative agencies, most recently supporting an investigation led by DoS OIG.

SIGIR has also built a strong partnership with operational management in Iraq – having our oversight personnel attend and observe many of the day-to-day meetings conducted by the Embassy, the military commands, and federal agencies. SIGIR's senior leadership spends time traveling in Iraq. This has allowed us not only to provide hands-on leadership to our staff but also to maintain a clear understanding of the environment in which reconstruction is proceeding. It has allowed us to provide informal feedback to management at critical junctures to ensure that previous recommendations and current knowledge of the program can contribute to informed decisions. SIGIR provides weekly updates about its oversight work to program management, critical in the fast-moving environment of contingency operations.

SIGIR has also coordinated with SIGAR, helping that organization during its stand-up phase and continuing to provide advice as requested, most recently on our forensic initiative.⁸

THE FEASIBILITY OF A PERMANENT SIG FOR CONTINGENCY OPERATIONS

Considering the issue of whether there should be a permanent SIG for contingency operations, the first question that must be answered is whether the SIG model is a good one in such situations. We believe that the answer to that question is "yes." If appropriately authorized, resourced, organized, and led, a permanent SIG can be a highly effective tool in the complicated,

⁷ SIGIR has received eight awards from CIGIE. The IG has been recognized by the National Intergovernmental Audit Forum with the 2010 David M. Walker Excellence in Government Performance and Accountability Award for outstanding federal oversight work.

⁸ See Appendix A for a summary of SIGIR support to SIGAR. SIGIR also provided advice and informally lent personnel to SIGTARP during its stand-up.

dynamic and expanding world of overseas contingency operations. Key to its success would be a cross-jurisdictional authority, adequate funding, and authorities that allow it the maximum hiring and organizational flexibility.

If the SIG model is appropriate, how should it be best deployed in the future? It would be easier to accomplish successes efficiently if standing mechanisms were available that allowed the deployment of a SIG quickly, at the earliest possible stage in a contingency, and without the need to re-invent the wheel for each occasion.

Hybrid hiring models that provide stability for core staff and maintain flexibility of temporary contingency-specific surges would retain that capacity in a permanent organization. A statute establishing a single contingency SIG could be enacted, providing core authorities, including adequate jurisdiction and personnel authorities, and providing, as is the case for SIGIR and SIGAR, that the agencies administering programs must provide space and support in-theater. A permanent core staff of about 25, at a cost of roughly \$5 million per year, could design strong internal controls, high-quality plans, and structures for consistent productivity – ensuring a consistent oversight baseline in the chaotic world of contingency operations. The existence of this core staff would eliminate the need to develop new administrative capabilities (such as budgeting, human resources, information technology, and logistics) each time another overseas contingency operation arose.

We would support the use of excepted-service personnel authorities for the core staff so as to keep the core staff's ethos as close as possible to the standards that will be demanded of the staff brought in temporarily to deal with specific contingencies.

The decision to deploy the SIG to a specific contingency could be made by the Congress, or by the President or some other executive branch authority pursuant to statute. Various "modules" ranging from \$8 million to \$24 million per year in incremental costs could be envisioned to supplement the core staff to cover specific contingency operations. A look at the combined FY 2010/2011 budgets for SIGIR and SIGAR puts the average cost of Special IG oversight at \$60 million annually. Combining these functions into one office could potentially save \$20 million per year.⁹

ADVISIBILITY OF A PERMANENT SIG

There will be other contingency operations. They may not look like Iraq or Afghanistan. They may occur in Haiti, or Pakistan, or Yemen, or somewhere that is least expected. All indications point to an increase in national security challenges in failed or fragile states. When decisions are taken to engage in stabilization and reconstruction, ensuring the oversight of multiple federal agencies acting in the same space will continue to be a difficult problem, as will be the challenge

⁹ See Appendix B for a notional modular budget for a Special Inspector General for Overseas Contingency Operations

of quickly deploying appropriate permanent agency oversight personnel. At the same time, given resource constraints, the U.S. government will have to address reconstruction and stabilization much more economically, efficiently, and effectively.

A Special Inspector General for Overseas Contingency Operations can fill this need. It is a mistake not to deploy oversight at the earliest possible stage of a stabilization and reconstruction operation. We need to be able to do so quickly and efficiently. Unless we do so, oversight will be far from what is required, money will be wasted, and program managers, senior leadership in the agencies, and the Congress will be insufficiently informed – and we will be doomed to repeat the mistakes of the past.

Thank you for the opportunity to appear before you today to report on our oversight in Iraq and provide a review of what we have learned about contingency operations and the challenges of ensuring accountability within their challenging environments. I look forward to your questions.



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

SIGAR SUPPORT CAPPING REPORT

August 4, 2008 – September 30, 2009

OVERVIEW

The Special Inspector General for Iraq Reconstruction (SIGIR) provided support to the Special Inspector General for Afghanistan Reconstruction (SIGAR), as authorized by section 1229(h)(6) of Public Law 110-181 and pursuant to memorandums of agreement between the two agencies.

SIGIR furnished over 2,900 hours of human resources, budget, contracting, facilities, logistics, and IT services on a reimbursable basis, while concurrently assisting the SIGAR to design and staff these functions so it could eventually assume them. The cost of this support was \$154,430.

SIGIR additionally detailed Auditors and an Operations Officer to supplement the SIGAR staff deployed in Afghanistan. These detailed personnel completed over 3800 hours of work at a cost of \$411,054. In all, SIGIR provided over 6,700 hours of reimbursable or detailed support.

In addition, SIGIR contributed other significant support without charge. For example, SIGAR staff used SIGIR office space, phones, and computers until they were able to move into their own facility. In addition, SIGIR senior management and staff have provided ongoing advice and counsel since the appointment of the Special Inspector General for Afghanistan Reconstruction.

Lastly, because of gaps in SIGAR's hiring authority, all SIGAR employees were initially hired by SIGIR and detailed to SIGAR. These employees are not included in totals of "detailed" or "reimbursable" personnel given in this report.

HIGHLIGHTS: AUGUST 2008

- SIGIR Deputy Inspector General meets with the SIGAR to coordinate support of stand-up activities.
- SIGIR Deputy Chief of Staff, Chief Information Officer, and Support Branch Chiefs begin working with SIGAR Senior Advisor to develop human resource, budget, contracting, facility, and IT requirements.
- Office space in Crystal City is identified.
- Apportionment and transfer of funds appropriated to SIGAR is successfully negotiated.
- Agreement is reached with the Center for Contracting Excellence (CCE) for SIGAR support.
- SIGAR budget sub-accounts are created.
- Contract is initiated for support services.

- Work on SIGAR Website and network is initiated.
- Hiring packets are processed on first four government employees.
- Requests are prepared to obtain Government Purchase Card, vehicle, and parking space.

Hours of Reimbursable Support Provided: 156

HIGHLIGHTS: SEPTEMBER 2008

- Account is established for initial funding of \$2.4 million. Coordination is initiated with State Foreign Operations Subcommittee, OSD Comptroller's Office, and Department of State on an additional \$9 million received in Public Law 110-329.
- Numerous meetings are held with congressional committees to discuss SIGAR's funding needs.
- Initial IT work and provisioning of new offices is completed.
- Numerous issues with new facility are resolved.
- Work on SIGAR Website and network continues.
- Hiring packets are processed for six employees.
- Travel support is provided for the SIGAR's first trip to Afghanistan.
- CIO travels to Afghanistan to help establish forward operations.
- Rental vehicle, Government Purchase Card, and Blackberries are obtained.
- Work is initiated to establish SIGAR logo.
- First group of contractors is processed.

