

TESTIMONY OF
THE HONORABLE DONALD A. GAMBATESA,
INSPECTOR GENERAL,
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
BEFORE THE
COMMISSION ON WARTIME CONTRACTING IN
IRAQ AND AFGHANISTAN

“HOW GOOD IS OUR SYSTEM FOR CURBING CONTRACT
FRAUD, WASTE, AND ABUSE?”

MAY 24, 2010

I am pleased to appear before you to testify on behalf of the Office of Inspector General (OIG) for the U.S. Agency for International Development (USAID) and to be joined by my colleagues from the Departments of State and Defense. Today, I would like to share information about our work in Iraq and Afghanistan and the issues affecting USAID programs and operations that we have identified. I would also like to discuss ways to

address waste, fraud, and abuse in conflict settings and U.S. Government approaches to future contingency operations.

USAID OIG Activities and Observations for Improvements in Iraq and Afghanistan

Our office has conducted extensive oversight activities in Iraq and Afghanistan for several years. We have built this history of engagement on the strength of a committed workforce and are fortunate to have talented employees who are willing to work in such difficult circumstances. We have nine U.S. direct-hire auditors and investigators in Baghdad and are building to similar staff levels in Kabul, augmented by Foreign Service National personnel. Meanwhile, our oversight efforts in Afghanistan continue to receive support from auditors and investigators based in other parts of the world.

Our dedicated personnel in these countries have a track record of identifying waste, fraud, and abuse and working to improve USAID program management and operations. Since I last came before this Commission, USAID OIG has completed a substantial amount of oversight work in Iraq and Afghanistan. From February 2009 to date, we have issued

12 performance audits with 84 recommendations for USAID improvement and completed 19 financial audits that identified \$206 million in questioned costs, of which \$180 million were sustained. Over the same term, we opened 43 civil and criminal investigations, closed 17 investigations, effected 10 arrests and 3 convictions, and secured \$141 million in investigative savings and recoveries for the Government.

During the past 15 months, we have examined an array of development programs that focus on such goals as improving local governance, strengthening educational systems, expanding power generation capacity, and laying the foundations for a modern, mixed-market economy. Our audits of these programs frequently found that Agency contractors and award recipients had completed many of their intended tasks and made significant progress toward achieving program goals and objectives.

Too often, however, our assessments also highlighted shortcomings in contract and project management. USAID monitoring personnel are stretched thin in both countries, and they struggle to keep pace with an expanding portfolio in Afghanistan. The results are predictable. In March 2009, we [found](#) that USAID/Iraq's implementing partners could not detect deficiencies in security subcontractors' reporting of serious incidents

because they had provided inadequate oversight of subcontractor practices in this area.

In April 2010, we [reported](#) that USAID officials had not reviewed implementing partners' performance reports or ensured that stated numbers of program beneficiaries of services for internally displaced persons in Iraq were accurate. As a result, significant performance overstatements and suspected fraud—which we are currently investigating—went undetected by the Agency.

Poor contract and program management practices are often associated with weaknesses in staff training. USAID employees have sometimes lacked the experience and training needed to fulfill their responsibilities. Our November 2009 [audit](#) of USAID's efforts to enhance Afghanistan's power sector, for example, recommended that USAID technical representatives receive additional training on the proper preparation of statements of work, because project implementation had suffered from an ambiguous statement of work that did not require specific deliverables with concrete delivery dates.

Security issues are continuing problems for USAID in both Iraq and Afghanistan, hindering program accomplishment and implementation. Security conditions complicate site visits and meetings with partners.

Because of security risks, implementing partners have curtailed or delayed programs and lost critical momentum. In August 2009, we [reported](#) on market renovation projects in Baghdad that had encountered security-related issues that inhibited the operation of completed markets. In December 2009, we [reported](#) that USAID's work in Afghanistan to help those who have suffered losses because of military operations had been hampered by security-related hiring delays. The program had significant difficulty recruiting and hiring personnel because of the high-risk security environment in which it operated. As a result, over a third of program positions remained vacant almost 2 years after the program started.

