Office of Inspector General

Testimony

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

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

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

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

Subcommittee on Contracting Oversight
Committee on Homeland Security and Governmental Affairs
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November 18, 2010

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

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

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

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

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

SIGAR's Request for Assistance

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

The CIGIE Chair convened the CIGIE Executive Council, of which, as Chair of the CIGIE Investigations Committee, I am a member, to discuss SIGAR's request and decide on an approach. Through these discussions, the CIGIE Executive Council determined that conducting three separate yet coordinated reviews following a standards-based approach would provide SIGAR with the useful, appropriate, and meaningful information it was requesting. In the interest of leveraging resources, we assembled a multi-disciplined group of professionals from seven OIGs[1] to participate on one of the three reviews, as follows:

- To examine SIGAR's audit organization, we opted to conduct an audit peer review in accordance with CIGIE's *Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*, based on requirements in the *Government Auditing Standards* (Yellow Book). As Chair of the CIGIE Audit Committee, my colleague Jon Rymer, Inspector General, FDIC, led this project and issued a separate report. He will address that report in both his written testimony and his testimony before this Committee.

- To examine SIGAR's investigative operations, we opted to conduct a quality assessment review to assess compliance with the PCIE/ECIE Quality Standards for Investigations and applicable Attorney General's Guidelines.[2] As the Chair of the CIGIE Investigations Committee and IG at the Tennessee Valley Authority, my office led that project and issued a separate report. We request that this report be included as part of the hearing record.

- To review the other management and support operations not covered by either peer review, we used the standards contained in the IG community's *Quality Standards for Offices of Inspector General* (Silver Book)[3] as a foundation for the review and as criteria from which to offer suggestions for improvement. The Silver Book standards set forth the overall approach for managing, operating, and conducting the work of Offices of Inspector General (OIG), and in the review team's opinion, provided a comprehensive and objective basis for conducting a review of this type. We consolidated the results of this review and the audit and investigative peer reviews into one report which Mr. Rymer and I signed and issued on August 10, 2010. We request that overall peer evaluation report be included as part of the hearing record.

Peer Evaluation of SIGAR

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

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

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

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

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

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

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

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

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

(1) A robust risk assessment and reassessment process, which considers stakeholder input at all levels, to ensure coverage of higher risk areas in audit and investigative strategic planning processes;

(2) Improvements in the area of performance management, including more definition in setting performance targets and a more comprehensive system of monitoring performance;

(3) Development and refinement of audit and investigative processes to address deficiencies and instances of noncompliance; and

(4) Implementation of quality assurance programs to ensure ongoing compliance with professional standards.

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

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

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

External Peer Review of SIGAR's Investigations Organization

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

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

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

Acknowledgements

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

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

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

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

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

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

Follow-On Review

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

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

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

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

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

Concluding Remarks

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

APPENDIX A

PEER EVALUATION OF THE SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION

August 2010

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

This review was conducted by the following Offices of Inspector General

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

Council of the
INSPECTORS GENERAL
on INTEGRITY and EFFICIENCY

August 10, 2010

Honorable Arnold Fields
Inspector General
Special Inspector General for Afghanistan Reconstruction

Dear General Fields:

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

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

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

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

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

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

Sincerely,

Jon T. Rymer
Chair, CIGIE Audit Committee

Richard W. Moore
Chair, CIGIE Investigations Committee

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Introduction

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

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

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

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

[2] Adopted by CIGIE but have not been reprinted.

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

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

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

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

Executive Summary

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

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

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

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

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

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

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

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

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

The investigation peer review resulted in a determination that SIGAR was not in compliance[7] with the peer review standards applicable to all statutory OIGs. The immediate consequence of this determination was that the Chairman of the CIGIE Investigations Committee forwarded the report to the Attorney General to consider whether SIGAR's law enforcement powers should be suspended, pending correction of the identified deficiencies. The investigative peer review team believes that these deficiencies, while significant, can be remedied by SIGAR over time, given the commitment of SIGAR's investigative staff to implement the required policies and procedures. Perhaps the one choice having the greatest impact on SIGAR's investigative operations during the review period was the decision not to actively hire investigators and put them in the field until one certain candidate for the Assistant Inspector General for Investigations (AIGI) position was hired. In the end, that candidate was not hired, and SIGAR's investigative productivity was adversely impacted for almost a year. Currently, however, SIGAR's agents work jointly with other agents on the International Contract Corruption Task Force in Afghanistan and are making a valuable contribution in the effort to combat fraud. SIGAR generally concurred with the findings included in the peer review report. Appendix V contains the final investigative report and SIGAR's comments.

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

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

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

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

History of SIGAR

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

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

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

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

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

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

SIGAR Funding, Staffing, and Operations

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

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

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

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

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

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

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

SIGAR-Identified Challenges

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

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

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

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

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

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

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

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

Observations and Suggestions by Silver Book Standard

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

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

Ethics, Independence, and Confidentiality

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

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

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

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

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

Suggestion

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

SIGAR Response

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

Professional Standards

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

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

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

Audit Organization Compliance with Standards

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

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

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

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

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

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

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

Suggestion

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

SIGAR Response

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

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

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

Suggestion

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

SIGAR Response

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

Investigation Organization Compliance with Standards

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

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

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

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

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

Suggestion

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

SIGAR Response

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

Suggestion

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

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

SIGAR Response

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

Suggestion

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

SIGAR Response

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

Ensuring Internal Control

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

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

Internal Risk Assessment

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

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

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

Suggestion

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

SIGAR Response

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

System of Internal Control

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

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

Suggestion

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

SIGAR Response

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

Maintaining Quality Assurance

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

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

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

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

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

Suggestion

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

SIGAR Response

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

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

Suggestion

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

SIGAR Response

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

Planning and Coordinating

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

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

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

Strategic Plan

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

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

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

Suggestion

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

SIGAR Response

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

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

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

Suggestion

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

SIGAR Response

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

Audit and Investigation Component Plans

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

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

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

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

Suggestion

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

SIGAR Response

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

Suggestion

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

SIGAR Response

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

Suggestion

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

SIGAR Response

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

Coordination of Audit Activities

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

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

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

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

Suggestion

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

SIGAR Response

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

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

Coordination of Investigative Activities

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

Suggestion

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

SIGAR Response

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

Communicating Results of OIG Activities

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

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

Keeping Informed

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

Quality Products

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

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

Attorney General Reporting

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

Managing Human Capital

> **Silver Book Standard:** Each OIG should have a process to ensure that the OIG's staff members collectively possess the core competencies needed to accomplish the OIG mission. Such a process for ensuring that OIG staff possess the requisite qualifications should encompass processes for recruiting; hiring; continuously developing, training, and evaluating staff; and succession planning to assist the OIG in maintaining a workforce that is capable of meeting its mission.

As previously discussed in this report, an OIG needs to establish an overall strategic direction to guide it as it carries out its mission. Key to accomplishing the mission is hiring, developing, and retaining a cadre of professionals who fully understand the mission and possess the needed core competencies to get the job done.

Hiring the Right People

The timely hiring of members of a senior leadership team is critical to the success of any new organization. According to information obtained through interviews, delays in hiring two of SIGAR's senior leaders may have negatively impacted the organization. For example, significant delays in the hiring of the AIGI contributed to the inability of SIGAR to put into place an effective investigative program for over one year. Prolonged efforts to bring a certain individual on board to occupy that position and hire his or her own investigative staff ultimately proved unsuccessful when that individual turned SIGAR down. It was not until September 2009 that another candidate was hired as the AIGI. As discussed further below, the two staff hired for the investigative function during that time, both of whom were attorneys with no prior investigative experience, conducted their work without the benefit of investigative senior leadership.

Additionally, the leadership role of a Deputy IG is to provide critical support to the IG and to ensure efficient and effective day-to-day operations. SIGAR does not have a permanent Deputy IG located in the U.S.; rather, an individual was serving in that role in an acting capacity during our review while at the same time serving as Assistant Inspector General for Audits. Concerns were expressed by SIGAR staff that delays in permanently filling this position were having negative impacts on SIGAR's operations.

Suggestion

We suggest that in the future SIGAR carefully evaluate the operational impact that delays in recruiting senior leadership have on the organization and develop alternative plans to ensure negative impacts are not experienced.

SIGAR Response

Accept. SIGAR leadership is committed to making timely decisions in recruiting and hiring senior staff. SIGAR has identified seven mission critical positions and is developing succession plans to ensure that any vacancy of a critical position will not have a negative impact on the agency. The positions are Inspector General; Deputy Inspector General; Assistant Inspectors General for the Directorates of Management and Support, Audits, and Investigations; the Director of the Information Management Division; and the Director of Forward Operations. SIGAR has had a Principal Deputy Inspector

General position which has been occupied since January 2009 and posted at the U.S. Embassy, Kabul. His principal duties have been to facilitate the standup of SIGAR permanent operations in Afghanistan and serve as the SIGAR primary day-to-day representative to U.S. Government and Afghan Government officials. Recruitment for the Deputy Inspector General position in SIGAR headquarters is under way. Succession plans for key positions will have been completed by October 31, 2010.