Hours of Reimbursable Support Provided: 405

HIGHLIGHTS: OCTOBER 2008

- Work continues on IT modifications in new quarters.
- Database is created for personnel and contractor information.
- SIGAR Website is launched.
- Mailboxes are created for Congressional and Public Affairs.
- Spend plans are developed to facilitate apportionment of FY09 funds by OMB.
- Coordination with State Department and WHS begins on issues related to set up of accounts.
- Equipment requirements are developed and orders are placed.
- Assistance is provided with preparation of congressional mailing lists for Quarterly Report distribution.
- Meetings are held with Government Printing Office to plan for Quarterly Report publication.
- Support of human resources (hiring, security clearances, and travel), procurement and contracting, budget, and IT continues.

Hours of Reimbursable Support Provided: 306

HIGHLIGHTS: NOVEMBER 2008

- Several key staff positions are filled - Senior Budget Officer, Legislative Affairs Director, and General Counsel.
- Issue regarding payment code for purchase of information technology equipment is resolved. IT acquisitions are proceeding.
- Work continues with State Department to determine costs for forward support under International Cooperative Administrative Support Services (ICASS).
- Interagency transfer of FY09 funding in the amount of \$9 million is accepted and set up of reimbursable accounts is initiated.
- Request package is prepared and submitted to CCE for issuance of solicitation for services to support SIGAR's Quarterly Report process.
- Draft of Memorandum of Understanding between SIGAR and Department of Army is prepared.
- Support of human resources (hiring, security clearances, and travel), procurement and contracting, budget, and IT continues.

Hours of Reimbursable Support Provided: 207

HIGHLIGHTS: DECEMBER 2008

- Process is initiated to transfer financial reports, hard-copy/electronic documentation, and status of all current issues to SIGAR's incoming Budget Officer.
- Work proceeds with Senate State Foreign Operations Appropriations committee to address issues related to FY09 funding shortfall.
- Work continues on SIGAR hotline. Toll free number is obtained. Proofs of poster design are under review.
- Information is provided on setting up Agency policies, including electronic copies of all SIGIR policies and related documents.
- Documents are prepared to renew support services contract.
- Support of human resources (hiring, security clearances, and travel), procurement and contracting, and IT continues.
- Budget functions begin to transfer.

Hours of Reimbursable Support Provided: 194

HIGHLIGHTS: JANUARY 2009

- Recruitment and staffing accelerates, with candidates selected for several key positions.
- Processing of numerous hiring packages and security clearances continues.
- Work continues on establishing the SIGAR hotline including obtaining an international toll-free number.
- Work continues on SIGAR/Army MOU.
- Information is provided regarding the Iraq Inspectors General Council.

- Assistance is provided with numerous facility issues.
- Potential expansion space in Crystal City is identified.
- Assistance is provided to set up Agency records management program.
- Antiterrorism level 1 training is conducted.
- Support of human resources (hiring, security clearances, and travel), procurement and contracting, and IT continues.
- Assistance is provided as budget functions transfer.

Hours of Reimbursable Support Provided: 223

HIGHLIGHTS: FEBRUARY 2009

- Planning continues for expansion of office space in Crystal City.
- Hotline number and voicemail begin working with both local and toll free access. SIGIR hotline staff is handling incoming calls.
- Research begins on ramifications of combining SIGAR and SIGIR investigations information in NASA SORS database.
- Requirements are prepared for satellite imagery.
- Plans are completed for detailing SIGIR Auditors to support SIGAR audit activities in Afghanistan.
- Support of human resources (hiring, security clearances, and travel), procurement and contracting, and IT continues.
- Transition of budget functions is completed.

Hours of Reimbursable Support Provided: 263

HIGHLIGHTS: MARCH 2009

- Three SIGIR Auditors are detailed to Afghanistan to support audit work.
- Planning and coordination for expansion space continues.
- Support of procurement and contracting, and IT continues.
- Support of human resources (hiring, security clearances, and travel) continues with some functions beginning to transfer.
- SIGIR hotline staff continues to handle calls to SIGAR.

Hours of Reimbursable Support Provided: 447

Hours of Detailed Support Provided: 378

HIGHLIGHTS: APRIL 2009

- SIGIR AIG-Investigations provides recommendations on SIGAR investigative program.
- SIGIR Senior Contract Specialist chairs Source Selection Board for award of QR contract.
- Operations Officer is detailed to Afghanistan to support forward operations.
- Three SIGIR Auditors continue on detail in Afghanistan.
- Planning and coordination for expansion space continues.

SIGAR SUPPORT CAPPING REPORT

- Support of procurement and contracting, and IT continues.
- Support of human resources (hiring, security clearances, and travel) continues. Training of counterparts and transfer of some functions continues.
- SIGIR hotline staff continues to handle calls.

Hours of Reimbursable Support Provided: 236

Hours of Detailed Support Provided: 839

HIGHLIGHTS: MAY 2009

- SIGAR/SIGIR MOU is extended.
- Contract is awarded for support of SIGAR's Quarterly Report.
- Fourth SIGIR Auditor is detailed to Afghanistan.
- Operations Officer continues on detail in Afghanistan.
- Support of procurement and contracting, and IT continues.
- Support of human resources (hiring, security clearances, and travel) continues. Training of counterparts and transfer of some functions continues.
- SIGIR hotline staff continues to handle calls.

Hours of Reimbursable Support Provided: 162

Hours of Detailed Support Provided: 1,004

HIGHLIGHTS: JUNE 2009

- Information is provided to SIGAR Investigations regarding authorities in US and overseas, including United States Marshal Service deputization, case documentation, and software support for investigations.
- Counterpart briefings are provided to SIGAR's new engineer, imagery analyst, and hotline analyst.
- Three SIGIR Auditors and Operations Officer continue on detail; one Auditor completes detail assignments.
- Some support of human resources (hiring, security clearances, and travel) continues. Training of counterparts and transfer of functions is almost complete.
- Procurement and contracting support, and IT support, continues.
- Staffing of hotline continues, while transfer of functions begins.

Hours of Reimbursable Support Provided: 176

Hours of Detailed Support Provided: 716

HIGHLIGHTS: JULY 2009

- HR and payroll functions are fully transitioned to SIGAR staff. Assistance continues regarding a few issues.
- Transitioning continues to transfer procurement and contracting support and IT support.
- Transition of hotline support is completed.
- Two Auditors complete detail assignments. One Auditor and Operations Officer continue on detail to SIGAR.

*Hours of Reimbursable Support Provided: 78**Hours of Detailed Support Provided: 384***HIGHLIGHTS: AUGUST 2009**

- Transition of all support functions is completed on August 15.
- One Auditor and the Operations Officer remain on detail.