USAID programs also continue to face shortcomings in the quality of data. USAID policy emphasizes the need for good data to form the basis for sound programming decisions. However, our [review](#) of results reported for the distribution of wheat seed and fertilizer in Afghanistan identified irregularities in the supporting records and deficiencies in the methodology used to calculate the activity's assessed impact. The actual results achieved under this activity and its impact on Afghan farmers were thus difficult to assess.

Security constraints, contract and project management difficulties, and data quality issues have characterized USAID's efforts in Iraq and

Afghanistan. We have noted security constraints in 61 percent of the 82 performance audits we completed since 2003. We reported contract and project management difficulties in 45 percent of our audits conducted in this period and data quality issues in 20 percent.

Although we have not observed any clear trends upward or downward in the prevalence of security and data issues, reports of contract and program management deficiencies have increased steadily. Fewer than a third of our fiscal year (FY) 2003 and 2004 performance audits noted contract and program management deficiencies, but more than two-thirds of our FY 2009 and 2010 reports highlighted shortcomings in these areas.

Project sustainability issues have also emerged more frequently in recent assessments. We did not observe any serious sustainability issues in USAID's work in Iraq and Afghanistan until FY 2005. Since that time, our performance audits have noted sustainability issues more and more often, and about one in five of our FY 2009 and 2010 reports now notes these issues. For instance, a recent [audit](#) of USAID efforts in Afghanistan noted that the Agency had not done enough to prepare Afghan officials to manage a data center with information on development projects for which they are expected to assume responsibility in the future. Without increased attention

to this issue, the estimated \$3.9 million investment in the data center and the information in its database could be lost.

These and other performance issues contribute to an operating environment that places U.S. Government funds at heightened risk of waste, fraud, and abuse. We cannot measure the full extent of waste, fraud, and abuse in Iraq and Afghanistan but can provide information on what we have found. From 2003 to the present, we have submitted \$4.9 billion of the \$17 billion USAID has obligated in Iraq and Afghanistan to in-country financial audits. These audits questioned \$282 million in costs, or approximately 6 percent of the total audited. Over that period, we identified an additional \$166 million in waste, fraud, and abuse in USAID's Iraq and Afghanistan program portfolio in the form of investigative savings and recoveries.

Last year, the amount of waste, fraud, and abuse that we identified increased. Thus far, our FY 2009 investigative leads and referrals have led to \$101 million in investigative savings and recoveries—more than all of our leads and referrals from FY 2003 to 2008 combined. A similar pattern emerged with our audits, as the percentage of questioned costs arising from in-country financial audits increased in FY 2009. This increase in observed waste, fraud, and abuse is primarily associated with a small number of

contracts with a few firms, but some of it may result from the growing prevalence of contract and program management issues we have witnessed during our performance audits.

We have been working with USAID to respond to these issues and combat conditions in which waste, fraud, and abuse can proliferate without detection. To that end, in March 2010, we provided a [report](#) to the new Administrator on the Agency's management and performance challenges that highlighted difficulties in Iraq and Afghanistan. Since 2003, we have also provided 75 fraud awareness briefings to more than 1,500 USAID employees, contractors, and subrecipients.

USAID and other U.S. Government agencies active in development work can reduce contracting waste, fraud, and abuse in the short term by improving the contracting instruments they use. USAID contracting instruments have too often placed incentives on the number of tasks completed rather than the ultimate results they deliver. Also, most USAID contracts are negotiated on a cost-reimbursable basis, in which USAID, rather than the contractor, bears the cost risk. Excessive reliance on these types of contracts creates a risk that taxpayer funds will be spent on contracts that are wasteful or inefficient or that otherwise fail to serve the needs of the Federal Government. USAID can improve accountability by

structuring future contracts to hold contractors accountable for specific deliverables that support development aims.

In addition to USAID's ability to address the aforementioned issues, the Agency's success in conflict zones over the coming year will be shaped by its responses to two noteworthy challenges. First, at present, USAID does not have a sufficient number of qualified personnel on the ground to properly monitor its development projects in Iraq and Afghanistan. USAID's ability to field experienced personnel in the coming months and provide them with the training, facilities, and support they need to do their jobs will have major implications for the success of future development initiatives. While ensuring that it has appropriate personnel in place, USAID must also overcome the problems associated with frequent turnover of staff by establishing and maintaining systems and processes for retaining and transmitting institutional knowledge.