In reviewing SIGAR's history, we also noted certain staff hiring efforts that, in retrospect, seemed to be problematic. For example, SIGAR created an inspection function and proceeded to staff it with engineers. SIGAR reported in its July 30, 2009 quarterly report that a number of inspectors had been hired. SIGAR's January 30, 2010 quarterly report indicated that the inspection function had subsequently been merged with the audit function. We were told that the engineers who transferred to the audit organization did not necessarily possess the auditing core competencies required for that function, and some have subsequently left SIGAR. SIGAR appears to have invested substantial effort on the inspections hiring initiative, at the expense of other hiring that may have served it better.

While SIGAR has acknowledged the need to hire a more diverse auditor workforce and is taking aggressive steps to do so, it needs to be cautious and carefully consider its specific staffing and skill-set needs to ensure it makes good hiring decisions. In that connection, some stakeholders have expressed concerns that SIGAR needs to do more contract audits to ensure that contract deliverables are received and funds are appropriately used. Increasing coverage in these types of audits may require a different mix of skills and calls for careful consideration of the skill sets of those brought on board. As referenced above, SIGAR hired attorneys to serve as investigators even though they did not meet the minimum qualifications for investigators and had no prior experience as special agents. In this case, though well-intentioned, these individuals did not possess investigative skills that they could put to immediate use to help accomplish SIGAR's mission. SIGAR has subsequently hired a number of qualified special agents, who appear to have the core competencies to successfully carry out the investigative workload.

We believe that as SIGAR addresses the items discussed in the **Planning and Coordinating** standard, it may also identify changes in the core competencies needed by all SIGAR staff to fully accomplish its mission.

Suggestion

We suggest that SIGAR re-evaluate staffing and skill-set needs in conjunction with efforts to improve its risk assessment and planning processes.

SIGAR Response

Accept. In conjunction with SIGAR's risk-based analysis and assessment, SIGAR will continuously evaluate staffing and skill-set needs.

The Audit Directorate has 39 auditors or program analysts on board with 16 more in various stages of the hiring process, for a total of 55. Our audit staff comes from a wide range of organizations: 29 have prior GAO experience; 20 have worked with one or more Federal Inspectors General; 13 have prior

experience working on Afghanistan issues; 7 have worked with SIGIR; 5 bring expertise in the Dari and Pashtu languages; and 2 have worked with the Wartime Contracting Commission.

The Investigations Directorate has assembled a staff of highly experienced professional investigators, analysts, and other personnel. The Directorate's investigators have previous experience with the FBI; IRS; Drug Enforcement Administration; U.S. Customs and Border Protection; Department of Interior; U.S. Army Criminal Investigations Command; Naval Criminal Investigative Service; and SIGIR. SIGAR's current 19 Special Agents are senior-level, career law enforcement officers with an average of 26 years of relevant, federal law enforcement experience. Many have advanced degrees and professional certifications in disciplines such as accounting, fraud examination, and white-collar crime. Additionally, all 19 Special Agents are recertified and qualified in the use of firearms in accordance with FLETC standards and are current in required training and certification in the DOJ deadly force policy. As the Directorate grows, it continues to devote substantial managerial effort to hiring employees who can help expand its investigative capabilities. For instance, Directorate managers are evaluating the advantages of hiring additional speakers of Afghanistan's native languages. In defining all new positions and filling all future vacancies, the Directorate also will be mindful of the importance of hiring employees with skill sets that improve risk assessment and planning.

Developing and Retaining the Right People

A key aspect of this Silver Book standard on managing human capital includes the formal evaluation of staff performance. This process also contributes to decisions related to performance pay and promotion decisions. SIGAR's policy regarding the evaluation of employee performance had not been finalized at the time of our review. The draft policy provides some guidance related to defining certain performance elements and performance expectations along with a rating scale to be used in employee evaluations; however, SIGAR has not finalized the policy and does not routinely conduct performance evaluations. It should also be noted that employees are hired on 13-month appointments, and a process does exist to allow satisfactory employees to request extensions on their appointments.

Suggestion

We suggest that SIGAR proceed with its effort to put in place a more formal performance appraisal process to ensure a more structured approach to evaluating performance and making decisions related to pay and promotions.

SIGAR Response

Accept. As previously noted, SIGAR employees are identified as Department of the Army civilians for the purpose of administration of pay, leave, benefits, and entitlements. Therefore, SIGAR will use the performance evaluation system detailed in Army regulations as a basis for designing a performance evaluation system. The new system will be in place by September 30, 2010.

Continuing professional development is a critical element in ensuring that staff possess the requisite competencies. Additionally, professional standards require a comprehensive process to ensure training requirements are met. The audit peer review team did not identify any concerns related to audit staff training.

As discussed in Appendix V, the investigative peer review did note deviations from the law enforcement training and qualifications requirements. It is important to note, however, that all of the more recently hired investigators are very experienced criminal investigators and have had academy-level training. Both SIGAR's current practice and recently adopted policies do comply with these requirements.

In addition, SIGAR's law enforcement personnel were authorized to maintain and carry firearms. As of the period of our review, no SIGAR-specific firearms training had occurred, though one interviewed SIGAR investigator did report participating with other agencies in a firearms session in Afghanistan in October 2009. Although SIGAR's firearms training was deficient, as demonstrated in the investigative peer review, SIGAR conducted a firearms training session in Afghanistan on May 13 and plans to take other actions to ensure future compliance. SIGAR's recently adopted policies comply with the firearms training requirement.

Suggestion

We suggest that SIGAR continue to establish and implement requisite training and document and retain records relating to training.

SIGAR Response

Accept. SIGAR will complete the procurement of tracking software for training by September 30, 2010, which will greatly assist SIGAR in the process of documenting and retaining training records.

Reviewing Legislation and Regulations

> **Silver Book Standard:** Each OIG shall establish and maintain a system to review and comment on existing and proposed legislation, regulations, and those directives that affect the programs and operations of the OIG's agency or the mission and functions of the OIG.

SIGAR has not established and maintained a formal system to review and comment on existing and proposed legislation. SIGAR's rationale for not doing so is that it has the unique and time-limited responsibility to provide oversight of expenditures for Afghanistan reconstruction, a task performed by multiple offices in numerous agencies, rather than the more traditional oversight of permanent programs and operations of a single agency. While SIGAR reports dually to the Secretary of State and the Secretary of Defense, both respective departments have established OIGs with responsibility for reviewing legislation, regulations, and internal directives affecting those agencies.

SIGAR believes that its participation in the appropriations process and input to the legislative process fulfill its responsibilities in these areas. SIGAR has commented informally on issues directly affecting its mission and functions, insofar as that mission and those functions have been implicated in legislation affecting the IG community generally.

Receiving and Reviewing Allegations

> **Silver Book Standard:** Each OIG shall establish and follow policies and procedures for receiving and reviewing allegations to ensure that an appropriate disposition, including appropriate notification, is made for each allegation.

SIGAR initially established a Hotline, as reported in its quarterly report, dated January 30, 2009, and over time developed a Hotline Review Committee to receive, review, and appropriately disseminate (or dismiss) allegations. The Hotline was publicized through English, and later tri-lingual, posters, with both telephone and Internet accessibility. To expedite the handling of complaints, the process was moved to the investigations organization and placed under the control and supervision of the Deputy AIGI. During the time of our review, the Deputy AIGI enhanced the process and personally conducted the intake and review process and assigned or disseminated complaint information, as appropriate. However, the review team noted that the written policy at the time of our review did not reflect the current practice.

Suggestion

We suggest that SIGAR ensure that the draft hotline policy is revised and made final to reflect the current practice.

SIGAR Response

Accept. The Investigations Directorate has drafted a revised hotline policy to reflect the current practice. The policy will be issued by September 30, 2010.

Final Observations

SIGAR is a young organization with a difficult mission, operating in a complex, wartime environment. Following its creation, SIGAR was hampered by funding limitations, difficulties with its hiring authority and ability to attract qualified staff, and logistical constraints on its assignments of personnel to the war zone. While subsequent legislation and efforts on its own and by other organizations on its behalf remediated the most pressing of these issues (funding and hiring authority, in particular), SIGAR continues to operate with handicaps to its efficiency, as noted in this report.

External problems alone, however, do not account for some of SIGAR's missteps. These missteps included (1) delays in the hiring of key management personnel, (2) inconsistent emphasis on strategic planning and agency risk assessments, (3) a failure to establish appropriate policies and procedures to govern its investigative work, and (4) a choice to focus on productivity rather than ensuring that audits were conducted in accordance with professional standards. While these missteps are significant, it is critical to note that the ramifications can be addressed. In fact, since the initiation of this review, SIGAR has been working aggressively to remediate many of the concerns we have identified. SIGAR concurred with the results of the audit and investigative peer

reviews and has begun to implement actions to correct the deficiencies and instances of noncompliance.