*Hours of Reimbursable Support Provided: 48**Hours of Detailed Support Provided: 329***HIGHLIGHTS: SEPTEMBER 2009**

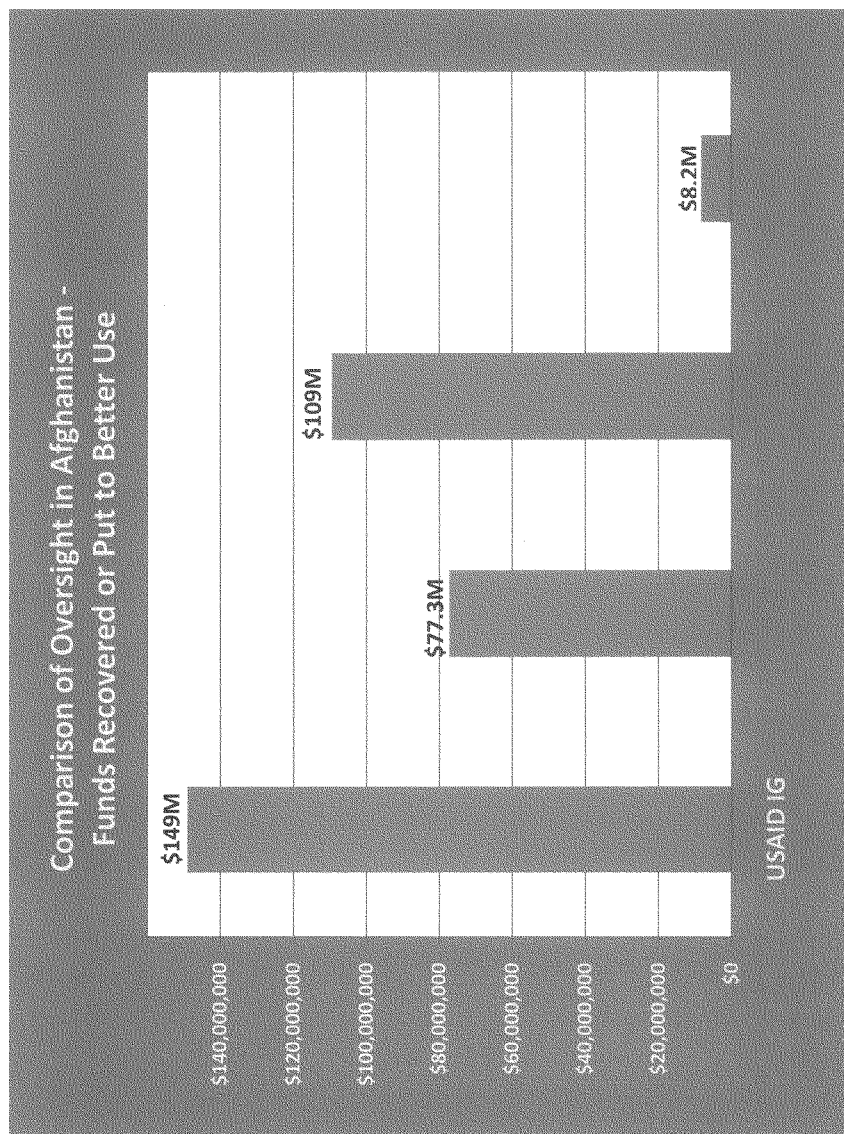
- Operations Officer completes detail on September 13.
- Auditor completes detail on September 30.

*Hours of Reimbursable Support Provided: 0**Hours of Detailed Support Provided: 240***TOTAL SIGAR SUPPORT HOURS**

	Hours	Cost
Reimbursable Support Provided	2,901	\$154,430
Detailed Support Provided	3,890	\$411,054
TOTAL	6,791	\$565,484

Special Inspector General for Contingency Operations Model
***** PROJECT/NOTIONAL BUDGET FOR DISCIPLINARY ACTIONS ONLY *****[illegible]

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Submission by Arnold Fields
Special Inspector General for Afghanistan Reconstruction
of
Responses to questions for the record submitted by Sen. Charles E. Grassley (R-IA)
to the *Ad hoc* Subcommittee on Contracting Oversight
Committee on Homeland Security and Government Affairs
United States Senate

For the Subcommittee's November 18, 2010 hearing
on

***Oversight of Reconstruction in Afghanistan and
the Role of the Special Inspector General***

Below are the responses to Senator Grassley's written questions submitted to the Subcommittee by letter dated November 18, 2010, pertaining to Joseph E. Schmitz' alleged role in DoD Press Release No. 765-04, dated August 10, 2004.

USPS IG Report – Knowledge and Concurrence Alleged

Question 1: The U.S. Postal Service (U.S.P.S.) IG conducted an investigation of this matter. The final ROI was issued on June 9, 2006. This report substantiated the allegation that 'IG Schmitz, John Shaw, and Ray DuBois [Shaw and DuBois were senior DoD officials] published a press release [DoD Press Release No. 765-04, dated August 10, 2004] known to contain false information.' The U.S. Postal Service IG, Mr. David C. Williams, reported that Mr. Schmitz 'coauthored' this press release which stated that there was no investigation of Shaw when, in fact, there was an investigation. He also indicated that his involvement in this matter violated his own policies on public statements concerning ongoing DoD IG investigations. Mr. Fields, did you read this report before awarding the contract to Mr. Schmitz?

Answer: No. At the time of awarding this contract to the Joseph E. Schmitz, PLLC law firm ("JES PLLC") on August 9, 2010, I was not aware of this report.

Question 2: In a cover letter forwarding this ROI up the chain of command on August 3, 2006, Mr. James H. Burrus, Jr. Chair of the President's Council on Integrity and Efficiency (PCIE) Integrity Committee (IC) reinforced IG Williams' findings. Burrus stated 'There is clear evidence that IG Schmitz, along with Shaw and DuBois, allowed a press release to be issued that contained false information, namely that there had never

been an IG investigation involving Shaw’ Were you aware of this cover letter? If yes, please describe any role these documents played in your decision to award the contract to Mr. Schmitz. If no, would these documents have affected your decision to award the contract to Mr. Schmitz? If not, why not?

Answer: I was unaware of Mr. Burrus’ cover letter. The Senator quotes Mr. Burrus’ cover letter as stating: “There is clear evidence that IG Schmitz, along with Shaw and DuBois, allowed a press release to be issued that contained false information, namely that there had never been an IG investigation involving Shaw” As a general proposition, if I become aware of any credible evidence as to the lack of integrity of a proposed contractor, SIGAR would not contract with that contractor, and would inform appropriate U.S. Government authorities of the integrity issue.

Missing Email – Possible Evidence of Knowledge and Concurrence

Question 3: Attached to Mr. Schmitz’ July 27, 2005 letter to me were a number of enclosures including Enclosure K. Enclosure K contained a number of relevant emails. Several of those email[s] referred to the ‘original statement we agreed to on Friday [August 6, 2004].’ This appeared to be a very obvious link to a document that was not included in Mr. Schmitz’ response letter to me – most particularly Mr. DuBois’ August 6th email. In a follow-up letter to Mr. Schmitz on September 7th, I asked him a number of questions, including one about missing emails. Mr. Schmitz resigned his post as DoD IG without answering my questions. Did Mr. Schmitz ever discuss with you why his letter to me did not include the emails from August 6, 2004?

Answer: Mr. Schmitz and I did not discuss any issue associated with Mr. Schmitz’ July 27, 2005 letter to Senator Grassley. We did not discuss the e-mails referenced in the Question or any aspect of the letter.

