Statement of Arnold Fields
Special Inspector General for Afghanistan Reconstruction
before the

House Armed Services Committee

Hearing on "Effective Counterinsurgency: How the use and misuse of reconstruction funding affects the war effort in Iraq and Afghanistan"

25 March 2009

Mr. Chairman, Ranking Member McHugh, and Members of the Committee:

I am pleased to be here today for this hearing on the use and misuse of reconstruction funding and the effect it has on the war effort in Iraq and Afghanistan. I would like to thank you for the opportunity to discuss the efforts underway by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to enhance oversight of reconstruction efforts in Afghanistan in a number of important areas. Government and outside experts have identified issues and challenges with respect to reconstruction activities in Afghanistan and Iraq. For example, the Special Inspector General for Iraq Reconstruction (SIGIR), in his book "Hard Lessons: The Iraq Reconstruction Experience," has identified a number of lessons learned. Some of these lessons may apply to reconstruction activities in Afghanistan. The agencies that are implementing programs should examine these lessons to determine if they are applicable to reconstruction activities in Afghanistan. In the course of our oversight, SIGAR will examine how the agencies have considered these lessons in the planning and implementation of their programs for Afghanistan. Today, I would like to focus my discussion on the establishment of SIGAR and our plans for providing oversight in key areas.

I have taken three trips to Afghanistan since my appointment as Inspector General and I just returned from my most recent trip. I have met with senior U.S., Afghan, and NATO civilian and military leaders, including leaders at many levels involved with Afghanistan reconstruction. I continue to move SIGAR's oversight work forward through dialogues with U.S. and international officials whose work and leadership are pivotal to the reconstruction agenda in Afghanistan. Based on these discussions and my observations, I am convinced that SIGAR is well positioned to fulfill its significant and important oversight role for the billions of dollars provided in assistance to Afghanistan. We anticipate completing several products containing analysis, observations, conclusions, and recommendations over the next several months.

SIGAR's Structure for Oversight

Congress has emphasized that uninterrupted oversight is essential to ensuring taxpayer value in reconstruction. I am pleased to inform the Committee that SIGAR has established offices in Washington, D.C. and at the U.S. Embassy in Kabul; begun audits and inspection activities; issued two quarterly reports; and established a hotline for reporting of potential waste, fraud, and abuse. In addition, during my third and most recent visit to Afghanistan we secured space for personnel at Kandahar Air Field, Bagram Air Field, and the Combined Security Transition Command Afghanistan (CSTC-A) located in Kabul. SIGAR is in the process of assembling an experienced and capable staff, which as of today consists of 41 personnel. As funding becomes available, SIGAR plans to hire additional auditors, inspectors, investigators, and support staff, for a total workforce of 90. SIGAR's presence in Afghanistan will grow from 7 to 32 personnel by the end of this year, given sufficient funding. In addition to the SIGAR personnel in Afghanistan, we currently have 3 auditors, temporarily on loan from SIGIR, stationed in Afghanistan. As SIGAR has taken action to establish its operations in Afghanistan, other oversight agencies such as Inspectors General from the Departments of Defense (DOD), State, and the U.S. Agency for International Development (USAID) have also taken steps to increase their oversight presence in Afghanistan in the coming months. We are working with these oversight agencies to provide a mechanism through which the oversight is coordinated and carried out to ensure sufficient and uninterrupted oversight, without placing undue burden upon those organizations responsible for implementing reconstruction programs in Afghanistan.

SIGAR is well positioned to examine the reconstruction programs and activities in Afghanistan across all U.S. agencies.[1] SIGAR's mission is to enhance oversight of programs for the reconstruction of Afghanistan by conducting independent and objective audits, inspections, and investigations of the use of taxpayer dollars and related funds and by keeping the Congress and the Secretaries of State and Defense informed of reconstruction progress and weaknesses. In fulfilling its mission, SIGAR will work to:

- improve management and accountability over U.S. funds administered by U.S. and Afghan agencies and their contractors;
- prevent fraud, waste, and abuse by identifying weak internal controls and investigating potential corruption and other wrongdoing;
- provide a mechanism by which complaints and issues can be reported in Afghanistan, the United States, and internationally for further review, referral and/or investigation;
- improve effectiveness of the overall reconstruction strategy and its component programs;

[1]Afghanistan reconstruction includes any major contract, grant, agreement, or other funding mechanism entered into by any department or agency of the United States government that involves the use of amounts appropriated, or otherwise made available for the reconstruction of Afghanistan with any entity to: (1) build or rebuild physical infrastructure Afghanistan, (2) establish or reestablish political or societal institutions of Afghanistan, (3) provide products or services to the people of Afghanistan, or (4) provide security or other support functions to facilitate Afghanistan reconstruction efforts.