Second, the U.S. Government must develop an approach to building host country capacity that balances the imperative for local engagement in the development process with effective stewardship of taxpayer dollars. As part of the U.S. Government's commitment to Paris Declaration principles, USAID is channeling increasing levels of development funding directly to foreign governments. By leading the resulting development projects, a host

government can shape more development activities, promote project sustainability, and build public confidence in the government's ability to deliver programs that improve the welfare of the people. However, many of these governments are still developing the capacity to manage projects and monitor and account for associated resources. This places Federal dollars at greater risk of waste, fraud, and abuse. OIG has systems in place to provide audit coverage of U.S. and foreign grantees and contractors but is limited in its oversight of funds provided as direct budget support to foreign government entities. Accordingly, USAID must develop robust alternatives for ensuring that these funds are expended as planned and that they contribute to development objectives.

Systems for Addressing Waste, Fraud, and Abuse

We believe that we have instituted effective systems for detecting, investigating, and prosecuting waste, fraud, and abuse in Iraq and Afghanistan. Our strong onsite presence and outreach work in these countries promote fraud awareness and help to serve as a deterrent. We have executed a comprehensive plan of program audits on USAID's

performance, performed financial audits of contractors and grantees, and conducted proactive and reactive investigations.

Our success in establishing these oversight activities has not been without difficulty. The process of recruiting, hiring, clearing, and training new personnel has been time and resource intensive. Given the size of our organization, limited pool of Foreign Service personnel, and current 1-year tours to Iraq and Afghanistan, we have limited flexibility in assigning and deploying personnel to these posts. Travel restrictions and security concerns sometimes limit our ability to conduct routine audit and investigative work. Living and working conditions for our personnel in Afghanistan are cramped.

Although they are faced with a very difficult working environment, our staff has made major strides in combating fraud. Recent audits have identified instances of potential fraud involving fictitious invoices, cost manipulation, and other improper billing practices; falsification of employee timesheets; and anomalies in signatures and fingerprints submitted as evidence of payments to beneficiaries. Our investigative efforts have yielded impressive results as well. An OIG investigation of a conspiracy to sell privileged information led to two arrests and the cancellation of a \$62 million security subcontract. Meanwhile, an investigation into a scheme

to obtain reimbursement for inflated expenses for rental vehicles, fuel, and security personnel led to \$24 million in savings and the indefinite suspension of the company and associated personnel from doing business with the U.S. Government.

Our oversight in Iraq and Afghanistan is our top priority, and we will continue to engage in a high level of activity there. As I mentioned earlier, we are increasing our presence in Afghanistan, and we continue to seek additional qualified personnel with relevant language skills and cultural knowledge. Given the volume of civil and criminal allegations that we have been receiving, we will look to expand our investigative presence in Afghanistan further in the coming years. In the meantime, we would benefit by sharing in some of the human capital flexibilities enjoyed by other organizations operating in these areas, such as the direct authority to bring aboard personal services contractors and waive compensation restrictions on reemployed annuitants.

For its part, USAID has recently taken noteworthy steps to reduce risks to Federal funds. USAID has committed to double the size of its Foreign Service by 2012 through the Development Leadership Initiative. The 200 additional Foreign Service officers it plans to hire in FY 2011 will help expand the number of personnel it can draw from to strengthen its

presence in Iraq and Afghanistan. In February 2010, USAID established a Board for Acquisition and Assistance Review consisting of senior Agency officials to review a subset of proposed awards including indefinite quantity contracts, sole-source contracts, and other awards with limited competition. The Board provides guidance on whether to restructure these proposed awards to enhance competition, increase transparency, and expand opportunities for small organizations and for women and minorities. In May 2010, USAID also formed a procurement reform group to examine ways to broaden USAID's partner base and improve the design and delivery of foreign assistance through contracts and grants.