Impact of Burrus Pardon

Question 4: In Mr. Schmitz’ September 27, 2010 letter to me and several other Senators, he stated that the IC of PCIE cleared him of any wrongdoing in this and other matters. To support that assertion, he provided a letter from the IC Chair, Mr. Burrus, dated October 23, 2006. Are you familiar with that letter?

Answer: Yes. The Integrity Committee’s letter to Mr. Schmitz, dated October 23, 2006, was emailed to me by Mr. Schmitz “FYI” on September 24, 2010. The Integrity Committee’s letter states as follows:

“Based on its review of the [USPS IG’s] report and these supplemental materials, and in consideration of the standard prescribed in Executive Order 12993 for review of allegations, the IC concluded that you had not violated any law, rule, or regulation, and that you had not engaged in gross mismanagement, gross waste of funds, or abuse of authority in connection with any of the matters under review.”

Question 5: Mr. Schmitz’s attorney, Mr. Kenneth Mead, addressed the unresolved allegation in a letter to Mr. Burrus, on September 14, 2006. At that time, Mr. Mead provided ‘supplemental materials,’ focusing on ‘inaccuracies and omissions’ in Mr. Schmitz’ Memorandum of Interview in the U.S.P.S. IG’s ROI. Did you check to determine whether the U.S.P.S. IG concurred with Burrus’ and the IC’s decision?

Answer: No. I was not aware of the U.S.P.S. IG’s ROI, or of Mr. Schmitz’ attorney’s letter to Mr. Burrus.

Question 6: Standard investigative procedure required that the new information be reconciled with the evidence that was already developed and presented in the ROI. As I understand it, the new evidence presented by Mr. Schmitz and his attorney to Mr. Burrus was never submitted to the U.S.P.S. IG for review and resolution to include a follow-up interview of Mr. Schmitz. In your experience as an Inspector General, is that an acceptable method for resolving evidentiary issues in an investigation?

Answer: As a general proposition, I believe that an inspector general’s investigation should be based on all relevant facts and credible evidence available. If new evidence were to become available that is credible after a report of investigation is issued, the inspector general should review the new evidence and accord it its proper weight in the investigation and, if appropriate in the particular circumstances of the case, conduct a follow-up interview of the witness(es). As stated, I was not aware of the ROI or the investigation that was conducted by the U.S.P.S. Inspector General as to Mr. Schmitz, and have not reviewed any of the underlying documentation that was or was not relied on by the U.S.P.S. Inspector General or by the Integrity Committee. I am not familiar with what evidence was or was not submitted by Mr. Schmitz or his counsel or with any aspect of that investigation.

Question 7: Did you check to determine whether the adverse findings in the U.S.P.S. IG report were expunged, or do they still stand? Did you ever discuss the U.S.P.S. IG ROI and his ‘supplemental materials’ that focused on ‘inaccuracies and omissions’ in the U.S.P.S. IG ROI? If so, please describe those conversations. If not, why not?

Question: Did you check to determine whether the adverse findings in the U.S.P.S. IG report were expunged, or do they still stand?"

Answer: No. I was not aware of the ROI before JES PLLC was retained as independent monitor, and did not check whether the adverse findings were expunged or still stand.

Question: Did you ever discuss the U.S.P.S. IG ROI and his 'supplemental materials' that focused on 'inaccuracies and omissions' in the U.S.P.S. IG ROI?"

Answer: No. I was not aware of the ROI, and I was not aware of the "supplemental materials" submitted by Mr. Schmitz or his counsel to Mr. Burrus on September 14, 2006 (as the Senator states in Question 5) before JES PLLC was retained.

Question: If not, why not?

Answer: After an issue concerning the U.S.P.S. IG's ROI was raised with SIGAR staff during a late September 2010 telephone conference with congressional staff, SIGAR's Office of General Counsel attempted to obtain the ROI in question from the U.S.P.S. Inspector General's Office and from the CIGIE Integrity Committee, but was advised that disclosure – even to another Inspector General and member of the CIGIE – was barred by the Privacy Act.

Interior IG Report – Knowledge and Concurrence Alleged

Question 8: Included among the new evidence provided to the IC was a signed statement by Mr. Schmitz dated September 14, 2006. In that document, he offered a rebuttal to the core 'Conspiracy Allegation' substantiated in the U.S.P.S. IG ROI. Mr. Schmitz appeared to use his July 27, 2005 letter to me as the foundation for his rebuttal. The accuracy of that letter was the subject of a U.S. Department of the Interior IG ROI, dated June 5, 2008. This report appears to indicate that Mr. Schmitz' July 27th letter to me contained false and misleading information. This report concludes that 'Schmitz was both involved in the drafting of the original version [of the 2004 DoD press release] and had knowledge that the original version of the press release was submitted for publication.' In sum, the Interior IG's ROI appears to reconfirm and revalidate the key findings in the U.S.P.S. IG ROI. Have you reviewed this report? How do the findings of this report affect your contract with Mr. Schmitz and the decision to award the contract as an independent monitor? Do you still feel that Mr. Schmitz was the right man for the job given the findings of the Interior IG's ROI?

Question: Have you reviewed this report?

Answer: I have not reviewed the U.S. Department of the Interior IG ROI or the U.S.P.S. IG ROI referenced in the Question. These were not public investigations of the inspectors general in question.

Question: How do the findings of this report affect your contract with Mr. Schmitz and the decision to award the contract as an independent monitor?

Answer: I cannot comment, as I have not seen the reports of investigation referenced in the Question. The OIG investigations to which the Senator refers were not public. The U.S.P.S. IG investigation was brought to the attention of SIGAR by congressional staff after the retention of JES PLLC on August 9, 2010. I have not seen the signed statement dated September 14, 2006 that the Senator states Mr. Schmitz provided to the Integrity Committee as a rebuttal to the U.S.P.S. IG ROI.

Question: Do you still feel that Mr. Schmitz was the right man for the job given the findings of the Interior IG's ROI?

Answer: As to the Senator's final question, I cannot comment since I have not seen the referenced reports of investigation. However, as a general proposition, if I become aware of any credible evidence as to the lack of integrity of a proposed contractor, SIGAR would not contract with that contractor, and would inform appropriate U.S. Government authorities of the integrity issue.



Arnold Fields, Inspector General

SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION

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December 3, 2010

The Honorable Claire McCaskill
Chairman
Ad Hoc Subcommittee on Contracting Oversight
Senate Committee on Homeland Security and Governmental Affairs
717 Hart Senate Office Building
Washington, DC 20510

RE: Supplemental Materials for the Hearing Record of November 18, 2010

Dear Madam Chairman:

In response to your gracious offer, I would like to submit additional information to be considered as part of the record of the subcommittee hearing entitled "Oversight of Reconstruction Contracts in Afghanistan and the Role of the Special Inspector General" at which I testified on November 18, 2010. This information responds to significant questions or concerns that were raised during the course of the hearing.

I would like to state for the record that we have heard the concerns of this committee and are taking aggressive steps to address those concerns and surpass your expectations. Specifically, I would like the record to include the following information, which is attached to this letter:

- Attachment 1: Actions SIGAR has taken in response to the CIGIE peer review recommendations.
- Attachment 2: SIGAR's risk-based strategic audit planning.
- Attachment 3: SIGAR's completed, planned, and ongoing work examining contract management performance, fiscal responsibility, contract deliverables, and waste, fraud and abuse.
- Attachment 4: Selected recent and planned SIGAR audits.
- Attachment 5: Examples of ongoing SIGAR investigations.

