

**U.S. DIRECT ASSISTANCE IN AFGHANISTAN:
ENSURING TRANSPARENCY AND ACCOUNTABILITY**

HEARING

BEFORE THE
SUBCOMMITTEE ON NATIONAL SECURITY
OF THE
COMMITTEE ON OVERSIGHT
AND GOVERNMENT REFORM
HOUSE OF REPRESENTATIVES
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**U.S. DIRECT ASSISTANCE IN AFGHANISTAN:
ENSURING TRANSPARENCY AND ACCOUNT-
ABILITY**

Wednesday, February 13, 2013,

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON NATIONAL SECURITY, HOMELAND
DEFENSE AND FOREIGN OPERATIONS,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, D.C.

The subcommittee met, pursuant to call, at 12:59 p.m., in Room 2154, Rayburn House Office Building, Hon. Jason Chaffetz [chairman of the subcommittee] presiding.

Present: Representatives Chaffetz, Mica, Duncan, Gowdy, Woodall, Bentivolio, and Tierney.

Staff Present: Alexia Ardolina, Majority Assistant Clerk; Brien A. Beattie, Majority Professional Staff Member; Molly Boyd, Majority Parliamentarian; Caitlin Carroll, Majority Deputy Press Secretary; John Cuaderes, Majority Deputy Staff Director; Adam P. Fromm, Majority Director of Member Services and Committee Operations; Linda Good, Majority Chief Clerk; Michael R. Kiko, Majority Staff Assistant; Mitchell S. Kominsky, Majority Counsel; Mark D. Marin, Majority Director of Oversight; Scott Schmidt, Majority Deputy Director of Digital Strategy; Devon Hill, Minority Research Assistant; Peter Kenny, Minority Counsel; Rory Sheehan, Minority New Media Press Secretary.

Mr. CHAFFETZ. The subcommittee will come to order.

I would like to begin this hearing by stating the Oversight Committee's mission statement. We exist to secure two fundamental principles. First, Americans have a right to know that the money Washington takes from them is well spent and, second, Americans deserve an efficient, effective government that works for them. Our duty on the Oversight and Government Reform Committee is to protect these rights.

Our solemn responsibility is to hold government accountable to taxpayers, because taxpayers have a right to know what they get from their government. We will work tirelessly in partnership with citizen watchdogs to deliver the facts to the American people and bring genuine reform to the Federal bureaucracy. This is the mission of the Oversight and Government Reform Committee.

I want to welcome everybody here this morning for today's hearing, which is entitled U.S. Direct Assistance in Afghanistan: Ensuring Transparency and Accountability. I would like to welcome Ranking Member Tierney, members of the Subcommittee and

members of the audience to the Subcommittee's first hearing of the 113th. I look forward to working with everyone during this Congress.

Today's proceedings continue the Subcommittee on National Security's oversight of approximately 100 billion of U.S. taxpayer dollars spent in support of reconstruction efforts in Afghanistan. A few weeks ago, the Special Inspector General for Afghan Reconstruction, also known as SIGAR, released a report entitled "Afghan National Army: Controls over Fuel for Vehicles, Generators and Power Plants Need Strengthening to Prevent Waste, Fraud and Abuse." This report provided the Secretary of Defense with an update in SIGAR's continuing audit of the Afghan National Army's logistics capability for petroleum, oil and lubricants, also known as POL.

From fiscal years 2007 to 2012, the Department of Defense has provided approximately \$1.1 billion in funding to purchase petroleum, oil and lubricants for the Afghan National Army. In fiscal year 2013, the U.S. Government will purchase roughly \$343 million more in POL. However, the SIGAR has found the Department of Defense does not have accurate support information on how much U.S. funding is in fact needed for ANA fuel, where and how the fuel is actually used and how much fuel has been lost or stolen.

Despite the lack of records and justification for fuel purposes, the Department of Defense proposes an increase in funding for POL. From fiscal year 2014 to fiscal year 2018, the Department of Defense plans to provide \$2.8 billion, or roughly \$555 million worth of POL per year. But instead of the Department of Defense purchasing the fuel for the Afghan National Army, this administration plans to give one-third of that, or roughly \$1 billion, directly to the Afghan government.

Many similar direct assistance efforts in Afghanistan by the United States Government, both previous and ongoing, have resulted in rampant waste, fraud and abuse, and even tragedy. For example, during the 112th Congress, this subcommittee held a hearing to examine the mismanagement, theft and human suffering at the Dawood National Military Hospital in Afghanistan. For years, Afghan officials pilfered nearly \$175 million in cash and medical supplies. Legitimate pharmaceuticals were replaced with counterfeits, and wounded Afghan soldiers were made to suffer and in some cases died without proper medical care. This was a U.S. taxpayer-funded program operated by the Afghan government.

Direct assistance from the United States to Afghanistan comes from both the Department of Defense and the United States Agency for International Development, also known as USAID. USAID has embarked on an effort to significantly boost the amount of funding that goes directly to foreign governments and non-U.S. organizations. The agency's stated objective is to "strengthen the local actors and institutions that are ultimately responsible for transforming their countries."

Without the necessary planning and safeguards, programs like those envisioned in USAID forward all too often result in funneling grants directly to unaccountable and often corrupt foreign governments. For instance, in Afghanistan, following a 2010 agreement with international donors, U.S. direct assistance, most of it from USAID, tripled from \$665 million in 2009 to \$2 billion in 2010. Yet

the United States Government Accountability office has identified a variety of severe weaknesses in accountability measures for those funds.

Meanwhile, we have a number of reports detailing unbridled corruption in Afghanistan. In one such case, the New York Times recently reported that the Kabul Bank, one of the largest commercial banks created in the wake of the Taliban, lost an estimated \$900 million to fraud and highly questionable lending practices. Despite those known challenges, since February 2012, as Mr. Sopko's written statement points out, the "United States was dispersing more than 40 percent of its aid funds to the Afghan government in the form of direct assistance."

We continue to provide direct assistance worth billions of dollars to one of the most corrupt nations in existence, with little or no effort to ensure transparency or proper accountability measures. This has broad implications, too. The limited accountability of POL import controls increases the risk that U.S. taxpayer-funded fuel purchases are violating the U.S. economic sanctions with Iran.

The American taxpayer deserves better. In the State of the Union last night, the President announced the upcoming withdrawal of 34,000 troops from Afghanistan. With removal of U.S. troops approaching, it becomes even more imperative that we implement better accountability measures for U.S. funding that is headed directly to the Afghan government.

Mr. Sopko, you recently noted, referring to your visiting reconstruction projects in Afghanistan that "Even in Kabul, we cannot get the protection we need." You also mentioned, "Reconstruction projects exist with no U.S. oversight."

Today I would like your testimony to also focus on the withdrawal of troops that will affect the oversight of reconstruction efforts in Afghanistan as it relates to U.S. direct assistance. I would also like to thank you and your staff for this report that you issue on a regular basis. But this one in particular, the January 30th SIGAR report, the quarterly report, is full of a lot of great information. I hope it doesn't simply go up on the shelf. I can't thank you enough for it. I have gone through every page of this. It is great material. I appreciate the effort that you and your staff have put into this and look forward to a good, candid discussion today. I thank the members for being here.

I would now like to recognize the distinguished ranking member, the gentleman from Massachusetts, Mr. Tierney, for his opening statement.

Mr. TIERNEY. Thank you, Mr. Chairman, and thank you, Mr. Sopko, for again joining us here today, and your staff for the work that they do as well.

I want to take a moment to recognize, we have some new members on this side of the aisle on the subcommittee, and welcome them and hope that they participate in a rigorous manner for the work that is being done.

As chairman of the subcommittee in the 111th Congress, we acted on a bipartisan basis, we investigated a number of different issues on there, one being the United States Army's multi-billion dollar host nation trucking program in Afghanistan. We uncovered the contractors who were making protection payments to our en-

emies, using U.S. taxpayer funds to do so. We investigated the lack of oversight and the potential corruption in jet fuel contracts in Kurdistan.

During the last Congress, Chairman Chaffetz continued the tradition by examining mismanagement and waste in Iraq and Afghanistan and the transition to a civilian-led mission in Iraq. Continuing our work from the last Congress, both the chairman and I are leading a bipartisan investigation into a multi-billion dollar food contract in Afghanistan that led the government to demand more than \$750 million in overpayments over five and a half years of failed negotiations.

So going forward, I look forward to working with members on both sides of the aisle on oversight investigations into these and other important matters. Mr. Sopko, your group's work on that is going to be very informative and helpful to us on that.