The ultimate internal goal for SIGAR, as with any IG, should be to ensure that it is doing the right work, that it is doing it right, according to standards, with the right people, and at the right time. As noted in SIGAR's quarterly report, dated April 30, 2010, three developments during the first quarter of the year will shape the Afghanistan reconstruction program going forward: the President's budget request for an additional $20 billion in reconstruction funding, the Department of State's new strategy to build the capacity of Afghan institutions, and the international community's commitment to transition to control by the Government of the Islamic Republic of Afghanistan over its security and development. Each of these developments could significantly alter the fundamental risk environment surrounding SIGAR's operations and activities. Each development also gives rise to profound challenges to planning by an organization that is broadly charged with oversight of U.S. government programs and operations funded with appropriations for the reconstruction of Afghanistan.

In light of these developments and the likelihood of future changes in the region related to reconstruction efforts, it is our collective view based on the knowledge and experience of the review team that SIGAR should look to:

- Establish a robust, ongoing program of risk assessment and reassessment to better target its resources, be responsive to stakeholders, and adapt to the rapidly changing environment in which it operates;
- Continue to improve management processes, and in particular performance management and human capital, to ensure effective and efficient operations;
- Continue to develop and refine its audit and investigative processes to address deficiencies and instances of noncompliance and implement quality assurance activities to ensure ongoing compliance with professional standards; and
- Continue to work more effectively with stakeholders to meet their expectations.

We commend the IG for his willingness to seek an independent assessment of SIGAR's work standards; its policies, procedures and management structures; and its staffing. In addition to seeking an outside view, we believe that he should consider establishing stronger internal processes to foster an ongoing, frank internal dialogue whereby SIGAR will seek to continually challenge itself.

We appreciate the candor of SIGAR's external stakeholders, whose views on many subjects varied considerably, as well as the cooperation of the IG and his staff as we conducted our review.

SIGAR Comments and Our Evaluation

As reflected throughout this report, SIGAR's August 6, 2010 response letter contained its proposed actions to address the 22 suggestions that the review team made. For the most part, SIGAR expects to implement the actions by September 30, 2010. Additionally, the IG indicated that SIGAR will give top management attention to four specific areas of activity. As stated in the IG's response:

1. We are establishing a team to develop a robust process to systematically obtain stakeholder input, identify and mitigate risks, and set work priorities consistent with SIGAR's legislative mandate. Among other activities, the team will reach out to other Inspectors General and obtain input on best practices to use in a developing risk-based strategic plan for audit and investigations that is commensurate with SIGAR's mission and constraints.
2. We are correcting deficiencies identified in the peer reviews of audits and investigations by establishing and clarifying policies and procedures; developing checklists and other tools to ensure compliance; continuing to provide training; and conducting internal compliance inspections and follow-up on the recommendations made by the peer review teams.
3. We are enhancing quality assurance by both (a) continuing and expanding the Audit Directorate's program of quality control checks and activity monitoring to maintain reasonable assurance the Directorate is conducting its work in conformity with applicable professional standards and (b) establishing a comprehensive Self-Inspection Program in the Investigations Directorate by August 31, 2010. As part of the overall quality assurance initiative for Investigations, we are immediately putting into place an independent monitor with extensive experience in federal law enforcement policies, procedures, and standards. This monitor will act as a neutral expert in reviewing, evaluating, and to the extent necessary, further enhancing the comprehensiveness and effectiveness of SIGAR's responses to the peer review's suggestions.
4. We are developing systems to better assess performance of our organization as a whole, as well as of individual staff.

These four series of actions, together with the actions planned to address each suggestion in the report, should go a long way toward improving SIGAR's management, audit, investigative, and support operations and providing the level and quality of oversight of Afghanistan's reconstruction programs that the Congress intended and the taxpayer expects.

Appendix I

February 24, 2010, SIGAR Letter to CIGIE Chair

SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION

February 24, 2010

The Honorable Phyllis K. Fong
Inspector General, U.S. Department of Agriculture
Chair, Council of Inspectors General on Integrity and Efficiency (CIGIE)

Dear Ms. Fong,

The Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) has been in operation for just over a year. Since October 2008, we have grown from a staff of 2 to a staff of 78, and we are now producing audit reports and quarterly reports on a regular basis, as well as conducting a substantial body of investigative work. We are continuing to grow. For example, we expect to hire 5 auditors each month through the summer of this year.

As we grow, I want to make sure that we establish (1) appropriate standards for our work and (2) the policies, procedures, and management structures needed to ensure that we consistently meet those standards. In addition, I want to make sure that we are assembling a team of highly qualified staff who can conduct the level and quality of oversight that the Congress intended and that the taxpayer expects. Accomplishing all of these goals quickly is challenging.

I know that it would be normal practice to wait until at least the third year of SIGAR's existence before asking CIGIE to conduct a peer evaluation of our organization. However, as you know, there have been calls for close scrutiny of SIGAR. Therefore, I am asking that CIGIE consider engaging with SIGAR now. I would like CIGIE to examine aspects of our audit, investigative, and support operations to assist us in identifying improvements that should be made and to ensure that we are moving in the right direction.

I look forward to working with CIGIE to improve SIGAR so we can make necessary improvements as we continue to grow. I look forward to discussing my request with you in more detail at your convenience. I can be reached at 703-602-3807.

Very respectfully,

Arnold Fields
Special Inspector General for Afghanistan Reconstruction

400 ARMY NAVY DRIVE, ARLINGTON VA 22202

Appendix II

Objective, Scope, and Methodology

In February 2010, SIGAR requested that CIGIE examine aspects of SIGAR's management, audit, investigative, and support operations. Specifically, the IG asked for assistance in determining whether SIGAR had established (1) appropriate standards for SIGAR's work, (2) policies, procedures, and management structures needed to ensure those standards were consistently met, and (3) a team of highly qualified experts to conduct the level and quality of oversight over Afghanistan's reconstruction programs expected by the Congress. The Chairs of CIGIE's Audit and Investigations Committees led a standards-based assessment of SIGAR's operations, to include (1) an external peer review of the SIGAR audit organization (Audit Peer Review),[1] (2) an external quality assessment review of SIGAR investigative operations (Investigation Peer Review),[2] and (3) a review of other components of SIGAR's management and operations, which are not specifically addressed in the Audit Peer Review and the Investigation Peer Review.

The peer evaluation covered the elements of the Silver Book, dated October 2003. These elements include ethics, independence, and confidentiality; professional standards; ensuring internal control; maintaining quality assurance; planning and coordinating; communicating results of OIG activities; managing human capital; reviewing legislation and regulations; and receiving and reviewing allegations. The review team also considered legislation establishing SIGAR, specifically Public Law 110-181 and Public Law 111-15, and any other statutes specifically applicable to SIGAR's operations, as identified by SIGAR.

Both SIGAR and the review team acknowledge that the Silver Book provides general standards and does not prescribe specific, mandatory standards for the operation of an OIG. Accordingly, this report does not express an opinion as to compliance by SIGAR with the Silver Book, but rather builds on the collective knowledge and experience of the review team to provide suggestions in those circumstances where, in their judgment, improvements could be made or efficiencies achieved. As appropriate, certain aspects of the audit and investigation peer reviews are discussed in the body of the report in relation to relevant Silver Book standards.

To conduct this review, team members from several OIGs were assigned specific tasks related to the Silver Book elements. Each team member coordinated with points of contact within SIGAR to gather the relevant information. Specifically, the review team:

- Gained an understanding of SIGAR's organization and reviewed SIGAR's policies and procedures.
- Interviewed various levels of SIGAR's professional staff to assess their understanding of and responsibilities for relevant policies and procedures.

[1] The Audit Peer Review was conducted in accordance with CIGIE's *Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*, based on requirement in the Yellow Book.

[2] The Investigation Peer Review was conducted in accordance with *Quality Standards for Investigations.*

- Coordinated to gain an understanding of SIGAR's audit and investigative functions and operations, as identified by the peer review teams.
- Used the knowledge obtained from the preceding steps, to review risk, determine the nature and extent of tests to perform, and conclude whether an in-country visit was necessary and appropriate.
- Reviewed documents, sought evidence or conducted tests, as appropriate, to determine SIGAR's adherence to policies and procedures.
- Interviewed stakeholders, including congressional committees of jurisdiction, the Department of Defense and its component organizations, the Department of State, the U.S. Agency for International Development, and the Department of Justice.

The review team conducted work from April 2, 2010 to June 30, 2010, in Arlington (Crystal City), Virginia, and Kabul, Afghanistan.