- provide accurate and balanced information, observations, and recommendations to decision-makers;
- strengthen U.S. government oversight by identifying oversight weaknesses and working with responsible oversight institutions to overcome the weaknesses;
- improve contracting and contract management processes, and
- otherwise, advance U.S. interests in reconstructing Afghanistan.

SIGAR has developed a strategic plan for audits, which establishes the initial mission and goals for the work to be conducted in 2009 and identifies how SIGAR will address tasks detailed in the enabling legislation. This plan describes the categories of work that we plan to conduct and serves as a starting point for decisions on audit priorities. For example, one area of focus will be on internal controls and accountability for reconstruction programs managed by U.S. agencies. This work would identify control weaknesses and vulnerabilities to corruption created by these weaknesses. The Commanders Emergency Response Program (CERP) is one program that has received significant funding and SIGAR has started an audit to review the controls and accountability of funds for this program.

SIGAR will revise its list of priorities as work progresses and in response to events and new oversight needs. Later this year, SIGAR will prepare a compendium of potential audit work. This compendium will serve as a list of potential audits to be conducted by SIGAR and will be used to facilitate SIGAR's coordination efforts with the community of Inspectors General and the Government Accountability Office (GAO).

The enabling legislation that established SIGAR anticipated the need for interagency coordination.[2] This is indeed important as the Inspectors General for the DOD and State, USAID, and several others also have responsibilities for auditing contracts, programs, and projects in Afghanistan. SIGAR understands the importance of coordinating oversight related to Afghanistan reconstruction. SIGAR is working with its counterparts to share plans and align audits, inspections, and anticipated investigations. I am confident the Inspector General community will be able to successfully coordinate the extensive amount of oversight demanded by the U.S. efforts in Afghanistan. SIGAR is now and will continue to meet with the relevant Inspectors General to discuss and determine what forums are needed to ensure coordination of oversight.

Oversight of Key Issues in Afghanistan

SIGIR has identified 13 lessons learned from the U.S. reconstruction effort in Iraq under three broad categories: (1) principles for contingency relief and reconstruction operations, (2) organizing the interagency system for contingency relief and reconstruction operations, and (3) contracting mechanisms and human resources in contingency relief and reconstruction operations. I suspect that the lessons in these three areas may be applicable to efforts in

[2]See National Defense Authorization Act for Fiscal Year 2008 (NDAA for FY2008), Public Law 110-181, Section 1229(f)(4).

Afghanistan, but their specific relevancy needs to be determined. SIGAR, as part of its oversight, will be assessing how U.S. agencies are considering these lessons in planning and implementing programs in Afghanistan.

For the last eight years, the United States, nearly 50 other nations, and several multilateral organizations, have undertaken a challenging and costly effort to stabilize Afghanistan and prevent the nation from becoming a safe haven for terrorists or devolving into a failed state. Since 2001, the United States has appropriated over $32 billion in reconstruction assistance to help reconstruct and secure Afghanistan. The conditions in Afghanistan—economic, geographic, and demographic, and polticial—offer unique challenges to the feasibility and sustainability of reconstruction efforts. Afghanistan is a poor, largely rural and ethnically and linguistically diverse nation with limited natural resources and lacking the current means to generate legitimate revenue. For example, in 2007, Afghanistan's per capita income was estimated to be about $300 per year, excluding income from illicit drug production and trafficking, according to the World Bank. In another example, Afghanistan's population is mostly uneducated—with a reported illiteracy rate of 70 percent, according to development indicators reported by the World Bank and United Nations.

Experts agree that the war in Afghanistan, similar to the war in Iraq, will not be won by military force alone. The consensus is that an integrated U.S., international, and Afghan effort is needed to meet the developmental, economic, security, and other needs of the Afghan people.

Today, I would like to use the lessons identified in U.S. reconstruction efforts in Iraq as a framework for discussing some of the key issues SIGAR intends to examine in Afghanistan. I am going to discuss SIGAR's plan for oversight in selected areas: providing for security for reconstruction, including Afghan priorities in reconstruction programs, improving the capacity of personnel and systems, developing integrated management structure, and strengthening oversight of contractors and contracts.

Reconstruction Success Tied to Security

In Iraq, SIGIR found that security is necessary for large-scale reconstruction to succeed and that a successful reconstruction program requires a balancing of security, political, and economic interests. Reconstruction efforts in Afghanistan are taking place in a complex, challenging, dangerous, and inhospitable environment. During my visits to Afghanistan, security has been widely cited as a limiting factor to the success of reconstruction efforts. Over the last eight years, the United States and international partners have spent billions of dollars to provide economic growth, develop the infrastructure, and train the Afghan security forces. However, the security situation in Afghanistan has deteriorated significantly in recent years. In February 2009, President Obama announced an increase of U.S. troops for deployment to Afghanistan to combat the increasing security risks and help secure the area for reconstruction activities.