So this is our first hearing on oversight in this Subcommittee this year. Sadly, our hearing concerns an all too familiar topic of the continuing challenges to adequate oversight of our assistance programs in Afghanistan. Since 2005, Congress has appropriated more than \$50 billion to train, equip and sustain Afghan national security forces. As we will hear today, training and equipment missions continue to lack proper oversight. This is not a case of only exposing taxpayer funds to the risk of loss, but can exacerbate the likelihood of mission failure by fanning the flames of corruption in Afghan insurgencies.

These risks become heightened as the military continue its withdrawal, reducing both its management and oversight expertise on the ground and the security that is provided to the United States Government personnel that evaluate and monitor programs and projects in the field. So we will talk a little bit about that, I think, before the hearing is over.

I welcome the opportunity to discuss the challenges that face our reconstruction efforts and the current plans to increase direct assistance to the Afghan government with the Special Inspector General John Sopko. During Mr. Sopko's tenure as SIGAR, he has already appeared before this Committee twice. As I said, we appreciate your being here again. Apparently this will be a regular routine, you can schedule us in.

Last month, the Special Inspector General released its final report on the Afghan army's fuel logistics that confirmed what we had long suspected, that the United States lacks oversight and accountability for over more than a billion dollars in fuel that it has provided to the Afghan army over the last five years. The final report highlights the lack of complete and accurate records of fuel purchased, delivered and consumed.

Today, the United States military cannot provide nearly a year's worth of fuel records and cannot account for fuel lost to spillage or theft. Meanwhile, the lack of complete and accurate data means that the United States military cannot justify or support its current estimate that \$3 billion will be required to fund purchases for the Afghan army over the next six years. They can't do that, because they do not have complete consumption data to show what the Afghans actually use or need.

Last, I continue to have concerns over the military's plans, at least until last month, to transfer direct control for the fuel logistics system to the Afghan government. That would have provided them with a virtual blank check without any assurance whatsoever that they would have the capacity to manage and account for the fuel.

On the eve of our last hearing on this topic, the Defense Department decided that it would reduce the amount of on-budget assistance to the Afghan government. Just last month, the Defense Department decided that it would release these funds incrementally. While these are welcome steps, I am still concerned that they don't go far enough and they will be ineffective in holding the Afghan government accountable.

In the next six years, the United States taxpayer will cut a check for more than \$1 billion directly to the Afghan government without tested and proven mechanisms to ensure that that government will be a responsible steward of that money. To prevent this undisciplined spending, last month Chairman Chaffetz and I introduced bipartisan legislation that would prevent any more money or fuel from flowing until strict accountability and oversight measures are put in place.

I welcome the Chairman's attention to this matter and look forward to working with him to continue protecting taxpayer funds and reducing waste, fraud and abuse. I thank you, Mr. Chairman, and look forward to today's hearing.

Mr. CHAFFETZ. I thank the Ranking Member, Mr. Tierney. He is passionate about this issue and I appreciate working with him in a bipartisan way on this.

Now I would like to recognize the gentleman from Florida, Mr. Mica.

Mr. MICA. Thank you. I want to take just a second to express my appreciation to you, Mr. Chairman, and also the ranking member, for holding this hearing.

This appears to be just the tip of the iceberg in waste and incredible abuse of taxpayer funds. I don't propose or claim to be an expert on Afghanistan. I visited last year and I was really stunned by the open commentary, both from Afghani officials and also our military on the ground who told me of the waste, fraud and abuse. It is blatant. They pointed out things that they were paying four and five times the market value for.

I looked at the budget and I had a copy of the Afghan budget. I guess their budget is \$3.96 billion. The Chairman said we poured \$100 billion in here in aid. This is just one small area we are looking at, Mr. Chairman, this committee, of incredible waste, lack of documentation. Afghanistan is turning into a huge black hole for the American taxpayers, and almost a bottomless pit of expenditures. I think someone has to first expose this, which I think we are doing, and then call a halt to it.

The theft, the overcharging, the waste, I think we have to somehow apply the brakes to this and bring some accountability to bear. I really appreciate the efforts of the Chairman to focus on one detail. When I was there, they told me we had \$5 billion in USAID assistance. And then we paid most of the UN's additional, about \$5 billion. I just checked and they received \$15.7 billion between 2010

and 2011, \$15.7 billion, in a country whose entire budget is only \$3.9 billion.

Then you heard the Chairman also cite the money going through the primary banking, the capital, like a sieve. Again, I think the United States' days of financing this fiasco have to be brought to a halt. I appreciate your again calling attention to it in the form of this hearing. I look forward to the Special Inspector General's report.

Thank you, and I yield back.

Mr. CHAFFETZ. I thank the gentleman and now recognize the gentleman from Tennessee, Mr. Duncan.

Mr. DUNCAN. Thank you very much, Mr. Chairman, for calling this very important hearing. I would like to say that I appreciate the work that I read about that our witness, Mr. Sopko, has been doing.

A few days ago, I read this story in the Washington Examiner which you mentioned, Mr. Chairman, that the United States has spent more than \$51 billion to help Afghanistan feed, clothe, arm and house the national security force. But the Special Inspector General for Afghanistan Reconstruction said Monday that Washington doesn't even know the size of the Afghan force it is paying for. And in a shocking statement, the IG, John Sopko, said that the numbers the U.S. is relying on from Afghan officials could be a sham, resulting in billions of dollars in waste.

I remember about a year or so ago, President Karzai telling the ABC national news that he thought the United States should have a significant presence in Afghanistan for at least another 15 or 20 more years. What he really wants is our money gravy train. I send out a very detailed newsletter to my district on a regular basis, and I mentioned in a brief way this Afghan fuel thing that we are supposed to talk about today. I tell about the \$1.1 billion, and how the Inspector General said there is no proof the fuel is being used for the Army's mission and it is unknown how much has been lost, stolen or diverted to the insurgency.

Mr. Sopko's report said this program needs immediate attention before being turned over and scheduled to Afghan officers. I sometimes wonder if there are any fiscal conservatives at the Defense Department, the way the money is being wasted. I think fiscal conservatives should be the ones most horrified by all the waste that has gone on in both Afghanistan and Iraq. I for one think we should have been out of Afghanistan a long time ago. But I certainly appreciate the efforts of this Committee to try to stay on top of this.

Thank you very much, Mr. Chairman.

Mr. CHAFFETZ. I thank the gentleman.

Do any other members wish to make an opening statement?

Otherwise, we will introduce our witness.

Members will have seven days to submit opening statements for the record. We will now introduce Mr. Sopko, who is the Special Inspector General for Afghan Reconstruction. Mr. Sopko, we appreciate your being here today.

Pursuant to committee rules, all witnesses will be sworn in before they testify. If you will please rise and raise your right hand.

Do you solemnly swear or affirm that the testimony you are about to give will be the truth, the whole truth and nothing but the truth?

Mr. SOPKO. I do.

Mr. CHAFFETZ. Thank you. Let the record reflect that the witness answered in the affirmative.

We will be fairly generous with your time, Mr. Sopko. We will turn it over to you and appreciate your opening statement, and then open it up for members to ask questions. Mr. Sopko?

**STATEMENT OF JOHN F. SOPKO, SPECIAL INSPECTOR
GENERAL FOR AFGHANISTAN RECONSTRUCTION**

Mr. SOPKO. Thank you.

Mr. Chairman, Ranking Member Tierney and members of the subcommittee, I am pleased to be here today to discuss the results of our POL, that is the Petroleum, Oil and Lubricants audits, and more importantly, the broader implications from that audit for reconstruction in Afghanistan.

But first, I want to thank the chairman and this committee for focusing attention on this important issue, and for holding the first hearing of the 113th Congress on the Afghanistan reconstruction effort.

The impending end of the combat mission in Afghanistan has led some to erroneously believe that the Afghan reconstruction effort is waning. On the contrary, I think it is safe to say that the next two years and beyond will be the most critical period for reconstruction in Afghanistan.

As mentioned, at least \$20 billion has been appropriated for Afghanistan reconstruction that still remains to be spent. It has been appropriated but has not been spent. And it is my job and the job of my staff to ensure that these precious funds are spent wisely and safeguarded from waste, fraud and abuse.

Let me first, before discussing that, provide you and update on our work regarding the Afghan fuel audit. Let me start by saying this, Mr. Chairman, we still don't have the records. As you recall, there were promises made, I believe, as of the end of the last hearing, we would get the records. They still have not been able to find the records.

Now, in that audit, we found that there are weaknesses in the U.S. Army's process for providing petroleum, oil and lubricants to the Afghan army. The lack of accountability there has increased the risk that U.S. funds and fuel will be stolen. We found that the U.S. Army's processes were beset by major vulnerabilities.

Our report, our file report, which I would ask to be made part of the record, includes six recommendations to the U.S. Army. I am pleased to report that the Army concurred with all of these recommendations, including one of the most important: to revise its strategy for providing direct contributions to the Afghan government for future fuel purchases. So that further assistance is contingent upon the Afghan government demonstrating transparency and accountability without Coalition assistance.