Appendix III

List of Stakeholders Providing Input

Jasmeet Ahuja
Professional Staff Member
Committee on Foreign Affairs
U.S. House of Representatives

Aileen K. Alexander
Professional Staff Member
Committee on Armed Services
U.S. House of Representatives

Nick Arntson
Assistant Inspector General for Middle East Region
Office of Inspector General
Department of State

Preeta Bansal
General Counsel and Senior Policy Advisor
Office of Management and Budget

COL Lawrence Brundidge
Command Inspector General
U.S. Forces-Afghanistan

Michelle Burton
Deputy Director
Narcotics Affairs Section
Department of State

Michael Casey
Professional Staff Member
Committee on Armed Services
U.S. House of Representatives

Todd C. Chapman
Senior Deputy Coordinating Director for Development and Economic Affairs
U.S. Embassy Kabul

Lewis Conner
Financial Management Officer
Office of Financial Management
U.S. Agency for International Development

Carroll B. Correll
Internal Audit-North
U.S. Army Corps of Engineers

Margaret Daum
Staff Director
Ad Hoc Subcommittee on Contracting Oversight
United States Senate

LTC Steve Davis
Deputy Inspector General
U.S. Central Command

Donna Dinkler
Chief of Staff
Office of Inspector General
U.S. Agency for International Development

Nichole Distefano
Legislative Counsel
Office of Senator Claire McCaskill
United States Senate

COL John Ferrari
Acting Deputy Commander-Programs
NATO Training Mission-Afghanistan and Combined Security Transition Command-Afghanistan

Jeffrey J. Fitzpatrick
Assistant Regional Director
U.S. Drug Enforcement Administration
Department of Justice

Bill Frej
Outgoing Mission Director
U.S. Agency for International Development

Mark Gage
Deputy Staff Director
Committee on Foreign Affairs
U.S. House of Representatives

COL Mario Garcia
Inspector General
U.S. Central Command

Earl Gast
Incoming Mission Director
U.S. Agency for International Development

Jeremy Hayes
Military Legislative Aide
Office of Senator Tom Coburn
United States Senate

Sylvia Johnson
Counselor
Rule of Law
Department of State

Appendix III

Bob Jones
Legal Attaché
Federal Bureau of Investigation

COL Jeffrey Kent
Inspector General
Combined Security Transition Command-Afghanistan

Michael V. Kostiw
Professional Staff Member
Committee on Armed Services
United States Senate

Thuy K. Loi
Assistant Inspector General for Investigations
Office of Inspector General
Department of State

Tiffany Marlowe
Financial Attaché
Department of the Treasury

Denise Mason
Internal Audit
Afghanistan Engineer District-South
U.S. Army Corps of Engineers

COL Michael McCormick
District Commander-North
U.S. Army Corps of Engineers

J.T. "Mickey" McDermott
Special Deputy Inspector General
Southwest Asia
Office of Inspector General
Department of Defense

MG Timothy McHale
Deputy Commanding General
U.S. Forces-Afghanistan

Kevin Milas
Management Counselor
U.S. Embassy Kabul

William G.P. Monahan
Counsel
Committee on Armed Services
United States Senate

Michael A. Negron
Legal Counsel
National Security Council

Michael V. Phalen
Senior Professional Staff Member
Committee on Foreign Relations
United States Senate

Daud Shah
Supervisory Financial Analyst
Office of Financial Management
U.S. Agency for International Development

Julie Shemintz
Senior Legal Advisor
Department of Justice

Michael Spangler
Counselor
Economic Affairs
Department of State

Fatema Z. Sumar
Professional Staff Member
Committee on Foreign Relations
United States Senate

John K. Tien
Senior Director for Afghanistan and Pakistan
National Security Council

Mary Ugone
Deputy Inspector General for Audits
Office of Inspector General
Department of Defense

Norvel Vandyke
Inspector General Assessments
U.S. Central Command

JoAnne Wagner
Deputy Counselor
Political-Military Affairs Section
Department of State

Ambassador Anthony Wayne
Coordinating Director for Development and Economic Affairs
U.S. Embassy Kabul

Molly Wilkinson
General Counsel
Committee on Homeland Security and Governmental Affairs
United States Senate

COL Kevin Wilson, Commander
Afghanistan Engineer District-South
U.S. Army Corps of Engineers

Appendix IV

System Review Report on SIGAR's Audit Organization

Federal Deposit Insurance Corporation
3501 Fairfax Drive, Arlington, VA 22226 Office of Inspector General

July 14, 2010

The Honorable Arnold Fields
Special Inspector General for Afghanistan Reconstruction
400 Army Navy Drive
Arlington, Virginia 22202-4704

Subject: System Review Report on the Special Inspector General for Afghanistan Reconstruction's Audit Organization

Dear General Fields:

We have completed the external peer review of the Special Inspector General for Afghanistan Reconstruction's audit organization, conducted in accordance with the *Government Auditing Standards* and Council of the Inspectors General on Integrity and Efficiency guidelines. Enclosed is the final System Review Report, which includes your response to the draft. We have also incorporated excerpts of your response into the relevant sections of the final report.

We agree with your proposed corrective actions to the recommendations. We thank you and your staff for your assistance and cooperation during the conduct of the review.

Sincerely,

/Signed/

Jon T. Rymer
Inspector General and
Chair, Audit Committee
Council of the Inspectors General on Integrity and Efficiency

Enclosure

Federal Deposit Insurance Corporation
3501 Fairfax Drive, Arlington, VA 22226
Office of Inspector General

System Review Report

July 14, 2010

Honorable Arnold Fields, Inspector General
Special Inspector General for Afghanistan Reconstruction

We have reviewed the system of quality control for the audit organization of the Special Inspector General for Afghanistan Reconstruction (SIGAR) in effect for the year ended March 31, 2010. A system of quality control provides the audit organization with reasonable assurance of conformity with *Government Auditing Standards* (commonly referred to as the Yellow Book). The elements of quality control are described in the Yellow Book.

SIGAR is responsible for designing a system of quality control and complying with it to provide SIGAR with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. SIGAR's system of quality control consists of its audit organization, headed by the Assistant Inspector General for Audit (AIGA), and its policies and procedures, as articulated in its Audit Policy and Procedures Manual (APPM) and carried out by the audit staff working both in the United States and Afghanistan.

We conducted our review in accordance with the Yellow Book and guidelines established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). During our review, we interviewed personnel in SIGAR offices located in Arlington, Virginia, and Kabul, Afghanistan, to obtain an understanding of the nature of SIGAR's audit organization and the design of SIGAR's system of quality control to assess the risks implicit in its audit function. Based on our assessments, we reviewed all audit engagements and selected administrative files to test for conformity with the Yellow Book and compliance with SIGAR's system of quality control. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it. Prior to concluding the review, we met with SIGAR management on June 18, 2010, to discuss the results of our review. Enclosure 1 to this report identifies the engagements we reviewed.

There are inherent limitations in the effectiveness of any system of quality control and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

Our responsibility is to express an opinion on the design of the system of quality control and SIGAR's compliance therewith based on our review. We believe the process we followed and the procedures we performed provide a reasonable basis for our opinion.

In our opinion, the system of quality control for SIGAR's audit organization in effect for the year ended March 31, 2010, was suitably designed. Further, except for the deficiencies described below, SIGAR complied with its system of quality control and has reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. SIGAR has received a peer review rating of *pass with deficiencies*.[1]

System of Quality Control Was Suitably Designed

SIGAR filled the AIGA, Deputy Assistant Inspector General for Audit (DAIGA), and two other audit positions by February 2009. The DAIGA is the senior audit position in Kabul, and established the audit presence in the region. Audit staff gradually increased over time and, as of June 18, 2010, SIGAR's audit organization was comprised of 34 staff, with 23 located in Arlington, Virginia, and 11 in Kabul, Afghanistan.

To guide the audit organization from the start, SIGAR adopted, for the most part, the policies and procedures of the Special Inspector General for Iraq Reconstruction and operated using those policies from February to May 2009. In May 2009, SIGAR formally issued its own draft APPM, which it updated and issued in final form on March 27, 2010. SIGAR recently issued two audit directives on continuing professional education and quality assurance and a policy statement on freedom from external impairments. SIGAR performed audit work and issued the reports covered in our review pursuant to the draft versions of the APPM.

Deficiencies Noted in the Compliance with the System of Quality Control

Our review identified five deficiencies in SIGAR's compliance with its system of quality control. A deficiency is one or more findings that the review team has concluded, due to the nature, causes, pattern, or pervasiveness, including the relative importance of the finding to the audit organization's system of quality control taken as a whole, could create a situation in which the audit organization would not have reasonable assurance of performing and/or reporting in conformity with applicable professional standards in one or more important respects. These deficiencies are as follows:

1. Implementing a Quality Assurance Program - The Yellow Book considers monitoring of quality as an ongoing, periodic assessment of work completed on audits and provides that an audit organization should analyze and summarize results of its monitoring procedures at least annually, to identify any systemic issues needing improvement and recommend corrective actions. A quality assurance program ensures that work performed adheres to established policies and procedures; meets established standards of performance, including applicable professional standards; and is carried out economically, efficiently, and effectively.