Nevertheless, USAID and other Federal agencies can do more to prevent waste, fraud, and abuse by increasing their attention to poorly performing contractors. Agencies can respond to serious performance problems by suspending or debarring them from receiving future grants and contracts. Unfortunately, there is substantial evidence that these exclusions are applied on a limited and uneven basis. In recent years, five inspectors general and the Government Accountability Office have reported on suspension and debarment deficiencies across the U.S. Government. I regret to say that USAID's suspension and debarment performance has been no exception. In September 2009, we [reported](#) that USAID had not considered

all of the types of cases it should have for possible suspension and debarment action. We also found that the Agency had not properly implemented its suspension and debarment decisions. For example, USAID did not consistently enter debarred firms into the Government-wide system for tracking entities excluded from receiving Federal awards. Moreover, we learned that USAID could not establish that it had performed required checks on prospective contractors to ensure that they were not barred from future Federal awards. Fortunately, we found no instances in which USAID had provided funds to excluded parties.

Future Contingency Operations

Contingency operations have become a feature of our international engagement in recent years. The Special Inspector General for Iraq Reconstruction (SIGIR) recently suggested that Congress establish a U.S. Office for Contingency Operations (USOCO) to plan and execute the subset of civil-military operations that occur in conflict zones. Although interagency coordination and management of these operations could be improved, creating an additional layer of bureaucracy of this kind may not be the best way to effect these improvements. Historically, the subset of

operations that a USOCO would manage has represented a small fraction of the overall foreign assistance enterprise. Stabilization and reconstruction operations are associated with significant levels of spending but have accounted for only six percent of total U.S. foreign assistance between 1946 and 2008. Moreover, it is unclear that a USOCO would consistently serve a meaningful purpose. According to information in SIGIR's report on applying lessons from Iraq, there were no stabilization and reconstruction operations during 30 of the past 60 years.

There are many possible solutions to challenges in the coordination and management of contingency operations. Some existing approaches could help improve future coordination and management and other solutions may emerge from ongoing policy discussions. If these efforts do not succeed, we should then explore other options.

With regard to oversight of contingency operations, we believe that the statutory inspectors general already in place can respond effectively to future contingency operations within their respective areas of responsibility. We see no need to establish a Special Inspector General for Overseas Contingency Operations, because the inspectors general for the Departments of State and Defense, USAID, and other agencies serving abroad can provide the necessary oversight. Each of our organizations has unmatched

knowledge of and experience working with the organizations that we oversee. We have reported on the lessons from previous contingency operations and bring an understanding of these lessons with us as we assess the progress of new contingencies that arise. For instance, to help USAID guard against waste, fraud, and abuse in Haiti following the January 2010 earthquake, we published a [report](#) with examples of issues that we had observed in past humanitarian assistance efforts and suggestions for improving their implementation in the future.

Following Hurricane Katrina, the inspector general community rallied to provide coordinated oversight across 13 Federal departments and agencies. USAID OIG likewise applies its institutional knowledge and expertise in coordination with other organizations to ensure comprehensive oversight coverage in conflict settings. We engage in joint forums to share information and harmonize our plans and activities. We participate in the Southwest Asia Joint Planning Group and chair the Afghanistan-Pakistan Subgroup, which acts as the central point for sharing information and coordinating planned audits, reviews, and inspections. Working with the Office of the Special Representative for Afghanistan and Pakistan, we recently issued a multiagency quarterly report delineating the oversight efforts of the three offices of inspector general operating in Pakistan. We

also participate in the National Procurement Fraud Task Force, assist the Department of Justice in addressing procurement and grant fraud, and conduct joint investigations in Iraq and Afghanistan. These valuable exchanges promote a concerted and thorough approach to combating waste, fraud, and abuse.

I thank you for this opportunity to address the Commission and 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.

Introduction

Background. The goals of U.S. assistance to Iraq are to help the Iraqi Government improve delivery of critical services; build strong political and civil society institutions; expand economic reforms; bolster Iraq's private sector economy; implement key measures to decrease sectarian and ethnic violence; strengthen the foundation for rule of law and human rights; and transfer power and autonomy to regions, provinces, and local municipalities.

USAID obligations in Iraq for fiscal years (FY) 2002 through the first half of FY 2010 totaled more than \$7.6 billion. OIG has obligated more than \$19 million from FY 2003 through the first half of FY 2010 in base appropriations and supplemental funding to provide oversight to USAID activities in Iraq.