More importantly, I believe our audit of the petroleum, oil and lubricants contract for the Afghan national army highlights a number of challenges and concerns that we repeatedly encounter

throughout our work all through Afghanistan. First and foremost, the POL audit exemplifies the risks inherent to direct assistance.

Now, direct or on-budget assistance is funding provided to another government's national budget to be used by that government. Direct assistance is designed to allow the Afghans more freedom to manage their own budget and to build their capacity for doing so.

However, direct assistance creates a number of significant concerns, including that the Afghan government does not appear to have the capacity to manage the \$8 billion pledged by the international community in direct assistance, and that funds provided through direct assistance are typically subject to less oversight than funds provided through projects implemented by U.S. and other donor government agencies.

This lower level of oversight is especially problematic because of the pervasiveness of corruption in Afghanistan, an issue I know this committee is well aware of.

Now, my agency has a number of ongoing and planned audits of direct assistance programs. As we conduct these audits, we will carefully examine the extent to which controls have been built in to each direct assistance program. We will also, as we do with all of our audits, ask the following questions as detailed in my recent quarterly report to Congress: Does the project or program make a clear and identifiable contribution to our national strategic interests? Do the Afghans want the program and do they need it? Has that program or project been coordinated with other U.S. agencies, with the Afghan government or our allies? Do security conditions permit effective implementation and oversight? Do the programs have adequate state safeguards to detect, deter and prevent corruption?

Probably the most important is, do the Afghans have the financial resources, the technical capability and political will to sustain those programs? And lastly, have our implemented agencies established meaningful, measurable metrics for determining success and are they applying them?

Now, finally, SIGAR will continue to do all it can to get into the field to inspect and examine programs in person. That leads me to the last concern I would like to leave with you today. SIGAR's ability, as well as the ability of every implementing agency to conduct onsite inspections, audits and investigations may be hindered in the very near future by security restrictions.

As you know, it is the policy of U.S. forces in Afghanistan to provide military security only in areas within an hour of a facility that can provide emergency medical care. This means the safe zone, or bubble, around these medical facilities extends about the distance of a 20-minute helicopter ride.

As our U.S. troops continue to withdraw, the amount of territory in Afghanistan that falls outside of the bubble will increase. Accordingly, the amount of programs and number of projects that can be monitored and overseen by U.S. personnel will decrease.

I have referenced in my quarterly report that SIGAR has already seen limitations caused by this bubble. Recently in northern Afghanistan, we were prevented from visiting a site because it was too dangerous because it was outside the bubble. As a result, 38

projects and over \$72 million in U.S. taxpayer money is beyond our inspection.

In closing, let me reiterate that I believe, our agency believes that we are at a critical juncture in Afghanistan. Our nation is intensely focused on two interrelated and important tasks. First, as we have seen a lot in the press and heard about, it is the transferring of the security responsibilities to the Afghans by the end of 2014. But at the same time, we are trying to strengthen the Afghan government's ability to manage the country's continued reconstruction during its transition period and beyond.

I think it is fair to say that the success or failure of our entire ten-year engagement in Afghanistan is teetering on whether these two interrelated and very important and ambitious goals can be met. SIGAR is committed to providing the most robust oversight it can and to work closely with the Administration and Congress to provide information that they need to make the tough decisions that need to be made in the years to come.

Thank you very much. I am open to any questions.

[Prepared statement of Mr. Sopko follows:]

Special Inspector General for Afghanistan Reconstruction

SIGAR

Testimony

Before the Subcommittee on National Security,
Homeland Defense, and Foreign Operations,
Committee on Oversight and Government Reform,
House of Representatives



Direct Assistance to the Afghan Government Presents Risks

Statement of John F. Sopko,

Special Inspector General
for Afghanistan Reconstruction

February 13, 2013

Mr. Chairman, Ranking Member Tierney, and Members of the Subcommittee,

I am pleased to be here today to provide an update on SIGAR's work regarding the U.S. government's plans to transfer responsibility to the Afghan government for management of the petroleum, oil, and lubricants (POL) provided to the Afghan National Army (ANA) and to discuss the broader challenges raised by this audit especially as it relates to forms of direct assistance to the government of Afghanistan.

As you know, the U.S. government, along with other international donors, has committed to channel at least 50 percent of its development assistance through the Afghan national budget, rather than through contractors and nongovernmental organizations operating on behalf of the U.S. government. It has made this commitment because, within two years, it will be largely up to the Afghan government to sustain the reconstruction effort in which the U.S. has invested almost \$100 billion. The importance of giving the Afghan government the responsibility to allocate, manage, and track funds should not be underestimated.

However, we know from our work and the work of others in the oversight community that direct assistance brings with it a number of risks. That is why I am grateful to the Chairman and this committee for raising this issue, in what is the first hearing of the 113th Congress on the Afghanistan reconstruction effort.

Weaknesses in Afghan National Army Fuel Purchases

Let me first provide an update on our work regarding the purchase of ANA fuel. As I testified in September 2012,¹ Congress has appropriated almost \$50 billion to the Afghan Security Forces Fund to train, equip, and sustain the Afghan National Security Forces since 2005. The NATO Training Mission-Afghanistan/Combined Security Transition Command – Afghanistan (NTM—A/CSTC-A) has primary responsibility for purchasing ANA's POL. As part of the transition of U.S. forces out of Afghanistan by the end of 2014, CSTC-A, in coordination with the Afghan government, is seeking to develop the ANA's POL and other logistics capability to the point that

¹ Statements by John F. Sopko, Special Inspector General for Afghanistan Reconstruction, before the Subcommittee on National Security, Homeland Defense, and Foreign Operations, Committee on Oversight and Government Reform, House of Representatives, September 13, 2012 and September 20, 2012.

it can assume responsibility for all national logistics and maintenance requirements.

In our final audit report, issued just last month,² we found that there are weaknesses in CSTC-A's process for ordering, accepting deliveries, and paying for POL for ANA vehicles, generators, and power plants. This lack of accountability increases the risk that U.S. funds and fuel will be stolen. Specifically, we reported that:

- CSTC-A records related to fuel purchases paid for between March 2010 and February 2011 were missing;
- CSTC-A's data on fuel purchases covering the period March 2011 to March 2012 were inaccurate and incomplete; and
- CSTC-A could not account for fuel that was spilled or lost.

In addition, CSTC-A's processes for price approval, ordering, receipt, delivery, and payment of fuel were beset by major vulnerabilities. For example:

- CSTC-A approved payments for fuel without verifying vendors' statements that they had made deliveries in full and of acceptable quality;
- CSTC-A fuel orders were not based on required consumption data and, for power plants, the fuel orders did not follow the authorized process; and
- although NTM-A has blanket purchase agreements with 10 vendors for POL, it has only used two—one for aviation fuel and one for ground fuel—creating de facto monopolies and significantly raising the possibility that the best price for either type of fuel will not be received.

Our report included six recommendations to CSTC-A to address the problems we identified. I am pleased to report that CSTC-A concurred with all of these recommendations, including one of the most important: to revise its strategy for providing direct contributions to the Afghan government for future fuel purchases so that further direct assistance is contingent upon the Afghan Ministry of Defense demonstrating transparency and accountability without coalition assistance.

² SIGAR Audit 13-4, *Afghan National Army: Controls over Fuel for Vehicles, Generators, and Power Plants Need Strengthening to Prevent Fraud, Waste, and Abuse*, January 24, 2013.

We suggested that CSTC-A could begin with a small amount of direct contributions to purchase fuel for specific units and/or power plants and then adjust upwards based upon assessment of Ministry of Defense (MoD) capacity and accountability of fuel ordered, delivered, and consumed. In response to our recommendation, CSTC-A stated that it has decided to disburse POL funds incrementally. The first disbursement will cover an initial 90-day period with the intent to allow the MoD to have sufficient funding to establish contracts. Each successive 30-day disbursement will be contingent upon the results of MoD finance audits, which will be conducted by NTM-A on a monthly basis to ensure that the MoD can account for funding. This is a positive development, and we will be closely watching how this arrangement is implemented.

The safeguards that CSTC-A has agreed to build into its ANA POL program are critical, because, as I will discuss in the remainder of my testimony, direct assistance is inherently risky—especially in light of our experience in Afghanistan to date.

Direct Assistance to the Afghan Government Raises Concerns

Direct (or “on budget”) assistance is funding provided directly to another government’s national budget to be used by that government. Unlike reconstruction assistance provided through contractors and nongovernmental organizations operating on behalf of U.S. implementing agencies (also known as “off-budget assistance”), direct assistance is designed to allow the Afghans more freedom to manage their own budget and to build their capacity for doing so. As of February 2012, the United States was disbursing more than 40 percent of its aid funds to the Afghan government in the form of direct assistance. The U.S. Agency for International Development (USAID) and the Department of Defense (DOD) provide direct assistance to Afghanistan using bilateral agreements and multilateral trust funds that provide funds through the Afghan national budget.