[1] Federal audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*.

The SIGAR APPM in effect over the period of our review did not expressly provide for a quality assurance program and those responsibilities were not being performed. As such, SIGAR had not conducted any quality assurance reviews for our team to review.

On March 29, 2010, SIGAR reassigned a Senior Audit Manager to the newly established position of Quality Control Director and, on May 24, 2010, issued a directive, *Quality Control and Assurance,* which provides that the Quality Control Director develop a plan to inspect, at least annually, a sample of reports and summarize the results. At the meeting on June 18, the Quality Control Director indicated that a quality assurance program had not been implemented sooner due to demands for productivity and timely issuance of audit reports. The AIGA also informed us that a process for reviewing quality control files of completed audits had begun and that one review had been completed. These reviews will be summarized in a quarterly report identifying any systemic issues needing improvement along with recommendations for corrective action.

Recommendation 1: As part of the emerging Quality Assurance Program, the AIGA should require use of the CIGIE peer review guide performance audit checklist (Appendix E) as a methodology for quality assurance reviews of completed audits.

Views of Responsible Official: Concur. The AIGA will require the use of Appendix E in the CIGIE Peer Review Guide as the methodology for conducting its annual quality assurance reviews. The APPM will be modified accordingly. The Quality Control Director has already begun using the guide.

Recommendation 2: The AIGA should meet the Yellow Book's annual summary requirements for the past year by soliciting auditors-in-charge and referencers to identify any systemic Yellow Book and APPM issues needing improvement and take appropriate corrective action.

Views of Responsible Official: Concur. The AIGA has directed the Quality Control Director to solicit comments to identify systemic issues needing improvement and will make recommendations to the AIGA for corrective action, as appropriate, and at least on a quarterly basis. The Quality Control Director has already begun this process.

2. Planning - Audit planning is critical to the audit process. The audit plan provides the roadmap to conclude on audit objectives and reduces audit risk to an appropriate level to provide reasonable assurance that the evidence is sufficient and appropriate to support the auditors' findings, conclusions, and recommendations. During our review, we noted two particular areas where the APPM had established the policies and procedures to be followed but compliance with these policies and procedures was inconsistent.

    - The APPM requires that four planning elements for internal control; computer-processed data; compliance with laws, regulations, and provisions of contracts; and fraud risk be considered to determine their significance to the audit objectives. When significance is established, auditors are required to plan procedures and obtain sufficient, appropriate evidence to support their

conclusions. In the 10 audit plans supporting the 12 audits we reviewed, 5 of the 10 did not have evidence that these 4 elements were considered.

- The APPM also requires that audit plans be approved prior to the conduct of significant fieldwork. The 10 audit plans were either not approved or were approved close to the final report issuance date. Specifically, 8 audit plans were never approved and 2 others were approved 4 days and 31 days before the final report issuance date.

At the June 18 meeting, audit organization leadership commented that there were usually no formal meetings to specifically support audit plan development and that they chose to focus on productivity rather than implementing quality control activities. The representatives indicated that they were aware of these issues and have adopted a current process providing for audit plan development based on meetings, staff input, and formal approval. They also noted that, with the addition of more audit staff members, Senior Audit Managers now have increased involvement with audit planning, as they are now primarily supervising rather than performing the audits.

Recommendation 3: The AIGA should reiterate to the audit staff the Yellow Book and APPM requirements for (a) considering whether the four planning elements are significant to the audit objective, and, if so, preparing documentation of the detailed audit steps needed to obtain sufficient, appropriate evidence to support their conclusions and (b) approving audit plans prior to conducting significant fieldwork.

Views of Responsible Official: Concur. The AIGA will implement this recommendation through a memo to staff and at the next staff meeting. The memo will also be provided and explained to all future staff as part of their in-processing package. In addition, the AIGA is hiring additional Senior Audit Managers to ensure that supervisory review is conducted in a timely and appropriate manner, including the preparation of the audit plan and consideration of the four planning elements. Finally, the Quality Control Director will review the audit plan as part of the Quality Control File review for each engagement to ensure that (1) the appropriate documentation has been prepared to meet the requirements and (2) appropriate approval of audit plans occur prior to significant fieldwork.

3. Documentation and Supervision - The APPM states that audit documentation (commonly called work papers) are records developed while performing an audit, which provide sufficient detail to enable an experienced auditor having no previous connection to the audit to understand from the audit documentation the nature, timing, extent, and results of audit procedures performed, the audit evidence obtained and its source, and the conclusions reached, including evidence supporting the auditors' significant judgments and conclusions. SIGAR's APPM also states that all work papers should be clearly identified with the preparer's name, date prepared, title, source, and purpose; and finally it states that supervisors should review audit documentation for Yellow Book compliance and overall sufficiency and appropriateness of evidence. Incomplete audit documentation can reduce the effectiveness of audit supervision and other quality

control measures designed to ensure that findings, conclusions, and recommendations are supported.

Based on our review, work papers for 4 of 12 audits were not prepared and organized consistent with the APPM. A majority of the work papers we reviewed lacked documentation of purpose, source, and conclusion, and the work papers did not identify the preparer and reviewer, which serves as evidence of supervisory review, and the dates these activities were completed.

The final version of the APPM, issued March 27, 2010, provides for further assurance, stating that each document should also include the name of the reviewer, and the Quality Control Director will review audit documentation for conformity with standards and the APPM.

Recommendation 4: The AIGA should take steps to enforce adherence to the APPM and its quality control system and place increased emphasis on ensuring that (a) audit documentation clearly indicates the nature, timing, and extent of audit procedures, consistent with Yellow Book requirements and (b) supervisory review of the audit work that supports the findings, conclusions, and recommendations occurs and is documented.

Views of Responsible Official: Concur. The AIGA will communicate the importance of adherence to the APPM in a memo to staff and at the next staff meeting. The memo will also be provided and explained to all future staff as part of their in-processing package. Furthermore, documentation capabilities will be facilitated through the development and deployment of a document management system that the AIGA expects will allow secure, timely, accurate transfer and storage of data files between Arlington, Virginia and Kabul, Afghanistan. Having an effective document management system and hiring additional Senior Audit Managers will help to ensure that audit documentation procedures are followed and supervisory review of the audit work has occurred and been documented. Finally, the Quality Control Director will review audit documentation as part of the Quality Control File review for each engagement to ensure that the proper supervisory steps were taken.

4. Reporting - SIGAR's APPM requires that audit objectives be communicated in a clear, specific, neutral, and unbiased manner. The APPM also requires that all four finding elements - criteria, condition, cause, and effect - be described in the report and recommendations should logically flow from findings and conclusions and clearly state the corrective action to be taken. The APPM further requires that reports include an explanation of any significant internal controls assessed, the scope of the assessment work, and any significant deficiencies. When auditors meet these requirements, readers of SIGAR's audit reports will be presented with a clear and concise summarization of the audit process, findings, conclusions, and recommendations.

   Our review determined that SIGAR's audit reports were not always prepared in accordance with the APPM. Specifically we found that:

- Objectives for 6 of 12 reports were not expressed in a clear and concise manner.

- The 4 finding elements necessary to address objectives were not clearly presented in 7 of the 12 reports. Further, recommendations did not flow logically from findings and conclusions in 6 of the 7 reports.

- The scope of work on internal control was not described in any of the 12 reports.

Recommendation 5: The AIGA should ensure that, in accordance with the APPM, audit objectives are expressly (a) identified in a clear and concise manner in the first paragraph of the report and the Scope and Methodology appendix and (b) concluded upon in a results of audit section in the report body.

Recommendation 6: The AIGA should ensure that all finding elements are developed unless determined during planning and fieldwork that certain finding elements are not necessary in relation to the audit objectives. The AIGA should also ensure that report recommendations logically flow from the findings and conclusions and that audit reports explain the extent of the internal control assessment and deficiencies.

Views of Responsible Official: Concur 5 and 6. The AIGA will communicate the importance of reporting in a memo to staff and at the next staff meeting. In addition, the AIGA hired a writer/editor in February 2010 to provide substantive review on reports throughout report development and writing. The AIGA also plans to hire a full-time report reviewer to support auditors in reporting the findings and ensuring that the report clearly and concisely states the audit objectives, recommendations flow logically from the findings and conclusions, and internal controls are assessed, noting any deficiencies found.

5. Independent Referencing - The APPM provides that independent referencing is an integral part of the audit quality control process that helps to ensure the draft and final reports are accurate and adequately supported by the audit documentation.
In our review, we found that independent referencing was not completed for five audits. In one audit, the independent referencing process ceased after the audit team addressed 14 of the 54 referencing comments. SIGAR issued both the draft and final reports of this audit without addressing the unanswered referencing comments. In the 4 other audits with open referencing comments, one had 4 open comments from a universe of 53, another had 4 open comments from a universe of 18, a third had 27 open comments from a universe of 86, and the fourth had 24 open comments from a universe of 240.