Performance Audits. Our recent performance audits in Iraq have noted the mission's success in completing intended activities, performing timely reporting, and effectively complying with congressional and USAID requirements in a number of instances. OIG's performance audit work in Iraq has also indicated that security conditions have either hindered program accomplishment or had the potential to create implementation problems. Of the 50 performance audits and memorandums issued to date, the majority cited concerns about security conditions. Our audits also identified trends in inadequate contract oversight or activities management (34 percent), shortcomings in adherence to contract procedures (22 percent), and internal controls that needed improvement (20 percent). The chart beginning on page 7 reflects the findings and recommendations of each of these audits. Starting on page 55 are narrative summaries of the audits, arranged by fiscal year.

Financial Audits. By Federal law (31 U.S.C. chapter 75), nonfederal entities that expend \$500,000 or more in Federal awards annually are required to have audits conducted in accordance with Office of Management and Budget (OMB) Circular A-133. OMB's requirement applies to audits of States, local governments, and nonprofit organizations based in the United States, and audits conducted pursuant to Circular A-133 are sometimes referred to as "nonfederal audits."

USAID requires nonprofit organizations not based in the United States who expend \$300,000 or more in Federal funds per year to undergo an annual financial audit. These audits follow the rules and procedures contained in the USAID-produced *Guidelines for Financial Audits Contracted by Foreign Recipients* (generally called recipient-contracted audits).

Firms selected to perform nonfederal audits and recipient-contracted audits must be approved by OIG, which then reviews the audits, summarizes the findings and recommendations, and performs quality-control reviews on a limited basis.

The agency-contracted audit (ACA) program is implemented by USAID on its for-profit implementing partners. Financial audits conducted under this program accomplish numerous goals, such as improving accountability and internal control over funds and commodities and ensuring compliance with agreements and applicable laws and regulations. USAID normally requests an ACA to provide needed audit coverage or to address real or perceived problems in financial management.

ACAs are usually performed by independent public accounting firms located in the United States but which have overseas affiliates. USAID contracts to have ACA audits conducted, but OIG approves the statement of work used to procure the audit services, monitors the audits, reviews the audit reports, summarizes the findings and recommendations, and performs quality-control reviews on a limited basis. OIG may also initiate an ACA to address problems concerning a contract, grant, or cooperative agreement, and it may enlist the services of the Defense Contract Audit Agency (DCAA) to conduct incurred audits on for-profit entities that are not based in the United States. However, DCAA performs all financial audits on U.S.-based, for-profit entities.¹

Financial audits performed on USAID's implementing partners in Iraq are reflected in the chart on page 39. Questioned costs are those costs determined by an audit to not be allowable (e.g., liquor charges billed to USAID), allocable (e.g., charges that cannot be tied to a specific contract, grant, or cooperative agreement), or reasonable (e.g., charges for 25 computers for a staff of 10). USAID and the implementer work to resolve questioned costs, but when resolutions are unattainable the audit sustains the costs and USAID seeks reimbursement from the implementer.

Investigations. OIG's investigative goals are to eliminate fraud in contracts, grants, and cooperative agreements and to prevent serious misconduct by USAID employees. To accomplish these goals, special agents conduct investigations into possible violations of Federal laws, rules, and regulations. If agents uncover probable cause to believe a criminal or civil crime has occurred, they consult with the Department of Justice to determine its interest in pursuing the matter. Investigative findings on administrative matters are referred to Agency management for action. Special agents also conduct fraud awareness briefings to alert participants (employees, contractors, grantees) to fraudulent practices and schemes and to provide guidance on how to report fraud if it is encountered. The chart on page 147 summarizes OIG's investigative work involving Iraq.

¹ DCAA may also be called upon to conduct audits on nonprofit entities to address concerns over noncompliance or problems with financial management.

Afghanistan

Introduction

Background. When the Taliban was forced out of power in 2001, half of Afghanistan’s 31 million people were left in absolute poverty. To rebuild the country and combat terrorism, USAID is working to create economic growth, effective and representative governance, and the human capital base needed to eliminate the conditions that breed extremism.