Some of USAID’s bilateral agreements finance Afghan government procurement of goods and services, while others fund a range of other government expenses and activities, including operating costs, salaries, agricultural development programs, and infrastructure projects. USAID also provides direct assistance via the World Bank-administered Afghanistan Reconstruction Trust Fund (ARTF), which provides funds through the Afghan national budget to finance the

government's recurrent operating costs (e.g., wages for civil servants, operations and maintenance costs) and national development programs.

DOD provides direct assistance bilaterally to Afghanistan's MoD and Ministry of Interior (MoI) through contributions of funds overseen by CSTC-A. According to DOD guidance, these contributions are used to procure food, salaries, goods, services, and minor construction in direct support of the ANA and the Afghan National Police (ANP). CSTC-A also contributes funds to the multilateral United Nations Development Programme-administered Law and Order Trust Fund for Afghanistan (LOTFA), which mostly funds salaries of the ANP.

Some data indicate that on-budget expenditures by the Afghan government may have a greater impact on Afghanistan's economy compared to aid programs administered by U.S. and international donors. The World Bank, for example, has reported that only about 10-25 percent of off-budget aid is actually spent in Afghanistan, compared to 55-95 percent of the aid administered through the Afghan government.³

However, while there is a need to provide funds directly through the Afghan national budget, direct assistance also raises a number of concerns. Chief among these concerns are the following:

- The Afghan government does not appear to have the capacity to manage the amount of funding envisioned in the international community's pledges of direct assistance.
- Funds provided through direct assistance are typically subject to less U.S. and international donor community oversight than funds provided through projects implemented by U.S. and international donor community government agencies, leaving them particularly vulnerable to fraud, waste, and abuse. This is especially risky, given the pervasiveness of corruption in Afghanistan.

Afghan Government Capacity to Manage Reconstruction Programs and Funds Is Limited

Our audit and inspection work has consistently identified weaknesses in the Afghan government's ability to manage the programs and facilities created using reconstruction funds.

³ *Afghanistan in Transition: Looking Beyond 2011: Volume 2: Main Report*, The World Bank, May 2012, p. 30.

For example, in October 2012, we reported that the Afghan government will likely be incapable of fully sustaining Afghan National Security Forces facilities after the transition in 2014.⁴ We found that the Afghan National Security Forces lack personnel with the technical skills necessary to operate and maintain critical facilities and that the Afghan government had filled less than 40 percent of its authorized operation and maintenance positions. Likewise, in a 2010 audit of reconstruction in Nangarhar, Afghanistan, we found that the Afghan government was severely limited in its ability to operate and maintain U.S.-completed development projects in that province.⁵ As a result, we found infrastructure projects that were dilapidated or in disrepair. Just recently, we issued two inspection reports on ANP facilities in Kunduz province.⁶ For both of these facilities, there were no plans for operation and maintenance contracts or to train the Afghans to manage the facilities.

SIGAR has conducted two reviews of major direct assistance programs that further illuminate concerns regarding Afghan government capacity. In April 2011, SIGAR identified problems with LOTFA, through which ANP salaries are paid.⁷ SIGAR found that the Afghan MoI's payroll system provided little assurance that only those ANP personnel who are actually working are paid and that LOTFA funds are only used to reimburse eligible ANP payroll and other costs. Furthermore, SIGAR's auditors found that the United Nations Development Programme, which administers LOTFA, could not confirm that LOTFA funds reimbursed only eligible ANP costs. SIGAR concluded that the MoI will continue to face challenges gathering personnel and payroll data, centralizing the data within a system, and integrating this information into other systems until long-standing issues with security, infrastructure, and coordination are addressed.

In a July 2011 assessment of the ARTF, SIGAR found that, although Afghan ministries had generally increased their ability to manage and account for government finances, including ARTF funds, the Afghan government faces challenges developing and maintaining the service

⁴ SIGAR Audit 13-1, *Afghan National Security Forces Facilities: Concerns with Funding, Oversight, and Sustainability for Operation and Maintenance*, October 30, 2012.

⁵ SIGAR Audit 11-02, *Weakness in Reporting and Coordination of Development Assistance and Lack of Provincial Capacity Pose Risks to U.S. Strategy in Nangarhar Province*, October 26, 2010.

⁶ SIGAR Inspection 13-04, *Kunduz Afghan National Police Provincial Headquarters: After Construction Delays and Cost Increases, Concerns Remain about the Facility's Usability and Sustainability*, January 24, 2013. SIGAR Inspection 13-04, *Imam Sahib Border Police Company Headquarters in Kunduz Province: \$7.3 Million Facility Sits Largely Unused*, January 29, 2013.

⁷ SIGAR Audit 11-10, *Despite Improvements in MOI's Personnel Systems, Additional Actions Are Needed to Completely Verify ANP Payroll Costs and Workforce Strength*, April 25, 2011.

expertise needed to manage and account for ARTF funds.⁸

Other agencies have also identified weaknesses in the Afghan government's capacity to administer funds responsibly and transparently. In April 2012, for example, the DOD reported that there were serious shortcomings in the Afghan government's capability to manage on-budget operation and maintenance funds. DOD's report stated that, "The ministries responsible for critical assets possess limited ability to adequately execute an operations and maintenance plan on the scale required in Afghanistan....The limitations in internal technical capacity, as well as contracting and procurement...inhibit the effectiveness of any increase in operations and maintenance budget disbursed through the Afghan government. Currently, the systems and internal controls needed to both determine appropriate operations and maintenance spending levels and ensure that the amounts budgeted for operations and maintenance are deployed and disbursed for the appropriate activities, are uniformly deficient throughout the ministries."

The Afghan government's ability to spend funds provided through direct assistance has also been limited. Between 2006 and 2011, the Afghanistan's development or capital budget⁹ has consistently been more than \$2 billion—75 percent of which has been financed by international donors, including the United States, through direct assistance. However, since 2006 the Afghan government has only successfully spent between 39 and 60 percent of this budget. The World Bank has cited a combination of structural and capacity issues for the low level of budget execution. These include unrealistic budgets, capacity limitations for implementing projects, poor predictability of donor funding, and a lack of security.¹⁰

Because of our concerns about the Afghan government's capacity to manage direct assistance funds, we recently initiated a review of assessments funded by USAID of key Afghan ministries.

Limited Oversight of Direct Assistance Programs Is Inherently Risky

⁸ SIGAR Audit 11-13, *The World Bank and the Afghan Government Have Established Mechanisms to Monitor and Account for Funds Contributed to the Afghanistan Reconstruction Trust Fund, but Some Limitations and Challenges Should Be Addressed*, July 22, 2011.

⁹ The Afghan government's development budget pays for the construction of physical assets, such as schools, clinics, roads, bridges, etc. These projects are mainly donor funded but implemented by Afghan government agencies. A development budget is sometimes referred to as a capital budget in other countries.

¹⁰ World Bank, *Afghanistan in Transition: Looking Beyond 2014, Vol 2*: May 2012.

Off-budget assistance has multiple layers of oversight built in to the process that if properly used, should help maximize the chance that funds will be spent wisely and safeguarded from fraud, waste, and abuse. Contracting officers and their technical representatives serve as the first line of defense, responsible for disbursing funds in strict compliance with the terms of the contract. Many programs also have separate quality assurance contractors, whose role is to closely monitor the quality of work and report to the contracting officer. Oversight agencies, including SIGAR, represent the last line of defense, taking an aggressive and independent look at how the U.S. government and its contractors have performed. As a whole, these measures represent the “gold standard” of oversight.

Unfortunately, direct assistance programs, as designed, may fall short of this gold standard. This is particularly problematic, given the pervasiveness of corruption in Afghanistan. Afghanistan’s reputation for corruption is deep-rooted and widespread. A 2012 survey found that 60 percent of Afghans believe that corruption is a major problem in their local government, and even more believe that it is a major problem in their provincial and national government.

Despite stated commitments from the Afghan government to address this problem, we continue to see reluctance on the part of Afghan officials to take serious action. For example, according to the Afghan Coalition of Transparency and Accountability, the budget submitted by the Ministry of Finance this quarter contained no allocations for combating corruption despite the international community’s demand that the ministry make governmental integrity a priority. As has been carefully examined by this committee, widespread corruption at the Dawood National Military Hospital in Kabul led to the siphoning off of U.S. funds as well as theft of medical supplies intended to support hospital operations. In addition, patients often did not receive care because they or their families could not bribe hospital staff. And, as was most recently recounted in full detail by the Monitoring and Evaluation Committee,¹¹ companies and individuals connected to Kabul Bank committed massive fraud, leading to the near collapse of Afghanistan’s most important financial institution.