Audit organization leadership acknowledged that early in SIGAR's history, other pressing priorities prevented a strong commitment to complete independent referencing reviews. We were advised that difficulties in independent referencing also resulted from hiring staff from various agencies and conducting work in two locations (and time zones), some auditors had not previously referenced, and others used different processes for referencing. However, audit organization leadership asserted that reports will not be issued in the future without completed independent referencing reviews.

Recommendation 7: The AIGA should reiterate the APPM requirements for completing the independent referencing process for draft and final reports.

Recommendation 8: The AIGA should (a) provide independent referencer training to audit staff and (b) develop and implement an independent referencer checklist to help ensure that audit quality initiatives are met.

Views of Responsible Official: Concur 7 and 8. The AIGA will reiterate the independent referencing requirements to audit staff at the next staff meeting and in a memo to staff and has included a referencing module in the 2-day training for auditors in August 2010. A referencing checklist will be developed by September 30 to help ensure audit quality. The AIGA is also considering hiring a full-time auditor dedicated to referencing.

Enclosure 2 includes SIGAR's full response to the recommendations in this report.

As is customary, we have issued a letter dated July 14, 2010 that sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report. SIGAR's response to that letter is included as an enclosure to the letter.

/Signed/

Jon T. Rymer
Inspector General and
Chair, Audit Committee
Council of the Inspectors General on Integrity and Efficiency

Enclosures

Appendix IV

SCOPE AND METHODOLOGY (Enclosure 1)

We tested compliance with the SIGAR audit organization's system of quality control to the extent we considered appropriate. These tests included a review of the 12 audit reports issued by SIGAR during the period April 1, 2009 through March 31, 2010. The SIGAR APPM in effect over the period of our review did not expressly provide for a quality assurance program and those responsibilities were not being performed. As such, SIGAR had not conducted any quality assurance reviews of the audits issued during our review period.

The CIGIE *Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*, dated March 2009, was used in the conduct of the review. We visited SIGAR's offices in Arlington, Virginia, and Kabul, Afghanistan.

Reviewed Audit Reports Issued by SIGAR

No.	Date	Title
09-1	05/19/2009	*Contract Oversight Capabilities of the Defense Department's Combined Security Transition Command - Afghanistan (CSTC-A) Need Strengthening*
09-3[2]	07/30/2009	*A Better Management Information System Is Needed to Promote Information Sharing, Effective Planning, and Coordination of Afghanistan Reconstruction Activities*
09-4	08/27/2009	*Actions Needed to Resolve Construction Delays at the Counter-Narcotics Justice Center*
09-5	09/9/2009	*Increased Visibility, Monitoring, and Planning Needed for Commander's Emergency Response Program in Afghanistan*
09-6	9/22/2009	*Strategy and Resources Needed to Sustain Afghan Electoral Capacity*
09-7	09/30/2009	*Documenting Detention Procedures Will Help Ensure Counter-Narcotics Justice Center Is Utilized As Intended*
10-1	10/28/2009	*Barriers to Greater Participation by Women in Afghan Elections*
10-2	12/16/2009	*Afghanistan's High Office of Oversight Needs Significantly Strengthened Authority, Independence, and Donor Support to Become an Effective Anti-Corruption Institution*
10-3	12/18/2009	*Actions Needed for a More Strategic Approach to U.S. Judicial Security Assistance*
10-4	01/15/2010	*Afghanistan Energy Supply has Increased, but an Updated Master Plan is Needed, and Delays and Sustainability Concerns Remain*
10-6[3]	01/20/2010	*Contract Delays Led to Cost Overruns for the Kabul Power Plant, and Sustainability Remains a Key Challenge*
10-7	03/01/2010	*The Tojg Bridge Construction Is Nearly Complete, but Several Contract Issues Need to Be Addressed*

[2] Report 09-2 was identified as a "letter report" and did not state that the work was performed in accordance with the Yellow Book; therefore, it was excluded from our count.
[3] SIGAR did not use report number 10-5.

Appendix IV

SIGAR RESPONSE TO DRAFT SYSTEM REVIEW REPORT (Enclosure 2)

SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION
Main: 703-602-3840
400 Army Navy Drive
Arlington, VA 22202-4704
www.sigar.mil

Arnold Fields, Inspector General

July 9, 2010

Honorable Jon T. Rymer
Inspector General, Federal Deposit Insurance Corporation and
Chair, Audit Committee, Council of the Inspectors General
on Integrity and Efficiency (CIGIE)

Thank you for the opportunity to comment on the draft System Review Report, which stated that SIGAR's audit organization was suitably designed for the year ending March 31, 2010. This report concluded that, with the exception of 5 deficiencies, SIGAR complied with its system of quality control and has reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

SIGAR is appreciative of having been evaluated by the peer review team early in the life of our organization so that problems could be surfaced early and corrective actions taken promptly. We believe it is important to note that SIGAR's first auditor was hired in January 2009, and by June 2010 SIGAR had recruited and hired 35 auditors and analysts for the audit directorate. The rapid growth in staff, coupled with the need to develop procedures and simultaneously conduct fieldwork, constrained our ability to properly document all the actions necessary to conduct frequent quality control checks and review activities. However, we expect to conduct quality assurance reviews in a timely manner and analyze and summarize the results of our monitoring procedures at least annually, as required. In addition, SIGAR has developed other quality control and assurance measures to ensure that key audit steps are taken and documented.

We concur with all of the recommendations in the report. We have already taken some actions to implement the recommendations and plan to complete implementation by September 30, 2010. Moreover, we recognize that quality control and assurance is a continuous function requiring vigilance. The Assistant Inspector General for Audits (AIGA) is taking a multi-faceted approach to correct the deficiencies you have identified. We have established an ongoing quality assurance program to continually monitor our performance. In August, we plan a two-day training course on auditing standards, practices, and procedures to address issues highlighted by the peer review team. Other measures include:

- discussing peer review results at the next all-hands staff meeting in August 2010,
- developing checklists, such as for independent referencing,
- modifying the policy manual,
- clarifying guidance as appropriate,
- providing quality assurance and audit skills training to all audit staff, and
- conducting follow-up on peer review recommendations.

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Appendix IV

Implementing a Quality Assurance Program

Recommendation 1: As part of the emerging Quality Assurance Program, the AIGA should require use of the CIGIE peer review guide performance audit checklist (appendix E) as a methodology for quality assurance reviews of completed audits.

> Response: Concur. AIGA will require the use of Appendix E in the CIGIE Peer Review Guide as the methodology for conducting its annual quality assurance reviews. The Audit Policy and Procedures Manual (APPM) will be modified accordingly. The Quality Control Director has already begun using the guide.

Recommendation 2: The AIGA should meet the Yellow Book's annual summary requirements for the past year by soliciting auditors-in-charge and referencers to identify any systemic Yellow Book and APPM issues needing improvement and take appropriate corrective action.

> Response: Concur. The AIGA has directed the Quality Control Director to solicit comments to identify systemic issues needing improvement and will make recommendations to AIGA for corrective action, as appropriate, and at least on a quarterly basis. The Quality Control Director has already begun this process.

Planning

Recommendation 3: The AIGA should reiterate to the audit staff the Yellow Book and APPM requirements for (a) considering whether the four planning elements are significant to the audit objective, and if so, preparing documentation of the detailed audit steps needed to obtain sufficient, appropriate evidence to support their conclusions and (b) approving audit plans prior to conducting significant fieldwork.

> Response: Concur. The AIGA will implement this recommendation through a memo to staff and at the next staff meeting. The memo will also be provided and explained to all future staff as part of their in-processing package. In addition, the AIGA is hiring additional Senior Audit Managers to ensure that supervisory review is conducted in a timely and appropriate manner, including the preparation of the audit plan and consideration of the four planning elements. Finally, the Quality Control Director will review the audit plan as part of the Quality Control File review for each engagement to ensure that (1) the appropriate documentation has been prepared to meet the requirements and that (2) appropriate approval of audit plans occur prior to significant fieldwork.

Documentation and Supervision

Recommendation 4: The AIGA should take steps to enforce adherence to the APPM and its quality control system and place increased emphasis on ensuring that (a) audit documentation clearly indicates the nature, timing, and extent of audit procedures, consistent with Yellow Book requirements and (b) supervisory review of the audit work that supports the findings, conclusions, and recommendations occurs and is documented.

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Response: Concur. The AIGA will communicate the importance of adherence to the APPM in a memo to staff and at the next staff meeting. The memo will also be provided and explained to all future staff as part of their in-processing package. Furthermore, documentation capabilities will be facilitated through the development and deployment of a document management system that AIGA expects will allow secure, timely, accurate transfer and storage of data files between Arlington, Virginia; and Kabul, Afghanistan. Having an effective document management system and hiring additional senior audit managers will help to ensure that audit documentation procedures are followed and supervisory review of the audit work has occurred and been documented. Finally, the Quality Control Director will review audit documentation as part of the Quality Control File review for each engagement to ensure that the proper supervisory steps were taken.