I very much appreciate your consideration of this additional material, which I hope will further detail SIGAR's contributions to oversight in Afghanistan.

Very Respectfully,

Arnold Fields
Special Inspector General for Afghanistan Reconstruction

Attachments as stated.

Mailing Address: 400 Army Navy Drive, Arlington, VA 22202

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SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION

Attachments submitted by the Special Inspector General for Afghanistan Reconstruction for consideration as part of the record of the Ad Hoc Subcommittee on Contracting Oversight hearing entitled, "Oversight of Reconstruction Contracts in Afghanistan and the Role of the Special Inspector General," November 18, 2010.

Attachment 1: PEER REVIEW RESULTS AND ACTIONS TAKEN: AUDITS

Deficiency 1: Implementing a quality assurance program

Recommendation 1: Require use of CIGIE peer review performance guide audit checklist (Appendix E) as a methodology for conducting quality assurance reviews.

The Assistant Inspector General for Audit (AIG-A) designated an experienced auditor to conduct quality assurance reviews using CIGIE Appendix E as a guide. The reviews began on October 12, 2010, and will cover all of the audit reports issued between April and June 2010. The first quarterly inspection report was completed on November 5, 2010, and the findings were presented to Audit senior management.

Recommendation 2: AIG-A should meet the Yellow Book's annual summary requirements for the past year by soliciting auditors-in-charge and referencers to identify any systemic Yellow Book and Audit Policy and Procedures Manual (APPM) issues needing improvement and take appropriate corrective action.

The AIG-A directed the Director of Quality Control to solicit comments to identify systemic issues needing improvement and make recommendations to the AIG-A for corrective action, as appropriate, on a quarterly basis at a minimum.

The Director of Quality Control emailed all staff on August 13, 2010, in advance of an all-hands staff meeting, soliciting comments on potential Yellow Book and APPM issues needing improvement. Questions and comments raised as part of this process were addressed during the staff meeting on August 18, 2010.

In addition, a Referencing Checklist (Form A-4.1c) was introduced that provides clear steps for referencing, and specifically requests the referencer to notify the Quality Control Director of any systemic issues noted during the referencing process. This process has been further strengthened by devoting additional resources to the referencing process.

Deficiency 2: Planning

Recommendation 3: AIG-A should reiterate to the audit staff the Yellow Book and APPM requirements for (a) considering whether four planning elements are significant to the audit objective and if so preparing documentation to support their conclusions and (b) approving audit plans prior to conducting significant fieldwork.

The AIG-A reiterated to staff the need to consider the four planning elements and the requirement to approve audit plans prior to significant audit work being initiated. An August 17, 2010, memo sent to all Audit Staff listed the 5 deficiencies from the external peer review and detailed actions taken (and to be taken) to correct the deficiencies. In addition, the following actions were taken to reiterate the planning requirements:

- (1) Two-day training session on *Auditing Essentials* conducted on August 11-12, 2010, covered government auditing standards, audit planning, audit objectives, elements of a finding, collecting evidence, communicating the results, documenting evidence, and quality control. Although a refresher for many auditors, the course reiterated audit policies and procedures and introduced new forms (the Audit Project Plan and Referencing Checklist). During the training, the AIG-A reiterated the requirements for audit planning, elements of findings, and completion of audit plans in a timely manner. Additional training sessions have been scheduled in DC and in Kabul in early 2011.
- (2) The Audit Project Plan was created to provide a detailed roadmap for conducting audit activities and developing timeframes for completing key tasks. It should be updated throughout the audit engagement and includes specific steps for consulting with the writer-editor (to ensure clear linkages between objectives, findings, recommendations and development of the finding elements). In addition, the Project Plan requires that staff notify the Quality Control Director when key activities take place, such as Audit Plan Approval, to facilitate interim review of the quality control files and ensure that audit plans are developed and approved prior to the conduct of significant fieldwork.
- (3) Quality Control File (QCF) Reviews of every audit engagement occur at least 3 times during the audit. The QCF documents that key audit steps were taken and ensure compliance with applicable GAGAS and SIGAR policy and procedures. The Quality Control Director has designated an auditor to monitor the QCF folders periodically to verify that the audit is on track and complying with professional standards.
- (4) Hired additional Senior Audit Managers, who joined SIGAR on November 8, 2010, to ensure that supervisory review is conducted in a timely and appropriate manner.

Deficiency 3: Documentation and Supervision

Recommendation 4: AIGA-A should take steps to enforce adherence to the APPM and its quality control system and place increased emphasis on ensuring that (a) audit documentation clearly indicates the nature, timing and extent of audit procedures, consistent with the Yellow

Book procedures, and (b) supervisory review of the audit work that supports the findings, conclusions and recommendations occurs and is documented.

Quality Control File reviews, as well as internal quality assurance reviews, place increased emphasis on SIGAR's quality control system. In addition, beginning in November 2010, a monthly newsletter reiterates the importance of adhering to professional auditing standards. The inaugural newsletter included a statement from the AIG-A emphasizing the importance of adhering to the audit processes and standards. Supervisory review was also enhanced by the addition of two senior audit managers. In addition, all staff members are required to attend a two-hour Quality Assurance Training that emphasizes audit documentation procedures and supervisory review at specific intervals throughout the audit engagement. Moreover, documentation capabilities will be greatly facilitated by the development and deployment of the SharePoint system to facilitate document review between the Arlington and Afghanistan offices of SIGAR.

Deficiency 4: Reporting

Recommendation 5: The AIG-A should ensure that, in accordance with the APPM, audit objectives are expressly (a) identified in a clear and concise manner in the first paragraph of the report and the Scope and Methodology appendix and (b) concluded upon in the results of audit section in the report body.

The AIG-A has communicated the importance of reporting objectives in a clear and concise manner in the August 17, 2010, memo and the August 18, 2010, all-hands staff meeting. In addition, resources have been refocused to provide more substantive reviews on reports throughout the report development and writing processes, with particular attention paid to the reporting of the objectives.

Recommendation 6: AIG-A should ensure that all finding elements are developed unless determined during the planning and fieldwork that certain finding elements are not necessary in relation to the audit objectives. The AIG-A should also ensure that report recommendations logically flow from the findings and conclusions and that audit reports explain the extent of the internal control assessment and deficiencies.

The AIG-A has communicated the importance of ensuring that all findings elements are developed unless otherwise determined, and that recommendations logically flow from the findings and conclusions. Actions taken in response to recommendation #5 also pertain to this recommendation. The importance of this process was reiterated via memo and staff meetings.

Deficiency 5: Independent Referencing

Recommendation 7: AIG-A should reiterate the APPM requirements for completing the independent referencing process for draft and final reports.

Recommendation 8: AIG-A should (a) provide independent referencing training to audit staff and (b) develop and implement referencer checklist to help ensure that audit quality objectives are met.

The AIG-A reiterated the importance of the referencing requirements in the August 17, 2010 memo and August 18, 2010 staff meeting. In addition, auditors received referencing training on September 22, 2010, and additional sessions are planned. Resources have also been adjusted to provide additional capabilities for referencing.