¹¹ The Independent Joint Anti-Corruption Monitoring and Evaluation Committee was created in 2010 and has three Afghan members and three members from the international community. Its primary mission is to research and study areas prone to corruption and to identify areas for improvement.

Problems like this make the prospect of giving more direct assistance to the Afghans worrisome. If the President's request for FY2013 is approved, there will be about \$30 billion left to be obligated or expended, and much of this money is slated to be spent on direct assistance programs. SIGAR is committed to assessing these programs as rigorously as possible, especially given the risks I have outlined above. For example, we currently have an audit assessing the capacity of the Ministry of Public Health to manage direct assistance, and one evaluating the plans to provide direct assistance to the ANP to purchase POL. Later this year, we will initiate an audit of U.S. efforts to build the financial management capacity at the MoI. And, as I mentioned earlier, we are currently in the process of carefully reviewing the ministerial assessments funded by USAID.

As SIGAR assesses these and other direct assistance programs, we will be asking a number of questions about the level of oversight built into these programs. For example:

- What level of access will U.S. government officials have to documents, personnel, and locations funded through direct assistance?
- Will funding be given incrementally, as will be done in the ANA POL program, or provided in one-time lump sum amounts?
- What commitments, if any, will the U.S. require of the Afghan government to manage and safeguard the funds?
- How will the U.S. assess the capacity of Afghan ministries to assume responsibility for direct assistance funds?

We will also be assessing the extent to which U.S. government agencies comply with the oversight procedures they build into their direct assistance programs. As we know from the Government Accountability Office, USAID has not always complied with the financial and other controls it has included in its bilateral direct assistance agreements with the Afghan government.¹² For example, its agreement with the Ministry of Finance did not specify, as required, that the ministry had a monitoring and evaluation plan in place, would comply with a

¹² GAO-11-710, *Afghanistan: Actions Needed to Improve Accountability of U.S. Assistance to Afghanistan Government*, Washington, D.C., July 20, 2011.

periodic reporting requirement, and would maintain accounting books and records subject to audit.

As with all of our audits and inspections, we will also ask the following seven questions, detailed in our most recent quarterly report to Congress:

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

Security Restrictions Are Impacting Oversight Activities

SIGAR will continue to do all it can to get out in the field to inspect and examine programs in person—to “kick the tires,” so to speak. The need for this type of monitoring and evaluation will not go away with the move toward direct assistance. If anything, it will become greater. However, SIGAR’s ability (as well as the ability of implementing agencies) to conduct on-site inspections, audits, and investigations may be hindered in the very near future by security restrictions. The U.S. combat role is scheduled to end by December 2014, or sooner, and the withdrawal of U.S. troops is well underway. U.S. and coalition forces have already pulled out of a number of locations in Afghanistan, leaving some of those places too dangerous for SIGAR or other agencies to visit.

As you may know, it is the policy of the U.S. forces in Afghanistan to provide military security only in areas within an hour of a facility that can provide emergency medical care. This means

that the safe zone or “bubble” around these medical facilities extends about as far as a twenty minute helicopter ride. As troops continue to withdraw, the amount of territory in Afghanistan that falls outside these security “bubbles” will increase. Accordingly, the number of U.S.-funded projects and programs that can be monitored and overseen by U.S. personnel will decrease.

SIGAR has already seen the effect of security limitations on its operations. Just recently, a SIGAR inspection team was told that a location in Northern Afghanistan was beyond the security “bubble” and therefore deemed too unsafe to visit. As a result, SIGAR was unable to inspect 38 buildings worth approximately \$72 million.

Even in Kabul, the Embassy’s regional security officer has informed us that because of limited resources, it is already becoming increasingly difficult to support all the requests for movements by U.S. employees to conduct their business in and around the city.

Nevertheless, we are developing alternative ways to conduct oversight in Afghanistan’s evolving security environment. For example, we have local nationals on our staff, who are not subject to the same security restrictions that our American employees are. In some cases, we may have to rely on them to do some of our fieldwork. We are also exploring the use of geospatial imaging to assist our oversight work. Finally, we will continue to share information, data, and resources with our colleagues in the I.G. community to maximize oversight coverage and develop “best practices” for oversight.

These tools are helpful, but they are not perfect. And they certainly are not substitutes for the type of aggressive oversight we intend to conduct. That is why I am grateful to Ambassador Cunningham and General Allen, who recently left his post as commander of the U.S. Forces in Afghanistan, for their expressions of support for our work. Both promised me during my latest visit that they would ensure that our people will be able to access the same locations that their people can access.

Ultimately, however, the question will be how far and where U.S. personnel can safely travel. As the area in which we are unable to conduct oversight grows, many of our programs may be exposed to increased risk of fraud, waste, and abuse—especially if we increase direct assistance to the Afghan government without first imposing strict pre-conditions on the Afghan government to

permit effective oversight of these funds by U.S. personnel. It is my firm belief that provisions for effective, independent oversight must be built into any direct assistance program to the Afghan government to ensure effective program implementation and to protect the American taxpayer.

Thank you for the opportunity to testify today. I am pleased to take any questions you may have.

Mr. CHAFFETZ. Thank you, Mr. Sopko.
I now recognize myself for five minutes.

I believe there is ample evidence to suggest that the Afghan Government may perhaps be the most corrupt government on the face of the planet. It bothers me to no end that we continue to insist on giving them more direct payments, payments we ought to be just making straight to Dubai and get rid of the middle man. Because to suggest that all this money is going to get to the finish line and truly go to its intended purpose I think is certainly without warrant.

Can we go back, Mr. Sopko? Let's go to 60,000 feet, if you will. We have a decreasing number of troops, so the bubble is shrinking. We have an increasing amount of projects. Can you give us just the size and the scope of this? I believe that we are starting, starting more projects than we ever have within Afghanistan. Is that correct?

Mr. SOPKO. Mr. Chairman, that is our concern. On my last trip to Afghanistan, I was particularly concerned by a number of statements by senior U.S. officials. They were saying that they were going to be embarking or they knew that there was going to be embarking upon more work and spending more of that \$20 billion now than ever before. I heard that from somebody referring to the Army Corps of Engineer projects, that there may be more Army Corps of Engineer projects coming down the pike than we have before in the last 10 years. I also heard that about AID.

My concern, and I think you have probably seen it before, I know I have seen it before, is the desire to get the money pumped out before the clock runs out. Now, as a result, Mr. Chairman, I just want you to know that we will shortly be sending out letters to every agency operating in Afghanistan, asking for them to give a list of every project, what is the extent of the completion, and in particular, which projects have not been started. Because we think that is where Congress and the Administration ought to look first and make the determination and ask those questions that I pose.

Mr. CHAFFETZ. Well, that could be tens of billions of dollars, correct?

Mr. SOPKO. It definitely could, Mr. Chairman.

Mr. CHAFFETZ. I am concerned that you don't have the proper documentation for the Department of Defense's justification for the extension of the POL program. We are talking about \$343 million this year in a direct payment to support the POL. They want to expand it to \$555 million. We had a hearing on this September 20th of 2012. I asked if they had the documentation of that, of General Bash and Mr. Estevez, on page 25 of the transcript, Mr. Estevez says, "I will commit to give you a date, sir." I said, "Within a week, is that fair?" Mr. Estevez: "Within a week."

Have you received that information?

Mr. SOPKO. No, sir, no, Mr. Chairman. Actually, a senior official told me when I was in Afghanistan, a bit chagrined, saying, "You are never going to see those records." Not that they were criminally hidden. I think they were just, were destroyed, they put it on a disc and they can't find it.

Mr. CHAFFETZ. We will need to get the Department of Defense back up here, because they promised us they had it. To not have

those, to actually shred those documents, which I believe you have evidence that they were shredded, to not have and provide to this Congress, they promised that they had it, they said they'd have it within the week. It has been since September. You have been asking for it, it is totally inexcusable. And here the Department of Defense believes that there is justification by sending hundreds of millions of dollars of taxpayer money. We have billions of dollars in the pipeline and we don't even have the most basic things here.

I need to ask you two quick questions. I may go a bit over my time here. According to a report by the Afghan Independent Joint Anti-Corruption Monitoring and Evaluation Committee, the story of what happened at the Kabul Bank and the role of the government and the international community has never been fully told. In addition, the report claims that there has not "been a comprehensive effort to identify changes that are required to ensure that such an event never happens again, and to ensure that those responsible for the crisis face real consequences for their actions."