Reporting

Recommendation 5: The AIGA should ensure that, in accordance with APPM, audit objectives are expressly (a) identified in a clear and concise manner in the first paragraph of the report and the Scope and Methodology appendix, and (b) concluded upon in a results of audit section in the report body.

Recommendations 6: The AIGA should ensure that all finding elements are developed unless determined during planning and fieldwork that certain finding elements are not necessary in relation to the audit objectives. The AIGA should also ensure that report recommendations logically flow from the findings and conclusions and that audit reports explain the extent of the internal control assessment and deficiencies.

Response: Concur (5) and (6). The AIGA will communicate the importance of reporting in a memo to staff and at the next staff meeting. In addition, the AIGA hired a writer/editor in February 2010 to provide substantive review on reports throughout report development and writing. The AIGA also plans to hire a full-time report reviewer to support auditors in reporting the findings and ensuring that the report clearly and concisely states the audit objectives, recommendations flow logically from the findings and conclusions, and internal controls are assessed, noting any deficiencies found.

Independent Referencing

Recommendation 7: The AIGA should reiterate the APPM requirements for completing the independent referencing process for draft and final reports.

Recommendation 8: The AIGA should (a) provide independent referencing training to audit staff and (2) develop and implement an independent referencing checklist to help ensure that audit quality initiatives are met.

Response: Concur (7) and (8). AIGA will reiterate the independent referencing requirements to audit staff at the next staff meeting and in a memo to staff and has included a referencing module in the two-day training for auditors in August 2010. A referencing checklist will be developed by September 30 to help ensure audit quality. AIGA is also considering hiring a full-time auditor dedicated to referencing.

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Thank you again for the opportunity to comment and for responding to my request for assistance so quickly and professionally.

Sincerely yours,

/Signed/

Arnold Fields, Inspector General
Special Inspector General for Afghanistan Reconstruction

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Appendix V

Report on the Quality Assessment Review of the Investigative Operation of SIGAR

Report on the Quality Assessment Review of the Investigative Operation of the Office of Special Inspector General for the Afghanistan Reconstruction

Conducted at

Arlington, Virginia and Kabul, Afghanistan

by

Offices of Inspector General of

Tennessee Valley Authority

Department of Defense

Department of State

Department of Interior

Department of Agriculture

Agency for International Development

The Honorable Richard W. Moore

Inspector General, TVA

July 2010

Appendix V

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Opinion Letter on the Investigative Operations Quality Assessment Review

Attachment 1 **Report with Findings**

Attachment 2 **Listing of Sampled Closed Investigations Files**

Attachment 3 **SIGAR Inspector General's Comments**

Appendix V

Report on the External Quality Assessment Review

July 14, 2010

Via Electronic Transmission

General Arnold Fields
Special Inspector General for Afghanistan Reconstruction
2221 South Clark Street
Suite 800
Arlington, Virginia 22202

Subject: ***Report on the Quality Assessment Review of the Investigative Operations of the Office of Inspector General for the Special Inspector General for Afghanistan Reconstruction (SIGAR)***

Dear General Fields:

We have reviewed the system of internal safeguards and management procedures for the investigative function of the Office of Special Inspector General for Afghanistan Reconstruction in effect for the period ended April 16, 2010. Our review was conducted in conformity with the PCIE/ECIE Quality Standards for Investigations, the Quality Assessment Review guidelines established by the Council of the Inspectors General on Integrity and Efficiency, and the Attorney General's Guidelines for Office of Inspectors General with Statutory Law Enforcement Authority, as applicable.

We reviewed compliance with SIGAR's system of internal policies and procedures to the extent we considered appropriate. The review was conducted at the headquarters office in Arlington, Virginia. Additionally, we reviewed all case files for investigations closed since the inception of SIGAR's investigative function (Attachment Two – Listing of Sampled Closed Investigations Files).

In performing our review, we have given consideration to the prerequisites of Section 6(e) of the Inspector General Act of 1978 (as amended) and Section 812 of the Homeland Security Act of 2002 (Pub.L. 107-296). Those documents authorize law enforcement powers for eligible personnel of each of the various offices of presidentially appointed Inspectors General. Those powers may be exercised only for activities authorized by the Inspector General Act of 1978, other statutes, or as expressly authorized by the Attorney General.

In our opinion, the system of internal safeguards and management procedures for the investigative function of SIGAR in effect for the period ended April 16, 2010, was not in compliance with the quality standards established by the PCIE/ECIE, the CIGIE, and the Attorney General guidelines. Our opinion is based on the 10 reportable findings provided to you in Attachment One which represent weaknesses and opportunities for improvement. In our view, the safeguards and management procedures in this organization did not provide reasonable assurance of conforming with professional standards in the conduct of its investigations from the inception of SIGAR to April 16, 2010. Your comments, dated July 9, 2010, are included as Attachment Three.

Appendix V

While we find that SIGAR was not in compliance as outlined above, the review team has concluded that the implementation of new policies and procedures along with remediation of the findings are likely to result in full compliance in the near future and in all likelihood in less than six months. You and your staff exhibited a complete willingness to embrace opportunities for improvement and to implement recommendations as quickly as possible.

This report is being forwarded to the Attorney General of the United States pursuant to applicable law for action he may deem appropriate.

Finally, I want to extend my sincere gratitude to you and your staff for the professionalism and courtesies extended to the review team both in Arlington, Virginia, and particularly in Kabul, Afghanistan. Our in-country review in Afghanistan demonstrated to me personally the critical nature of the work being done by SIGAR personnel in a volatile war zone environment.

Sincerely,

Richard W. Moore
Chair, Investigations Committee
Council of the Inspectors General
on Integrity and Efficiency

Enclosure

Appendix V

ATTACHMENT
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FINDINGS

1. Investigations Directorate Policies and Procedures: In sum and substance, there were nearly no official investigative policies and procedures in place prior to March 2010 and, therefore, no investigative activities in compliance therewith. Policies and procedures found in the "*SIGAR Agent Manual*" were almost entirely verbatim copies of policies and procedures borrowed from the Special Inspector General for Iraq Reconstruction (hereafter SIGIR). Many of these borrowed policies and procedures bore watermarks (evidently as received from SIGIR) indicating they were in draft form. Policies not coming from the SIGIR manual were largely formulated and formally adopted in the weeks immediately preceding the Quality Assessment Review (QAR) and were virtual mirrors of the QAR standards which lacked implementation processes. This finding covers the period prior to March 25, 2010, and applies to every aspect of the standardized CIGIE *Qualitative Assessment Review Guidelines for Federal Offices of Inspector General* (May 2009) (Appendices B and C-1).

2. The *Attorney General Guidelines for Offices of Inspector General with Statutory Law Enforcement Authority* (2003) (Section IV(A)) require that OIGs certify that individuals exercising law enforcement powers have completed Basic Criminal Investigator Course at Federal Law Enforcement Training Center (FLETC) or a comparable course of instruction. SIGAR's Investigations Directorate effectively began in early 2009 with two investigators and later, in the fall of 2009, an Acting Assistant Inspector General (Investigations) (A-AIGI). One of the two investigators had received academy-level training. Neither the other investigator nor the A-AIGI, both experienced licensed attorneys, had received such training. This is considered worthy of note in the context of the truncated period of review. In effect, half of the investigators (n=1) for roughly half the operational duration of the agency's existence (seven months) did not meet the law enforcement training requirements set forth in the *Attorney General Guidelines for Offices of Inspector General with Statutory Law Enforcement Authority* (2003) (Section IV(A)). The QAR team did note, however, that all of the more recently hired investigators have had academy-level training and are generally very experienced criminal investigators. SIGAR's current practice and recently adopted policies do comply with this requirement.

3. The *Attorney General Guidelines for Offices of Inspector General with Statutory Law Enforcement Authority* (2003) (Section IV(A)) also require that the OIG provide periodic refresher training to its agents. SIGAR's Investigations Directorate had no infrastructure which captured specific training received during the review period, and as such, there were insufficient training records to substantiate agency-wide compliance with this standard. No clear anecdotal evidence mitigated this finding.

4. The *Attorney General Guidelines for Offices of Inspector General with Statutory Law Enforcement Authority* (2003) (Section IV(B)) require that eligible individuals receive initial and periodic firearms training and recertification in accordance with FLETC standards. SIGAR's Investigations Directorate had no infrastructure which captured firearms training received during the review period, and as such, there were insufficient training records to substantiate agency-wide compliance with this standard. No clear anecdotal evidence mitigated this finding.