USAID obligations in Afghanistan for FY 2002 through midyear FY 2010 totaled more than \$9.4 billion, and OIG has provided oversight of these funds since 2002. OIG has historically provided oversight of Afghanistan from its regional office in Manila, but it now has 5 staff members located directly in Kabul and intends to increase its footprint in Afghanistan to 14 positions (including Foreign Service National staff) by the end of FY 2010. Since FY 2003, OIG has expended over \$7.7 million in base appropriations and supplemental funding to oversee USAID’s activities in Afghanistan.

Results—FY 2003 to FY 2010

Activities	Afghanistan
Performance audits/reviews	32
Recommendations made ¹	118
Recommendations closed	101
Recommendations open	14
Financial audits conducted	32
Questioned costs sustained	\$97.8 million
Investigations opened	54
Investigations closed	33
Investigations pending	21
Referrals for prosecution	16
Indictments	8
Convictions	5
Arrests	10
Administrative actions	9
Recoveries and savings	\$149 million
Fraud awareness briefings	18
Attendees at briefings	483

Performance Audits. OIG’s performance audit work in Afghanistan has shown that security conditions have been a primary concern and have hindered program implementation. Of 31 audits conducted to date, 71 percent cited security conditions as a concern. Our performance audit recommendations have also identified inadequacies in the following areas:

¹ Performance audits only.

- Contract oversight or activities management (65 percent)
- Data integrity or quality (23 percent)
- Contractor performance (19 percent)

In several instances, USAID/Afghanistan’s agricultural programs have demonstrated positive results. In its first year of implementation, the Agriculture, Rural Investment and Enterprise Strengthening Program met or exceeded most of its goals. In addition, USAID/Afghanistan’s Alternative Livelihoods Program in the Eastern Region achieved significant results for the majority of its performance indicators.

See page 45 for a chart listing each of our 31 Afghanistan performance audits’ findings and recommendations. This chart shows the status of all of our 115 recommendations. Narrative summaries of the audits, arranged by fiscal year, are provided beginning on page 87.

Financial Audits. By Federal law (31 U.S.C. chapter 75), nonfederal entities that expend \$500,000 or more in Federal awards annually are required to have audits conducted in accordance with Office of Management and Budget (OMB) Circular A–133. OMB’s requirement applies to audits of States, local governments, and nonprofit organizations based in the United States. Audits conducted pursuant to Circular A–133 are sometimes referred to as “nonfederal audits.”

USAID requires nonprofit organizations not based in the United States who expend \$300,000 or more in Federal funds per year to undergo an annual financial audit. These audits follow the rules and procedures contained in the USAID-produced *Guidelines for Financial Audits Contracted by Foreign Recipients*. These audits are generally called recipient-contracted audits.

Firms selected to perform nonfederal audits and recipient-contracted audits must be approved by OIG, which then reviews the audits, summarizes the findings and recommendations, and performs quality-control reviews on a limited basis.

The agency-contracted audit (ACA) program is implemented by USAID on its for-profit implementing partners. Financial audits conducted under this program accomplish many goals, such as improving accountability and internal control over funds and commodities and ensuring compliance with agreements and applicable laws and regulations. USAID normally requests an ACA to provide needed audit coverage or to address real or perceived problems in financial management.

ACAs are usually performed by independent public accounting firms located in the United States but which have overseas affiliates. USAID contracts to have ACAs conducted, but OIG approves the statement of work used to procure the audit services, monitors the audits, reviews the audit reports, summarizes the findings and recommendations, and performs quality-control reviews on a limited basis. OIG may also initiate an ACA to address problems concerning a contract, grant, or cooperative agreement, and it may enlist

the services of the Defense Contract Audit Agency (DCAA) to conduct incurred audits on for-profit entities that are not based in the United States. However, DCAA performs all financial audits on for-profit entities based in the United States.²

Financial audits performed on USAID's implementing partners in Afghanistan are reflected in the chart beginning on page 73. "Questioned costs" are costs determined by an audit to be not allowable (e.g., liquor charges billed to USAID), allocable (e.g., charges that cannot be tied to a specific contract, grant, or cooperative agreement), or reasonable (e.g., charges for 25 computers for a staff of 10). USAID and the implementer work to resolve questioned costs, but when resolutions are unattainable the costs become sustained (by the audit), and USAID seeks reimbursement from the implementer.