This report relied heavily on the forensic audit conducted by the investigative firm known as Kroll, which found that approximately 900 million U.S. dollars had been embezzled. According to the high likelihood that U.S. taxpayer funds provided for Afghan reconstruction were deposited in the bank, have you done any sort of investigation of the bank? Have you read the Kroll report? And could you provide a copy of the Kroll report to this body?

Mr. SOPKO. Mr. Chairman, I am aware of the Kroll investigation. I am also aware of the report by what we call the MEC, which is the Afghan Independent Joint Anti-Corruption Monitoring and Evaluation Committee, which is actually a fascinating group of international experts as well as Afghans who are seriously committed to doing something about corruption.

I am at a little loss to discuss the Kroll report in an open session. And I would be more than happy to speak with you or your staff offline on that. But I know of the Kroll report, and I have seen reports about the Kroll report.

Mr. CHAFFETZ. Let me just finish by saying here, it is my understanding that the Afghan regulators, aided by American officials, first discovered the extent of the fraud at the Bank in the summer of 2010. Qadir Fitrat, who at the time was the governor of the Bank of Afghanistan, the country's central bank, has said, "We never imagined that the criminality was as deep as it was, that it was so widespread and that it included high-ranking officials and their relatives."

Mr. Sopko, in the case of the Kabul Bank, do you think the U.S. Government has been provided the appropriate level of insight and access to the details of the events surrounding the Bank's massive fraud? And considering the Bank's scandal implicated members of the Afghan president's family and the inner circle, do you believe this impacted the United States' government's ability to investigate the matter fully?

Mr. SOPKO. I cannot comment on the Kroll report. But it is serious loss. I also don't know who else in the government has been or is privy to that information. So it is hard for me to answer that.

Mr. CHAFFETZ. I think our concern is not only the Kabul Bank, but the Azizi Bank as well. Here we are talking about \$900 million.

When I went to Afghanistan last, I was told in general, as a sweeping generality, well, once we give the money over to Afghans, hey, there is nothing we can do. Well, that is the deep-seated concern that we are seeing played out in the POL and other types of things.

My time is gone, but we will continue to pursue this. I now recognize the ranking member, Mr. Tierney.

Mr. TIERNEY. I sense that you were going to make a response, Mr. Sopko.

Mr. SOPKO. I was just going to say, Mr. Chairman, I share your concerns. I particularly share concerns when I was told by a senior U.S. official that part of our plan for AID money was just deposited in an Afghan bank and hopefully they will spend it over the next five to ten years. In light of the briefings I received about the Kabul Bank and other banking issues, I was a bit shocked to hear that we would do that, without proper safeguards, to make certain that there is money there.

So as for whether there was U.S. money in the Kabul Bank when it failed, I am not privy to that information. I really don't know. But my concern is, going forward, we don't make that mistake.

Mr. CHAFFETZ. I think we would appreciate your looking into this.

Mr. SOPKO. I would be happy to do that, sir.

Mr. CHAFFETZ. Thank you. I'm sorry, Mr. Tierney.

Mr. TIERNEY. Thanks.

So I guess this going forward business is what has us all here. We have had some debates with President Karzai at length in his office, complaining about the corruption, family, other high-ranking officials, whatever. His general rebuttal is always, well, look, 40 percent of the money disappears when you give it to contractors and non-governmental outfits. You lose some on K Street in Washington, you lose some more before it hits the turf out there in Afghanistan, and they don't get enough on their end on the projects out there.

Assuming that we all think accountability is an essential thing, what is the path forward here? If we don't think they have the capacity to manage this money and to be accountable for it, then is it your recommendation or thought that first, you would think before we put any money over to them we would get some sort of certification along the line of those things you put forward in page 10 of your testimony, does the project or program make a clear and identifiable contribution to national interests and strategic objectives and so on down the line.

Would you think that requiring a pre-certification with positive answers on all those questions would be required before the money be dispersed, as an initial step? And if so, who would make that certification, in your mind?

Mr. SOPKO. Mr. Tierney, there are a number of conditions and a number of safeguards we can insert above and beyond my seven questions. I think the first thing we need to do is we need to make certain when we negotiate and we sign a contract that we don't forget these things when we negotiate. My fear is that somebody may leave oversight out of the negotiation as we go forward. I think the important thing is to negotiate that we get access to records, that records are maintained, that we can get there and not only do the

financial audit, but we are also able to get out there and do a programmatic review.

What we have seen before, especially with assistance to a number of the funds, particularly with the U.N. and the World Bank, there were very poor controls. But even when there were financial controls, there was no ability or no willingness for the World Bank to go out there and actually see if the money went to the soldiers or if the money went to the project. And I will cite as an example, we are looking at a project, a road project right now, people are doing a nice financial audit, taking a look at a record and seeing if there is justification. But nobody is going out to check and see if the road is actually there. So it is simple things like that.

Mr. TIERNEY. We have that problem in Pakistan as well. We went around and around with USAID and others on that because of the dangerousness of getting people out there to check the scope of the work, particularly up in some of the more rural, remote areas and dangerous areas in there. If we can't do that, should we be giving the money?

Mr. SOPKO. I am an old economist, went to the Wharton School.

Mr. TIERNEY. So if put you and all your colleagues end to end, what would be the conclusion?

[Laughter.]

Mr. SOPKO. What is a marginal cost versus marginal return. We have to make a determination. That is what we are saying to the Executive Branch. We are saying also to Congress, now is the time. We have this opportunity. It is a limited amount of opportunity. It is an important opportunity to stop and reassess all of that money that hasn't been spent and make a determination, is it worth the risk.

For example, Mr. Tierney, if the Afghans can't sustain a hospital, why build it? What do we accomplish other than some contractors are wealthy?

Mr. TIERNEY. Well, if they can't disburse and manage and account for a billion dollars, why give them a billion dollars?

Mr. SOPKO. That is the question, Mr. Tierney. That is the question that the Executive Branch has to ask.

Mr. TIERNEY. So the Executive Branch already has authority to make all of these terms part of any negotiation and any contract?

Mr. SOPKO. Absolutely.

Mr. TIERNEY. Our fear is that they are not doing it. You are telling us that they are not doing it. So I guess the real question for us becomes whether or not we decide to act legislatively to put a halt on things and disbursement of money until then, which means wrestling with our Appropriations Committee and the Armed Services Committee and all those people who love to give money out on just a trust factor on that.

But I really take to heart what you are telling us. We have seen this in Iraq, we have seen it in Pakistan and we see it here in Afghanistan. The question comes down to, why would we ever, ever put out for money without any assurance it is going to get paid on that basis, and let it go into the treasury? We let enormous amounts of money go, when President Bush and the Shah put it in together, right into that treasury. We lost all insight to it on that basis. We found out afterwards that helicopters that were sup-

posed to be repaired were still sitting on the ground unrepaired, and other horror stories. Now we are starting to see a repeat of it here.

Mr. SOPKO. And Mr. Tierney, that is the point. We have an opportunity to hit the pause button or at least say, justify why you are doing it. Because as I say in the quarterly report, there may be a reason to push the money out the door for a particular project or program, regardless of the fact that they answer the questions, the seven questions in the negative. But at least justify it to you.

There may be a reason, because the marginal return, it is really important to national security. So we are running a very big risk we are going to lose that money, but we have to do it. But at least justify it. And then hold that agency accountable for that justification.

Mr. TIERNEY. Can I just go one second over?

So here is a question for you on that. If we have an area that is outside the bubble, in fact, considerably outside the bubble, very dangerous, and a project that we think is important enough to fund, but obviously then we have the problem, do we risk our personnel to go out there and make the kinds of assessments that need to be made on site or not. If not, what is the alternative way of getting accountability? Do you trust others to take a helicopter flight over and make it make a visual? Do you trust others to come back and just take their word for it?

What are the alternatives?

Mr. SOPKO. There are other alternatives. None of them are as good as an American trained auditor, investigator, going out there and kicking the tires. That is one reason why I go out to Afghanistan every quarter, because I like to kick the tires. It is amazing how honest people are to you when you get outside the Kabul bubble and start talking to people in the various locations.

But we can use geospatial. If you recall from the press, we just issued a report on geospatial, because we found out that an AID program which was supposed to be the gold standard for a list of all our sites, they couldn't verify 19 percent of the sites. But you could use geospatial. You look down and see, is that a school? Looks like a school. Maybe that is good enough.

You can do overflights. You can also use third country nationals. Now, our concern is that this isn't something new. This shouldn't have been a shock or surprise to AID and State and the Justice Department and all those government agencies that we were going to have a reduction in troops. The Administration's been talking about a reduction in troops way before the last election. I think the Republican candidate talked about a reduction in troops. Everybody knew it was coming.

But when you go to Kabul, it is like this was a shock. We are concerned about how much planning has gone into this beforehand. I was particularly shocked when we found out that AID was going to be doing a test, a pilot program on using third country nationals to check out sites in dangerous locales.