Security is arguably the most important pillar of the *Afghanistan National Development Strategy* (2008-2013) and to the U.S. and international reconstruction efforts in Afghanistan.[3] Supporting the improvement of Afghanistan's military and police is critical to the advancement of reconstruction programs. The work of various Inspectors General and GAO indicates there are significant problems in this area. For example, GAO recently reported significant accountability concerns for weapons provided to Afghan national security forces.

Programs to support and train Afghan military and police forces account for the largest portion of reconstruction funds. Billions of U.S. dollars have been made available for equipping, supplying, and training of the Afghan military and police, largely funded through the Afghan Security Forces Fund. According to GAO, the United States has provided nearly $17 billion for the training and equipping of Afghan National Security Forces, and DOD and State plan to request additional funds for these purposes. Military aid to Afghanistan is likely to increase as the United States and international partners work to build the size and capability of Afghan forces so they can assist in securing the country for reconstruction. Due to the size of the military and police aid programs, SIGAR will begin its audit work in this area with a broad survey to identify audit issues and priorities, and possible inspection work. In the meantime, SIGAR auditors are working with staff from the DOD Inspector General to coordinate our efforts and stay informed of these issues.

Incorporating Priorities and Needs of the Afghan People

SIGIR reported that reconstruction programs should be geared to indigenous priorities and needs to ensure long-term success. A recent report from the Center for Strategic and International Studies (CSIS) has noted that the restoration of civil order depends on the belief and commitment of the vast majority of the population.[4] The Afghan government has two important documents that identify their priorities and needs: the "*Afghanistan National Development Strategy (2008-2013)"* and the "*Afghanistan Compact"* (2006), which establishes the framework for international cooperation. Senior officials of the Government of Afghanistan have expressed a strong desire for greater involvement and authority in the reconstruction of their country. These are matters of interest expressed directly to me during each of my visits to Afghanistan. I believe the degree of involvement of the various levels of the Afghan government in the reconstruction effort is a matter for oversight attention.

Development is one of the three pillars of the *Afghanistan National Development Strategy* and, after security, receives the largest amount of funding and attention from the United States and the international community. SIGAR plans to conduct a series of comprehensive audits of

[3]The three pillars of the Afghanistan National Development Strategy are: Security; Governance, Rule of Law, and Human Rights; and Economic and Social Development.
[4]Center for Strategic and International Studies, *Afghanistan & Pakistan on the Brink: Framing U.S. Policy Options*, February 2009.

reconstruction efforts by multiple agencies that focus on specific development sectors. SIGAR audits will examine U.S. and international donor strategy to support the sector, identify what funds have been provided and how they have been used, whether programs within the sector are well coordinated, whether programs are achieving desired results, and what challenges exist. Where appropriate, SIGAR will use the *Afghanistan National Development Strategy* and the *Afghanistan Compact* as a basis for assessing program effectiveness and progress. SIGAR also plans to conduct inspections of selected specific infrastructure projects in these sectors to identify if the construction was completed on time, within budget, and according to specifications. These inspections will support the audits in these sectors and may lead to SIGAR investigations when fraud or abuse are suspected. SIGAR has begun its first comprehensive audit in this area focusing on the energy sector.

Developing Sufficient Capacity in People and Systems

For Iraq, SIGIR reported that developing the capacity of people and systems is as important as bricks and mortar reconstruction. Governance is another of the three pillar of the *Afghanistan National Development Strategy*. Senior officials from the Government of Afghanistan have expressed to me their belief that the institutions and people of Afghanistan have the capacity to effectively participate more fully in the management and implementation of reconstruction contracts. However, their level of participation needs to be governed by their ability to exercise good stewardship and accountability for management and implementation responsibilities. Based on my trips to Afghanistan, I believe developing the capacity of people and systems is an important element for ensuring the sustainability of the reconstruction programs.

Sufficient capacity in Afghan institutions can allow the Afghan people to take a larger role in overseeing and sustaining reconstruction activities. The involvement of the Afghan institutions depends, in part, on their financial management capabilities and accountability procedures. SIGAR intends to conduct audits of the internal controls exercised by key Afghan ministries to assess their procedures for managing reconstruction activities funded by the United States and identify U.S. efforts to develop their capabilities. Due to the importance of the Afghan elections, SIGAR plans to conduct its first audit in the area of capacity development on the efforts to help Afghanistan run free and fair elections. SIGAR will follow this audit with a series of audits regarding the development of capacity, including a comprehensive audit of activities in the education sector, the judicial sector, and efforts to develop the capacity of oversight entities in the Afghan government.