Investigations. OIG's investigative activities seek to eliminate fraud in contracts, grants, and cooperative agreements and to prevent serious misconduct by USAID employees. To accomplish these goals, special agents conduct investigations into possible violations of Federal laws, rules, and regulations. If agents uncover probable cause to believe a criminal or civil crime has occurred, they consult with the Department of Justice to determine its interest in pursuing the matter. Investigative findings on administrative matters are referred to Agency management for action. Special agents also conduct fraud awareness briefings to alert participants (employees, contractors, and grantees) to fraudulent practices and schemes and to provide guidance on how to report fraud if it is encountered. See page 167 for data on investigative case work and fraud prevention briefings and page 171 for summaries of investigations.

² DCAA may also be called upon to conduct audits on nonprofit entities to address concerns over noncompliance or problems with financial management.

Executive Summary

Overview

The Office of Inspector General (OIG) has been providing oversight of U.S. Agency for International Development (USAID) activities in Iraq since April 2003. Our work has paralleled the evolution of USAID's programs from relief and stabilization to reconstruction to sustainable development. OIG's activities help USAID make sure that tax dollars are being spent wisely and effectively.

Trends

Our recent performance audits in Iraq have noted USAID's success in completing intended activities, performing timely reporting, and effectively complying with congressional and Agency requirements in a number of instances. OIG's performance audit work in Iraq has also indicated that security conditions have either hindered program accomplishment or had the potential to create implementation problems. Of the 50 performance audits and memorandums issued to date, the majority cited concerns about security conditions. Our audits also identified trends in inadequate contract oversight or activities management (34 percent), shortcomings in adherence to contract procedures (22 percent), and internal controls that needed improvement (20 percent).

Results—Fiscal Year 2003 to Fiscal Year 2010

Activities	Results
Performance audits/reviews	50
Recommendations made ¹	145
Recommendations closed	134
Recommendations open	11
Financial audits conducted	138
Questioned costs sustained	\$107.1 million
Investigations opened	73
Investigations closed	57
Investigations pending	16
Referrals for prosecution	16
Indictments	1
Convictions	1
Arrests	10
Administrative actions	8
Recoveries and savings	\$16.9 million
Fraud awareness briefings	57
Attendees at briefings	1045

¹ Performance audits and reviews only.

Highlight—FY 2010 Second Quarter

Audit of USAID's Internally Displaced Persons Activities in Iraq Reveals Program Oversight Issues and Indicators of Possible Fraud

In recent years, violence in Iraq led to the most significant wave of displacement in the country's history, bringing the total number of internally displaced people to more than 2.8 million by late 2007. USAID's Office of Foreign Disaster Assistance (OFDA) provided emergency assistance to help these internally displaced persons meet their basic needs. Our [audit](#) examined eight awards with a value of \$115 million implemented by three organizations during fiscal years 2007 and 2008 for emergency activities that focused on increasing income generation and providing safe drinking water, sanitation facilities, primary health care, protection and shelter, and emergency food and nonfood items.

We found that OFDA's emergency activities had saved lives, alleviated human suffering, and reduced the social and economic impact of humanitarian emergencies, and we noted that OFDA's partners had completed 90 percent of planned activities. However, we also observed several significant issues. We found significant anomalies in signatures and fingerprints submitted as evidence of payments to beneficiaries. In one case, the same five fingerprints were repeated 436 times to seem as if 436 different individuals had received services. Two other activities also contained suspiciously similar fingerprints, and another had signature-related irregularities. As a result, we questioned \$766,490 in incurred costs and referred the matters to our Office of Investigations.

The program was also characterized by other kinds of overstatements about the number of service beneficiaries. OFDA's partners reported 33.7 million beneficiaries, but this figure overstated the population of Iraq by 3 million individuals. In one case, 262,482 individuals reportedly benefited from the purchase of medical supplies meant to treat only 100 victims of a specific attack.

Auditors concluded that OFDA personnel extended five of seven awards beyond existing award completion dates even though they lacked the authority to do so. After receiving these unauthorized award extensions, the implementing partners incurred \$10 million in additional costs. These unauthorized commitments occurred because OFDA had not taken action to promptly address a prior OIG audit recommendation to formally designate individuals authorized to manage the awards.

Our report makes 12 recommendations to address the above issues.