But they haven't issued the contract. The contract won't come out until September to do the pilot or test project. Why wasn't that done a year ago?

So that is my concern. We have an opportunity, let's not lose the opportunity to ask those simple questions and try to save the taxpayer some money here.

Mr. TIERNEY. Thank you.

Mr. CHAFFETZ. I recognize the gentleman from Tennessee, Mr. Duncan.

Mr. DUNCAN. Thank you, Mr. Chairman.

As bad as all these things are that you have uncovered, I read that you just looked at the 150 out of 2,922 fuel orders. Also, there are many areas that you can't go to because of safety. So as was mentioned a few minutes ago, I guess that what you are finding out is just sort of the tip of that iceberg, is that correct?

Mr. SOPKO. That is correct, Mr. Duncan.

Mr. DUNCAN. And when you used the example of, why build a hospital that you can't sustain, haven't we just built a new hospital, or are we in the process of building a new hospital over there? Have we built several hospitals?

Mr. SOPKO. We are building several hospitals and several clinics. Actually, we have an audit ongoing right now which should come out next month, which I think will be a very important audit for this whole issue. Because we are looking at direct assistance to the Ministry of Health in Afghanistan. I will be quite honest with you, some of the initial findings, these are preliminary, give me pause. Because we don't think the Afghan Ministry is prepared.

The other thing, Mr. Duncan, which is that we are finding evidence of clinics being built and it looks like the Afghans don't even know they are being built for them, which again goes back to my second question, have we coordinated it. So we are finding problems in a lot of places.

Mr. DUNCAN. I would be very interested in that. I think it is really sad that we have many people in this Country going without medical care. In fact, I have a remote area medical charity that has been featured on 60 Minutes in my district. Everytime they go hold free medical clinics all around the Country, they are just swamped with people who need medical care. Yet we are building all these hospitals and clinics over in Afghanistan that we don't even know how many and so forth.

I would like a little more detail. I think you have made a good suggestion on stopping these new projects that haven't been started yet. Do you have any idea, are there many of these or quite a few?

Mr. SOPKO. We think there are, sir. But we don't have a good handle on it. That is why today I am announcing we are sending a letter out to every U.S. Government agency to give us a complete list of every project you have on the books, what is the status. Because what we would like to do, Mr. Duncan, is we want to give you an interactive map. We want to give you and the rest of the Congress an interactive map that you can actually push on a site and know what we are buying and what state it is in. And also overlay the bubble, the security bubble.

And we also want the Executive Branch. They don't even have this now. So as our troops move back and close down military bases, we are going to show on that map what is the implication of getting a U.S. person out to that site. So we are going to try to

develop this. I apologize, I can't give you more detail on that. I am not technically sophisticated enough to explain.

But we think this is a useful tool to visualize to policy makers, you here on the Hill also, as to what that bubble is going to mean in the number of projects and the amount of taxpayer dollars at risk.

Mr. DUNCAN. Well, I would be very interested in that, too. I have been concerned about it since several weeks ago I read in the Washington Post that they were letting a new contract, it was just for \$25 million, but \$25 million to improve or expand a base over there that was brand new in 2009. And I had the same concern that you mentioned, that some people, or a lot of people, maybe even most people, think that because we are pulling the troops out that all our spending and activities over there is stopping, yet they are letting these new projects start and these new contracts. It looks like to me that we are going to be over there spending an unbelievable amount of money for a long time to come, unless the Congress does something about it.

Mr. SOPKO. Mr. Duncan, if I can reply, I think you and I are of the generation that we appreciate the wise sayings of Senator Everett Dirksen, who said, "A million here, a million there, after a while you are talking big bucks."

Mr. DUNCAN. Yes.

Mr. SOPKO. And I am of that opinion. When I see a million dollars wasted, and I keep adding it up, I appreciate what that means for taxpayers.

Unfortunately, we have some people who, a million is nothing, you have to talk billions or trillions. But let's start with millions and save the taxpayers some money.

Mr. DUNCAN. Well, this is my 25th year in the Congress. When we first came here, we were talking about billions, thinking that was high. Then we started talking about trillions. Then we started about one year things, then we started talking about ten year things. I wish we had more people like you in our government, Mr. Sopko. Thank you very much.

Mr. CHAFFETZ. I thank the gentleman.

I now recognize the gentleman from Massachusetts, Mr. Tierney, for five minutes.

Mr. TIERNEY. I was almost ready to tell Mr. Duncan, we are now into gazillions with a G, where the money goes up on that basis.

It is very disturbing, the chairman and I are up here kibitzing on how we try to get our colleagues on the Appropriations Committee and Armed Services Committee to really focus on this issue as well, because they are going to have a lot to say about the how and when the money gets spent. It needs so much attention, and the work that you are doing is difficult. But we have to put it to some use.

Just to maybe draw a finer point on the aspect of the petroleum and oil and lubricants aspect of that, we have seen this lack of oversight and whatever, there is a part of your report that the Defense Department couldn't answer some of the simple questions on that. The real question was whether the Department had indirectly funded the purchase of Iranian oil, in violation of the United

States' economic sanctions on that. That would be a serious lack of oversight, I should think.

Were you shocked when you first learned of that lack of oversight when you read the report?

Mr. SOPKO. Yes. And in a way, I have to give you and the chairman credit for us doing that alert. It was in the course of preparing for the testimony. I started asking a lot of questions about how we get oil and how do we get oil into Afghanistan. It just dawned on me when one of my auditors said, well, Iran supplies a large percentage of the oil to Afghanistan. And then remember the questions, I think either you or Mr. Lynch asked, about what was the price, what is the going rate and all that. We started looking and we found out that Iranian oil is the cheapest oil.

So then we started thinking, hold it. We had no controller over the subs. We don't know where they are buying the oil. And I just raised the question and this is why we created this unit, this fast response unit. I said, let's take a look at it. We could be violating, the United States could be the biggest violator of the oil embargo.

So they went out and took a look. What we found is, nobody knows. We weren't keeping records.

Mr. TIERNEY. Well, that is not new. We did that in Kurdistan. We went up there, looked at the oil deliveries up there, and the final thing, no insight and the Department of Defense couldn't tell us where it was coming from or didn't want to tell us, whichever. But they claimed they didn't know on that.

So are you satisfied with the response the Department has given you since you raised this issue with them?

Mr. SOPKO. No, sir. Because again, going back to the question of when we turn the money over to the Afghan government to buy the oil, we have no real controls in place. The ones that the military has instituted, and we are glad they instituted them, are pretty weak. For example, even CSTC-A itself recognized that the real measures they should be using, the gold standard, is independent random laboratory testing of fuel. But they are not going to do it. And they may not have the personnel to do it, either.

Mr. TIERNEY. So it is a personnel issue, not a cost issue with them?

Mr. SOPKO. I think it is both, probably, personnel costs in the bubble and direct assistance. Once you do the direct assistance, you are going to have even less visibility, unless you write the contracts in. Right now, the only verification we require, at least we are requiring something, is somebody sends an email back saying that there is no Iranian oil.

Mr. TIERNEY. One question here is whether or not this is a conscious policy decision, that they are willing to take that risk. The other is that it is not, that they just don't have a grip around this and have no idea what the consequences are or what is going on. Do you have an opinion as to which it is here?

Mr. SOPKO. I can't infer guilt. I always used to believe there was a conspiracy, until I started working in the Executive Branch. When I was on your side, I always thought people were withholding evidence from me because it was some grand conspiracy. Then I went and worked for the Department of Commerce, which

I used to call the Department of Comedy. And it wasn't a conspiracy, it was just incompetence. So I think that is what it is.

And again, Mr. Chairman, I don't want to make light of this, I think the problem is, how do we reward people in the government? The big problem is, your performance review is not on whether you catch crooks, if you are a contracting officer. You get bonuses, you get pay raises by pumping the fuel out, getting the contracts let.

And the real answer to all this is go back to the performance standards you put on contracting officers or anybody dealing with the taxpayers' money. They should get bonuses based on how much money they save, and fraud that they detect. I don't want to filibuster you, but Mr. Tierney, I ran into two soldiers, and I think I identify them in one of my speeches, from the Iowa National Guard. These were citizen soldiers. Came from the Guard, one was a school teacher, a lieutenant colonel. The other, a sergeant, was a mayor of a little town in Iowa.

And they saw, all of a sudden, they got control, they were supposed to run a fuel depot. They looked at it and they said, there is something wrong here. Based upon their experience, based on his experience running a water treatment plant back in Iowa, he said, there is something wrong, I know a million gallons, and there is no million gallons here.