Integrated Management Structure for Effective Interagency Efforts

SIGIR reported that an integrated management structure is necessary to ensure effective U.S. interagency reconstruction efforts. At least 6 agencies and departments fund U.S. reconstruction efforts in Afghanistan. Based on my visits, I fear there are major weaknesses in strategy among the participating agencies. Although SIGAR has not conducted an in-depth

review of reconstruction strategies, there is a broad consensus that reconstruction efforts are fragmented and existing strategies lack coherence. However, working groups at various levels have been established to address coordination issues. For example, the Integrated Civil Military Action Group was formed to coordinate civilian and military reconstruction activities in Afghanistan. In addition to the audits of various segments of the reconstruction program, SIGAR plans to conduct audits of strategy, planning, and management issues associated with the overall reconstruction effort.

Our work will assess the tools used by U.S. agencies, the international donor community, and the Afghan Government to plan, manage, and oversee reconstruction as a whole. As with much of the work in other areas, SIGAR is highly qualified to review and assess the overall management of reconstruction because, similar to the GAO, SIGAR has the authority to audit activities across agency boundaries. SIGAR has already begun its first audit in this area, conducting an assessment of U.S. government information systems used to track and provide data and management information to decision-makers.

Strengthening U.S. Government Oversight of Contracts

In Iraq, SIGIR concluded the United States government should strengthen its capacity to manage the contractors carrying out reconstruction work in contingency relief and reconstruction operations. As called for in SIGAR's enabling legislation, SIGAR plans to conduct a number of reviews on the use, oversight, and performance of contractors as well as perform focused contract audits. SIGAR will assess contractor performance and agency oversight of the contractor, including identification of weaknesses in performance and management. This work will also examine compliance with contracting procedures and assess whether the United States is getting value for funds expended. Over time, we expect this work could lead to improved contracting and contract management processes. Work may also generate leads for inspections of specific infrastructure projects completed under these contracts as well as for criminal and civil investigations. When evidence of potential criminal activity is discovered, SIGAR will investigate the matters, which may lead to referrals for the prosecution of the offenders. SIGAR has begun its first audit in this area to assess the performance and oversight of reconstruction contracts in Afghanistan with the Louis Berger Group.

SIGAR is just one of the audit entities with responsibilities for oversight of contracts—GAO; Inspectors General for the Departments of Defense and State; and for USAID; and several other audit agencies share these responsibilities. Authorizing legislation assigns to SIGAR the task of preparing comprehensive plans for audits of security and other contracts that SIGAR and other Inspectors General will perform.[5] SIGAR intends to play a lead role in ensuring contracts receive adequate audit coverage, but expects the audit coverage of specific security and other contracts will be conducted by SIGAR or one of several other Inspectors General. SIGAR will identify contracts warranting more oversight based on input from other Inspectors General and GAO, information received in our Afghanistan offices, and hotline reporting. SIGAR expects to

[5]See NDAA for FY2008, Public Law 110-181, Section 842.

complete the required comprehensive plan for audits of security and other contracts later this year.

Conclusion

SIGAR's oversight mission is important because of the extensive investment by the United States of more than $32 billion for the reconstruction of Afghanistan. SIGAR takes its responsibility seriously to provide prompt and effective advice and recommendations to those managing Afghanistan's reconstruction. Our goal and mandate is to promote effectiveness and efficiency and prevent waste of taxpayer dollars. I am pleased that Ambassador Wood and General McKiernan have welcomed SIGAR's presence by providing support in Afghanistan. I believe SIGAR can and will make important contributions to the success of the ongoing development of Afghanistan reconstruction. SIGAR plans to carry out the mission Congress has assigned with vigor and efficiency to ensure effective oversight and timely reporting, thereby helping with the ultimate success of the Afghanistan reconstruction program.

Our future capabilities will be determined by the level of funding we receive. SIGAR has received sufficient appropriated funds (totaling $16 million) for initial startup but needs additional funding in order to fully implement the oversight mandated by the Congress. SIGAR has identified a $7.2 million shortfall for the remainder of fiscal year 2009. The additional funding is essential to allow us to continue to hire the staff needed to meet our oversight responsibilities.

The staff I have hired is willing to serve in the highly hazardous environment, a description by which Afghanistan is currently characterized. They are a dedicated group of professionals, many of whom could be working in much safer and more stable environments. Instead, they have volunteered to serve our country in these challenging times. I am proud of them and honored to serve as their leader.

Thank you for this opportunity to discuss the efforts SIGAR has underway to fulfill its oversight responsibilities, particularly in view of this committee's interest in the use and misuse of reconstruction funding. I appreciate the funding support the Congress continues to provide our office, allowing for us to grow to meet our oversight mandate and challenges ahead. I look forward to answering any questions the committee may have.