PEER REVIEW RESULTS AND ACTIONS TAKEN: INVESTIGATIONS

Deficiency 1: CIGIE Qualitative Standards

Finding: Nearly no official policy and procedures in place prior to March 2010.

SIGAR adopted, developed and implemented official policies and procedures in accordance with the Attorney General's Guidelines and/or CIGIE qualitative standards, including Training, Firearms, Administrative Subpoenas, Core Values, Use of Force, and Hotline & Complaint Management.

Deficiency 2: Attorney General Guidelines - Compliance

Finding: One of two investigators and the Acting AIG-I did not meet minimum law enforcement training requirements, i.e. basic criminal investigator training at the Federal Law Enforcement Training Center (FLETC).

The background of all law enforcement personnel assigned to the Investigations Directorate was reviewed and the AIG-I certified that each Special Agent exercising powers under the Attorney General's Guidelines completed FLETC basic training or its equivalent.

Deficiency 3: Attorney General Guidelines - Compliance

Finding: No infrastructure to capture and record the documentation of periodic refresher training.

The AIG-I established an infrastructure matrix to plan periodic refresher training and to document specific training received by each member of the Investigations Directorate in the following areas: trial process; federal criminal and civil legal updates; interviewing techniques and policy; laws of arrest, search, and seizure; and physical conditioning/defensive tactics.

Deficiency 4: Attorney General Guidelines – Compliance

Finding: No infrastructure to capture and record the documentation of firearms training.

The AIG-I established an infrastructure matrix to plan periodic firearms training and recertification and to document all firearms training received, including initial firearms training and qualification in accordance with FLETC standards.

Deficiency 5: Attorney General Guidelines – Compliance

Finding: No infrastructure to capture and record the documentation of training received relating to the DOJ Deadly Force Policy.

SIGAR established an infrastructure matrix to plan and document recurring training relating to the DOJ deadly force policy.

Deficiency 6: CIGIE Standard

Finding: No agency-wide case specific prioritization document

The AIG-I established directorate wide investigative priorities which have been communicated to all directorate personnel. The AIG-I issued and implemented the Self-Inspection Program to monitor and ensure compliance with organizational and case specific priorities as well as agency policy and applicable guidelines.

Deficiency 7: CIGIE Standard

Finding: No single source planning document setting forth goals, allocation of resources, budget guidance, performance measures and a guide for managers to implement these plans.

The AIG-I established, and communicated directorate-wide, a single source Strategic Oversight Plan for 2010 – 2014 which set forth goals, allocation of resources, performance measures and a guide for managers to implement these plans.

Deficiency 8: CIGIE Standard

Finding: Lack of an electronic file maintenance system.

SIGAR is in the process of procuring an electronic filing system to allow effective retrieval, referencing and analysis of investigative data. The market comparison and the Statement of Work have been completed and forwarded to the National Capital Region Contracting Center, Department of Defense and is assisting SIGAR in this acquisition.

Deficiency 9: CIGIE Standard

Finding: Management information system is not robust enough to meet management's needs.

SIGAR is in the process of procuring an electronic filing system to allow effective retrieval, referencing and analysis of investigative data. The market comparison and the Statement of Work have been completed and forwarded to the National Capital Region Contracting Center, Department of Defense and is assisting SIGAR in this acquisition.

Deficiency 10: CIGIE Standard

Findings: Prior to November 2009, inadequate records management to document case files had been established in a timely manner.

Subsequent to November 2009, The AIG-I has continued to maintain centralized information management functions ensuring that case files are established immediately upon opening and assignment to the investigative agent.

PEER EVALUATION SUGGESTIONS AND ACTIONS TAKEN: INVESTIGATIONS

Suggestion: Establish a quality assurance program for investigative function; implement quality assurance programs to ensure ongoing compliance with professional standards.

The AIG-I designed and implemented a comprehensive Self-Inspection Program (SIP) to monitor and ensure compliance with SIGAR policy, CIGIE qualitative standards and Attorney General Guidelines.

The SIP identified 12 specific areas associated with investigative operations and set forth the requirement for individual compliance inspections.

Suggestion: Clarify jurisdictional issues involving investigative project with members of the International Contract Corruption Task Force (ICCTF) to ensure a common understanding.

SIGAR sent a letter to the Attorney General, FBI Director and IG of each ICCTF member agency requesting that by-laws of the ICCTF Memorandum of Understanding be enforced requiring the designation of a "primary agency lead" on each ICCTF joint investigation. Enforcement of the primary lead designation will clarify and resolve potential jurisdictional issues.

Suggestion: Refine SIGAR's Firearms Policy.

SIGAR issued a modified and refined Firearms Policy on September 21, 2010.

Suggestion: Refine SIGAR's Use of Force Policy.

SIGAR issued a modified and refined Use of Force Policy on September 21, 2010.

Suggestion: Refine SIGAR's Hotline Policy.

SIGAR issued a modified and refined Hotline & Complaints Management Policy on September 21, 2010.

Attachment 2: SIGAR's Risk-Based Strategic Planning for Audits

In our efforts to be more aggressive in responding to the concerns this committee has raised, SIGAR has taken steps to strengthen its risk-based strategic planning. SIGAR's risk-based approach for indentifying audit and investigative priorities includes the following criteria:

1. Amount and magnitude of U.S. funding to known risk environments;
2. Indications of specific risks and vulnerabilities, especially related to large contracts, procurements, and programs;
3. Opportunities to realize financial benefits to the U.S. taxpayer given anticipated outcomes and deliverables;
4. Information provided by SIGAR's oversight committees, U.S. agencies, the U.S. embassy, and the Government of Afghanistan;
5. Relevance to the U.S. strategy and goals in Afghanistan;
6. Security issues impacting the feasibility of conducting work; and
7. Activities of other oversight agencies.

SIGAR has several mechanisms through which it conducts risk-based, strategic planning of its audit work. Specifically, SIGAR is guided by the following:

Audit Strategic Plan

In March 2009, SIGAR's Audit Directorate issued its first Audit Strategic Plan, which established an initial framework outlining the mission and goals for SIGAR's audit work during 2009. SIGAR plans to issue a revised Audit Strategic Plan in early 2011. Revisions to the plan are, in part, based on inputs from the CIGIE Peer Review team, the priorities identified through the contract audit planning process, and the results of coordination with the community of Inspectors General.

Annual Audit Plan

In addition to a strategic plan, SIGAR finalized its audit plan for fiscal year 2011, which highlights SIGAR's increased emphasis on contract audits and forensic reviews, and directs resources to where the flow of funding is the most significant. This audit plan reflects SIGAR's continued commitment to using a risk-based approach for identifying audit priorities for the coming year. In preparing the fiscal year 2011 audit plan, SIGAR's Audit Directorate also considered indications of potential problems based on input from U.S. civilian and military

leadership in Afghanistan and Washington, D.C., and staff observations in Afghanistan, hotline allegations, and other informal reports.

Comprehensive Plan for Audits of Contractor Performance and Oversight

Public Law 110-181, section 842, requires SIGAR to develop, in consultation with other relevant Inspectors General, a comprehensive plan for a series of audits of contracts, subcontracts, and task and delivery orders relating to Afghanistan reconstruction programs. SIGAR began drafting this plan in the fall of 2010, which supplements SIGAR's March 2009 strategic plan and will be vetted with the appropriate Inspectors General. SIGAR intends to complete its plan for contract audits in early 2011. In addition, SIGAR will continue to follow its legislative mandate and move forward on contract audits that we determine to be significant in scope.