But that American soldier, that sergeant, started pulling the strings. And fortunately for all of us, he remembers running across a SIGAR agent, because we put our agents all over the place, more places than any other law enforcement agency. He remembered this SIGAR guy. He called him up, our guy helicoptered in and we started pulling the thread.

And lo and behold, they found there were millions of gallons stolen. We were able to arrest a number of Afghans. We were able to arrest a very big political person in the northern area of Afghanistan. And we actually went to the Afghan prosecutor's office and they even indicted and convicted him. He is serving two years. This is all because of a sergeant who asked serious questions.

And that is what we need, and his lieutenant colonel, who stood by him. I don't know if he is going to get an award in his performance review, but I am sending him a letter. I talked to General Longo at Task Force 2010. He is giving him an award. We need to reward people like that. Above and beyond the call of duty, he put his neck on the line. Because usually in the military, you are in for six months, nine months, get out of here, don't create any problems. He created problems and he saved the taxpayers millions of dollars.

Mr. TIERNEY. That, rewarding people like that and getting a much better legal team in there, everything from procurement contracts all the way through the implementation aspect of it. Thank you.

Mr. CHAFFETZ. Thank you.

I don't believe there are any more questions. I have a few closing comments that I would like to make, Mr. Sopko. I want to give you one more opportunity, if there is anything that you want to share with the Congress in your concerns.

Mr. SOPKO. The only thing I want to share, Mr. Chairman, is to thank you again for allowing us to talk about this. We are happy to answer any other questions you may have.

And I would like to submit for the record the name of that sergeant, Sergeant George Toubekis, Iowa National Guard, and Lieutenant Colonel Wesley Golden.

Mr. CHAFFETZ. Thank you. We like to properly thank those who are brave enough to stand up and do what they do. I appreciate the work that so many of your people do out there in a thankless, difficult situation.

A couple of closing comments, if I may. I really do appreciate joining with Congressman Tierney here. We have introduced H.R. 327, which would slow down what the Department of Defense is trying to do with these direct payments specific to the POL accounts. The deep concern here is that we are literally throwing hundreds of millions of dollars into what is the most corrupt government on the face of the planet. We know this. They have a history of it.

Without the proper checks, without the proper balances, without the proper oversight, this money will be pilfered and lost, and we are increasing the amount of doing that. To compound a bad problem, the concern is that a lot of this money, millions of dollars, is potentially going to the country of Iran, to purchase this fuel. It is totally unacceptable. As is highlighted here, we may be one of the worst violators of the Iran Sanctions Act, because we are funding what we know could be a potential violation of that. And that needs to be looked into. I encourage you and others to do it.

But when you purposely and knowingly give the Afghan government the money directly and excuse yourself from the oversight, you can understand why there would be a deep concern.

I really do think that, particularly in this quarterly report, the seven questions that should be asked of each and every development project are the right seven questions. I think that should be the standard by which USAID and the Department of Defense and all the other agencies that want to go spend money in Afghanistan and other countries, quite frankly, that those are the ones that should be asked. Because we have a duty, right and responsibility to make sure the American taxpayer money is dealt with appropriately.

We have tens of billions of dollars that are potentially going to go out the door in Afghanistan. At the same time, here in the United States, we are looking at sequestration and there are Americans working who are going to lose their jobs. We have to cut spending. This sequestration is going to force the cutting of that spending.

So what is just not palatable is to send tens of billions of dollars overseas without proper oversight, without proper controls in place, knowing that it is probably going to go into somebody's pocket without getting the work and the services needed. At the same time, that American who is here paying those taxes is going to lose their job. That is just not acceptable.

So I will continue to work with both sides of the aisle. The committee is deeply concerned about this, and we will continue to pursue it.

We applaud your efforts and thank you for your insight, and for joining us here today. The committee stands adjourned.
[Whereupon, at 11:05 a.m., the committee was adjourned.]

Opening Statement of Chairman Jason Chaffetz
Subcommittee on National Security

“U.S. Direct Assistance in Afghanistan:
Ensuring Transparency and Accountability”

February 13, 2013

Good morning and welcome to today’s hearing: “U.S. Direct Assistance in Afghanistan: Ensuring Transparency and Accountability.”

I would like to welcome Ranking Member Tierney, Members of the Subcommittee, and members of the audience to this Subcommittee’s first hearing of the 113th Congress. I look forward to working with all of you during this Congress.

Today’s proceedings continue the Subcommittee on National Security’s oversight of the approximately \$100 billion of U.S. taxpayer dollars spent to support reconstruction efforts in Afghanistan.

A few weeks ago, the Special Inspector General for Afghanistan Reconstruction – also known as SIGAR – released a report titled, “Afghan National Army: Controls Over Fuel for Vehicles, Generators, and Power Plants Need Strengthening to Prevent Waste, Fraud, and Abuse.” This report provided the Secretary of Defense with an update on SIGAR’s continuing audit of the Afghan National Army’s logistics capability for petroleum, oil, and lubricants, also known as POL (pronounced: P-O-L).

The effective usage of petroleum, oil, and lubricants, is critical to the Afghan Reconstruction effort.

From fiscal years 2007-2012, the Department of Defense has provided approximately \$1.1 billion in funding to purchase petroleum, oil, and lubricants for the Afghan National Army. In fiscal year 2013, the U.S. government will purchase \$343 million dollars more in POL. However, SIGAR has found the Department of Defense does not have accurate or supportable information on:

- How much U.S. funding is in fact needed for ANA fuel;
- Where and how the fuel is actually used; and
- How much fuel has been lost or stolen.

Despite the lack of records and justification for fuel purchases, the Department of Defense proposes to increase funding for POL. From fiscal year 2014 to fiscal year 2018, the Department plans to provide \$2.8 billion, or about \$555 million dollars worth of POL per year.

But instead of the Department of Defense purchasing the fuel for the Afghan National Army, this Administration plans to give one-third of that amount – approximately \$1 billion – directly to the Afghan government.

Many similar direct assistance efforts in Afghanistan by the U.S. government – both previous and ongoing – have resulted in rampant waste, fraud, and abuse – and even tragedy. For example, during the 112th Congress, this Subcommittee held a hearing to examine the mismanagement, theft, and human suffering at the Dawood National Military Hospital in Afghanistan. For years, Afghan officials pilfered nearly \$175 million dollars in cash and medical supplies. Legitimate pharmaceuticals were replaced with counterfeits. Wounded Afghan soldiers were made to suffer – and in some cases die – without proper medical care. This was a U.S. taxpayer-funded program operated by the Afghan government.

Direct assistance from the U.S. to Afghanistan comes from both the Department of Defense and the U.S. Agency for International Development, also known as USAID. USAID has embarked on an effort to significantly boost the amount of funding that goes directly to foreign governments and non-U.S. organizations. The agency's stated objective is "to strengthen the local actors and institutions that are ultimately responsible for transforming their countries." This is a worthy and appropriate goal. However, without the necessary planning and safeguards, programs like those envisioned in USAID Forward all too often result in funneling grants directly to unaccountable and often corrupt foreign governments.

For instance, in Afghanistan, following a 2010 agreement with international donors, U.S. direct assistance, most of it from USAID, tripled from \$665 million in 2009 to \$2 billion in 2010. Yet, the U.S. Government Accountability Office has identified a variety of severe weaknesses in accountability measures for these funds.

Meanwhile, we have a number of reports detailing unbridled corruption in Afghanistan. In one such case, the New York Times recently reported that Kabul Bank, one of the largest commercial banks created in the wake of the Taliban, lost an estimated \$900 million to fraud and highly questionable lending practices.

Despite these known challenges, since February 2012 – as Mr. Sopko's written statement points out – the "United States was disbursing more than 40 percent of its aid funds to the Afghan government in the form of direct assistance."

We continue to provide direct assistance worth billions of taxpayer dollars to the one of the most corrupt nations in existence, with little or no effort to ensure transparency or proper accountability measures. And this has broader implications too.

The limited accountability of POL import controls increases the risk that U.S. taxpayer-funded fuel purchases are violating U.S. economic sanctions with Iran. The American taxpayer deserves better.

In his State of the Union last night, the President announced the upcoming withdrawal of 34,000 troops from Afghanistan. With the removal of US troops approaching, it becomes even more imperative that we implement better accountability measures for US funding that is headed directly to the Afghan government.

Mr. Sopko, you recently noted, referring to visiting reconstruction projects in Afghanistan, that "even in Kabul we cannot get the protection we need." You've also mentioned that "reconstruction projects exist with no U.S. oversight." Today, I would like your testimony to

also focus on how the withdrawal of troops will affect our oversight of reconstruction efforts in Afghanistan as it relates to U.S. direct assistance.

I want to thank Mr. Sopko for being here and for his continued work with this Committee. I look forward to his testimony.

I now recognize Ranking Member Tierney for his opening statement.