A key first step in this effort was SIGAR's baseline audit that identified all the contractors and other entities used by the Department of Defense, the Department of State, and USAID in Afghanistan. Currently, there is no centralized data base in the U.S. government for this information and the agencies do not routinely report this information. The contract data must be gathered from each agency, which themselves have multiple data bases. SIGAR identified about 7,000 contractors and other entities, including for-profit and non-profit organizations and multilateral organizations, which received fiscal year 2007 through 2009 funds to implement projects or programs in Afghanistan. SIGAR also identified the largest recipients of contracting dollars for each of these U.S. departments and agencies, and has used this information to help develop its audit plan and prioritize future work. Identifying this information was a critical first step in SIGAR's risk-based approach for identifying audit priorities.

Planning Efforts within Oversight Community

As a member of the Southwest Asia Joint Planning Group since March 2009, SIGAR has participated in the coordination and development of a comprehensive planning effort for audit oversight in the Southwest Asia region, specifically in Afghanistan. In addition, SIGAR participates in the Afghanistan-Pakistan sub-group. Both groups published comprehensive audit plans for fiscal year 2010; SIGAR is working with the two groups on the plans for fiscal year 2011.

In addition, SIGAR is assisting the Group in developing a comprehensive strategy for the oversight of the training, equipping, and mentoring of the Afghanistan National Security Forces, which is expected to be completed in the second quarter of fiscal year 2011. SIGAR is also actively participating in the planning group's efforts to develop a comprehensive strategy for the oversight of contracts and contingency contracting in Afghanistan, which will rely heavily on the data that SIGAR captured in its October 2010 report on contracts, grants, and cooperative agreements. As the U.S. Department of Defense Inspector General testified on November 18, 2010, this strategy is expected to be completed by the end of fiscal year 2011.

Attachment 3: SIGAR's Audits of Contractor Performance and Oversight

Completed Audits

To date, SIGAR has issued 34 audit reports, including 8 performance audits of contract outcomes, cost, and oversight,¹ and 3 audits on related contracting oversight issues.² These audits addressed more than \$4.4 billion in reconstruction spending. Public Law 110-181, section 842(h) requires that our audits of contracts must address, at a minimum, one of several audit objectives, which are listed in the footnote below.³

Planned Audits

SIGAR is placing increased emphasis on identifying opportunities to put reconstruction funds to better use, expanding the scope of our contract audit work, pursuing leads as a result of our forensic reviews, and coordinating with our Investigations Directorate on specific concerns about fraud, waste, and abuse.

SIGAR has three ongoing audits of contracted reconstruction or private security services.⁴ In addition, we are beginning new audits of contracted services this quarter, including one involving \$138 million for construction at the Kabul Military Training Center. For the balance of fiscal year 2011, we plan to conduct at least 10 additional contract audits involving contracted construction services, contracts for operation and maintenance support of the Afghan National Army and Police, and security contracts using the selection criteria described earlier, all of which total more than \$3.2 billion.

In addition, we are conducting forensic reviews of three Afghanistan reconstruction funds.⁵ The legislation requires SIGAR to investigate improper payments—such as duplicate payments or

¹SIGAR Audit-09-1, SIGAR Audit-10-6, SIGAR Audit-10-7, SIGAR Audit-10-9, SIGAR Audit-10-10, SIGAR Audit-10-12, SIGAR Audit-11-3, and SIGAR Audit-10-14.

²SIGAR Audit-09-4, SIGAR Audit-09-7, and SIGAR Audit-11-4.

³ Section 842(h) requires that audits conducted pursuant to subsection (a)(2) shall examine, at a minimum, one or more of the following issues: (1) the manner in which contract requirements were developed and contracts or task and delivery orders were awarded; (2) the manner in which the Federal agency exercised control over the performance of contractors; (3) the extent to which operational field commanders were able to coordinate or direct the performance of contractors in an area of combat operations; (4) the degree to which contractor employees were properly screened, selected, trained, and equipped for the functions to be performed; (5) the nature and extent of any incidents of misconduct or unlawful activity by contractor employees; (6) the nature and extent of any activity by contractor employees that was inconsistent with the objectives of operational field commanders; and, (7) the extent to which any incidents of misconduct or unlawful activity were reported, documented, investigated, and (where appropriate) prosecuted.

⁴ Objectives three through six in Section 842(h) relate to the oversight of private security contractors.

⁵ Public Law 110-181, section 1229 (f) (1) (G).

duplicate billings—and to prepare a final forensic audit report on all programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.⁶ Specifically, we are conducting forensic audits of transaction data for approximately \$38 billion in funds from the Department of Defense Afghanistan Security Forces Fund—the largest single appropriation account involving Afghanistan reconstruction—and the Department of State and U.S. Agency for International Development funded reconstruction spending. We are also coordinating these reviews with the Investigations Directorate.

Ongoing Work

SIGAR will continue to review reconstruction contracts, contracts for training and equipping Afghan security forces, private security service contracts, and other financial mechanisms, including grants and cooperative agreements. Since completing the baseline audit identifying reconstruction contracts, grants and cooperative agreements funded through fiscal years 2007 to 2009,⁷ we have been using this information to focus oversight in a way that maximizes available resources for the greatest oversight gains. In addition to using a strengthened risk-based approach to prioritize our work, audits will focus on overall costs, as well as cost components, schedule, and outcomes; the adequacy of planning and requirements definition to develop appropriate contract language; contract administration and oversight; and project sustainability, as applicable. Furthermore, each audit will assess vulnerabilities to fraud, waste, and abuse. Pursuant to Public Law 110-181, section 842 (b) (3), SIGAR is also developing a comprehensive plan for a series of audits of contracts, subcontracts, and task and delivery orders relating to Afghanistan reconstruction programs. SIGAR intends to complete its comprehensive plan for contract audits in early 2011, after fully vetting it with other appropriate Inspectors General. Since security is a crucial element of reconstruction in Afghanistan, the plan will also include a robust body of work addressing the management, oversight, performance and contract management of private security contractors in Afghanistan as well as the implications of President Karzai's decree on the use of private security contractors on U.S. reconstruction programs and projects.

⁶ Public Law 110-181, section 1229 (o) (2).

⁷ SIGAR-AUDIT-11-4, *DOD, State, and USAID Obligated Over \$17.7 Billion to About 7,000 Contractors and Other Entities for Afghanistan Reconstruction During Fiscal Years 2007-2009*, October 27, 2010.

Attachment 4: Examples of SIGAR's Recent and Ongoing Audit Work

To date, SIGAR has issued 34 audit reports addressing more than \$4.4 billion in reconstruction spending. The following are examples of recent audit reports and selected ongoing audits:

Recently Completed Audits

SIGAR Audit-11-3. *ANP District Headquarters Facilities in Helmand and Kandahar Provinces Contain Significant Construction Deficiencies Due to Lack of Oversight and Poor Contractor Performance*, October 27, 2010.

The U.S. Army Corps of Engineers awarded Basirat Construction, an Afghan firm, a single contract for \$5.9 million to construct seven Afghan National Police (ANP) district headquarters facilities in Helmand and Kandahar provinces. One ANP facility was later deleted from the contract because of security concerns at the site, and the contract value was reduced to about \$5.4 million. As SIGAR reported, nearly every aspect of this project involved significant challenges to its satisfactory completion. SIGAR identified numerous construction deficiencies that compromised the structural integrity of the facilities. This matter was referred to the Investigations Directorate in an effort to identify potential fraud.

SIGAR Audit-11-4. *DOD, State, and USAID Obligated Over \$17.7 Billion to About 7,000 Contractors and Other Entities for Afghanistan Reconstruction During Fiscal Years 2007-2009*, October 27, 2010.

This is the first analysis undertaken to identify the principal contractors and other entities involved in reconstruction efforts in Afghanistan and the funding mechanisms used. SIGAR will conduct follow-up audits of specific contracts, based on the data gathered in this baseline analysis, to determine if the allocation of U.S. funds produced the planned outcomes or deliverables, or if there was significant waste.

SIGAR Audit-11-5. *Actions Needed to Mitigate Inconsistencies In and Lack of Safeguards over U.S. Salary Support to Afghan Government Employees and Technical Advisors*, October 29, 2010.

SIGAR reported that the Afghan government and international donors cannot account for the total number of employees and technical advisors who receive salary support or how much they are paid. The United States and other international donors have paid the salaries of thousands of civilian government employees and technical advisors since 2002. Based on incomplete data, the Ministry of Finance has estimated that donors were providing \$45 million annually to more than 6,600 employees and advisors. The United States provided 18 percent of this amount (\$7.9 million), as well as a portion of the \$18.5 million dollars from the World Bank. SIGAR identified weaknesses in the oversight of salary support that, if left unmitigated, put the funding at greater risk of waste and misuse.

Future audits will continue to address the extent to which U.S.-funded programs and projects will be sustainable by the Afghan government and not at risk of waste and abuse.

Recently Documented Audit Results

Regarding results, SIGAR recently documented that \$190 million in funding for the Commander's Emergency Response Program (CERP) has been put to better use based, in part, on SIGAR's work. In September 2009, SIGAR reported on accountability CERP projects in Afghanistan. Specifically, we stated that CERP projects lacked visibility and adequate monitoring and recommended actions to ensure adequate controls over the execution of CERP projects. Due to concerns over adequate management of the CERP projects, USFOR-A did not obligate all fiscal year 2009 CERP funds, which resulted in the return of \$190 million to the U.S. Army. According to USFOR-A officials in Afghanistan, SIGAR's report, along with other reports, was instrumental in the department's review of CERP use in Afghanistan, and contributed to its decision to reallocate this funding to prevent wasteful spending.

Ongoing Audit Work

SIGAR has ongoing work focused on targeting U.S. funding in high-risk environments where there is the potential for instances of fraud, waste, and abuse. For example:

- Reconstruction security support services from Global Strategies Group Inc. (SIGAR-017A). An estimated 26,000 private security personnel work in Afghanistan to help ensure the safety of U.S. and Coalition personnel. This contract audit is examining whether the U.S. Army Corps of Engineers received the security services it needed from the contractor at a reasonable cost in accordance with the contract. The contract covers approximately 30 months, and is valued at over \$93 million.
- Construction planning for Afghanistan's National Security Forces (ANSF) facilities (SIGAR-028A). This audit is examining the planning process used in providing a rationale for the \$12 billion ANSF construction program and for meeting the ANSF's changing requirements. As noted in SIGAR audit reports issued last quarter, without an updated facilities plan that reflects current ANSF requirements, the United States runs the risk of building facilities that are inadequate for the ANSF's projected force strength, resulting in fiscal waste.
- Schedule, Cost, and Performance and Oversight of Selected Commander's Emergency Response Program Projects (SIGAR-030A). The audit will be examining the schedules, costs, U.S. oversight, and outcomes of 69 CERP projects—for example, to build or renovate roads, bridges, dams, and canals—in Laghman Province; the total obligation for the projects is over \$51.5 million. This audit will examine whether projects will be sustainable, as well as efforts to mitigate potential risks of corruption, fraud, and waste.

Attachment 5: Examples of Ongoing SIGAR Investigations

Sixty of SIGAR's 93 current criminal investigations involve contract fraud, 26 involve corruption, and 7 involve the theft of government property. Overall, 65 percent of SIGAR's current criminal investigations involve contract fraud.

SIGAR currently has 25 special agents on board; 17 are assigned to Afghanistan, and 8 are in the U.S. These agents have a combined total of 575 years of federal investigative law enforcement experience, or an average career span of 23 years each. They possess expertise in the investigation of fraud, corruption, money laundering, and other financial crimes gained from careers with the FBI, DEA, IRS, Treasury Department, DHS, Army-CID, DCIS, NCIS, HHS, FDIC, USAF-OSI, USPIS, DC-OIG, and SIGIR. Three investigators have CPAs; the investigations staff also includes 5 Certified Fraud Examiners, a former President of the Association of Inspectors General and a former Executive Director of the IG Investigator Training Academy.

Examples of Ongoing Investigations

- ✓ Two investigations involve alleged payments to the Taliban and others hostile to American and NATO forces. SIGAR's efforts have resulted in the capture of a high-level Al Qaeda official with potential ties to the Taliban and other enemy combatants.
- ✓ Four investigations involve corruption among senior Afghan government officials. These investigations target provincial governors, chiefs of police, and senior military officers allegedly involved in corruption related to reconstruction contracts.
- ✓ Allegations of cost mischarging, false claims and false statements that involve a sub-contract that is part of a \$2.9 billion dollar contract for telecommunications support to the Afghan National Police.
- ✓ Allegations of bribery and corruption that emanate from a \$160 million road project.
- ✓ Civil anti-trust, false claims and kickbacks that pertain to a \$21 million dollar contract for two power plants.
- ✓ Joint investigation with DCIS and FBI into a conspiracy to award inflated contracts to family members; the number of contracts involved total \$150 million and potentially involve several million dollars of overcharging.
- ✓ Confidential source information alleging substandard materials in the construction of a failed \$21 million dollar road project.
- ✓ Laundering of \$1million by an American contracting officer, who moved monies out of Afghanistan through the Hawala system. Among other benefits, this investigation has helped identify the ways in which Hawala networks are being used to commit financial crimes.

- ✓ Current and former employees involved in waste, mismanagement, bribery and kickbacks surrounding a \$400 million dollar contract.
- ✓ Fraud and bid-rigging allegations surrounding a \$33 million dollar contract. The target company also has a \$26 million dollar related contract. SIGAR is investigating false documents, false security reports, and falsification of performance records in official bid response.
- ✓ Mismanagement, fraud, corruption, false statements and false claims in a contract valued at more than \$300 million, which involve one company and numerous reconstruction projects. This is a joint case with the FBI.
- ✓ Confidential source information alleging 10 percent kickbacks paid on a number of contracts that total \$14 million dollars.
- ✓ Solicitation and acceptance of bribes by an American contracting officer in exchange for preferential treatment in the awarding \$13 million dollars of reconstruction contracts.
- ✓ Confidential source information alleging bribery, kickbacks and money laundering involved in \$10 million dollars worth of contracting in the Kunar province.
- ✓ Ongoing forensic data mining to identify irregular contract and billing anomalies, which will serve as a basis for future investigations.