Appendix V

ATTACHMENT
Page 2 of 2

5. The *Attorney General Guidelines for Offices of Inspector General with Statutory Law Enforcement Authority* (2003) (Section IV(C)) require that OIGs receive training on and adopt Department of Justice (DOJ) deadly force policy. SIGAR's Investigations Directorate had no infrastructure which captured training received relating to the DOJ deadly force policy during the review period. As such, there were insufficient training records and no clear anecdotal evidence to substantiate agency-wide compliance with this standard.

6. The *Quality Standards for Investigations*, Qualitative Standards, Section A, p. 8, require that OIG investigative organizations establish organizational and case specific priorities and develop objectives to ensure that individual case tasks are performed efficiently and effectively. SIGAR's Investigations Directorate lacked an adopted, documented and agency-wide prioritization document during nearly all of the review period.

7. The *Quality Standards for Investigations*, Qualitative Standards, Section A, p. 8, also require a basic, single-source planning document that presents the organization's goals, allocation of resources, budget guidance, performance measures, and a guide for managers to implement these plans. SIGAR had not, at the time of onsite review, adopted such a planning document in the form of a Strategic Plan or other similar instrument.

8. The *Quality Standards for Investigations*, Qualitative Standards, Section D, pp. 12, 13, require that an organization have an organizational component responsible for record maintenance and specific procedures to be performed. SIGAR did not, prior to the review, have such a component identified. This standard is in the context of information management standards which dictate that investigative data be stored in a manner allowing effective retrieval, cross-referencing, and analysis. Prior to late November 2009, files were practically maintained in raw form in Afghanistan. In November 2009, a simple but generally effective and efficient case management system was developed at SIGAR's headquarters. Though no policy was put in place at the time, a practice did develop which sufficiently centralized information management functions. The most debilitating variable in this regard noted by the peer review team, and shared by SIGAR management, is the lack of an electronic file maintenance system. The team noted that SIGAR management is aggressively pursuing the identification of such a system, and information management issues are likely to diminish rapidly following adoption and deployment.

9. The *Quality Standards for Investigations*, Qualitative Standards, Section D, pp. 13, 14, require that an organization's management information system collect the data needed to assist management in performing its responsibilities, measuring its accomplishments, and responding to external customers. SIGAR's Investigations Directorate information management system did not exist in any identifiable capacity until approximately late November 2009. While the file management system created in November 2009 is adequate for day-to-day operations, the system at the time of review lacked the power to assist management in the conduct of its responsibilities. As noted above, the peer review team universally agreed that the adoption and deployment of a functional electronic information system would reduce SIGAR's information management related issues.

10. The *Quality Standards for Investigations*, Qualitative Standards, Section D, p. 14, require that case files be established immediately upon the opening and assignment of investigations. SIGAR's Investigations Directorate file management system was not in place until November 2009. As such, beyond "working files" maintained by investigators in the field, it was impossible for the peer review team to independently validate compliance with this standard. However, the peer review team did note that practices in place by the time of the onsite review did comply with this requirement.

Attachment 2

Listing of Sampled Closed Investigations Files:

1. 100-AF-0001
2. 500-AF-0002
3. 100-AF-0003
4. 300-AF-0004
5. 200-AF-0005
6. 200-AF-0006
7. 200-AF-0008
8. 200-AF-0009
9. 200-AF-0010
10. 600-AF-0011
11. 300-AF-0012
12. 600-AF-0013
13. 300-AF-0014
14. 100-AF-0015
15. 200-AF-0016
16. 300-AF-0017
17. 600-AF-0018
18. 200-AF-0019
19. 200-AF-0020
20. 600-AF-0021
21. 902L1-AF-0022
22. 300-AF-0023
23. 911HL-AF-0024
24. 200-AF-0026
25. 200-AF-0035
26. 300-AF-0036
27. 200-AF-0037
28. 500-AF-0039
29. 300-AF-0040
30. 300-AF-0041
31. 300-AF-0043

Appendix V

SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION
Main: 703-602-3840
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Arnold Fields, Inspector General

July 9, 2010

Honorable Richard W. Moore
Chair, Investigations Committee
Council of the Inspectors General
on Integrity and Efficiency (CIGIE)

I appreciate the opportunity to review your draft report on the Quality Assessment Review of the investigative operations of my office. I also thank you for the professionalism you and the peer review team exhibited during the conduct of this demanding and precedent-setting review. It is traditional for a newly established inspector general to operate three or more years before undergoing a CIGIE peer review. However, I requested early assistance to ensure that I am moving in the right direction. I believe the results of your assessment will provide that assistance as I build the investigative capacity of this organization.

As you are aware, the Investigations Directorate is relatively new. The Special Inspector General for Afghanistan Reconstruction (SIGAR) did not exist for the first six and a half years of the U.S. reconstruction effort in Afghanistan. Initial funding was inadequate and served only to create a limited support team and begin constructing the Audit Directorate. It wasn't until the summer of 2009 that SIGAR received adequate funding to begin fully staffing its directorates. Consequently, I have been behind the curve in building the capacity necessary to address my investigative mandate.

Upon the availability of funding, the directorate has grown from a staff of only two investigators in July 2009 to a team of 15 special agents, one trial attorney, and one investigative analyst. There are an additional six special agents and support staff selected and in the hiring process. I have hired senior investigators with an average of 28 years of federal law enforcement experience. Their expertise spans a broad spectrum of complex white collar crimes including contract fraud, procurement fraud, money laundering, and public corruption.

I am now in a stronger position to more effectively conduct my investigative work and respond to the results of the findings set forth in your report. I generally concur with those findings and have made remediation of identified shortcomings a top priority. My specific comments to your report are as follows:

<u>Finding 1 – Investigations Directorate Policies and Procedures</u>

SIGAR Policy Memorandum 10-2, documented at Section B of the SIGAR Special Agent Manual, reports the rationale of SIGAR's decision to formally adopt SIGIR policy (in the interim), as it

completed its evaluation, formulation, and implementation of official SIGAR policy.

Until July 2009, SIGAR investigators were hired by SIGIR and detailed to SIGAR. This arrangement advanced SIGAR's early effort to meet its investigative mandate. I believe it also supported the spirit of Congress' intent for the U.S. to benefit from its experience in Iraq by utilizing SIGIR's resources to facilitate the initial U.S. response to the oversight mission in Afghanistan. The intent of Congress regarding the use of personnel, facilities, and other resources of SIGIR is specifically evident in SIGAR's enabling legislation, the 2008 National Defense Authorization Act, Section 1229(h)(6), where Congress directed that:

> Upon the request of the Inspector General [for Afghanistan], the Special Inspector General for Iraq Reconstruction –
>
> (a) may detail, on a reimbursable basis, any of the personnel of the Office of the Special Inspector General for Iraq Reconstruction to the Office of the Inspector General for Afghanistan Reconstruction for the purpose of carrying out [SIGAR's mission]; and
>
> (b) may provide, on a reimbursable basis, any of the facilities or *other resources* of the Office of the Special Inspector General for Iraq Reconstruction to the Office of the Inspector General for Afghanistan Reconstruction for the purpose of carrying out [SIGAR's mission]. [Emphasis added.]

In addition to the investigators hired by SIGIR and detailed to SIGAR, SIGIR's Assistant Inspector General for Investigations, Mr. Jon Novak, assisted the Inspector General in evaluating concerns relative to establishing the organization's investigative capacity. Thus, until July 2009, SIGAR's Investigations Directorate was organizationally linked to SIGIR and bound by SIGIR policy, rendering SIGAR's continued adherence to SIGIR policies subsequent to July 2009 reasonable and proper.

Policy Memorandum 10-2 also addresses the "Draft" watermark present on many of the SIGIR polices adopted by SIGAR. SIGAR's retention of the watermarks was not an oversight. SIGIR has not finalized its investigative policy, and the SIGAR manual reflects the most current version of SIGIR's investigative policy as of the official date of adoption. Given the similarities of SIGAR and SIGIR in organizational structure, mission, and mandate, SIGAR (in the interim) is utilizing the SIGIR policy drafts, as is SIGIR, as its formal investigative policy.

SIGAR has begun to draft independent investigative policies and guidelines to address its mission in Afghanistan. In light of the relatively early growth state of SIGAR's Investigative Directorate, hiring investigators and developing cases has been the highest priority. SIGAR is now in a position to focus on establishing its own policies. The policies will include implementation processes.

<u>Finding 2 – Qualifications of Investigators</u>

In the summer of 2009, upon receiving adequate funding to establish its Investigations Directorate, SIGAR's greatest priority was to build investigative capacity through the strategic hiring of qualified, experienced investigators. SIGAR remained focused on that priority and steadily achieved its hiring

goals well before the peer review process began. All of SIGAR's 15 investigators are now academy-level trained, highly-experienced criminal investigators.

Finding 3 – Refresher Training

All of SIGAR's on board investigators are experienced, career, federal law enforcement officers with current, mission-relevant expertise, and none have been employed with SIGAR beyond the period of one-year. SIGAR deemed it mission-critical to immediately employ the services of these newly hired investigators, while evaluating and implementing appropriate training policy. SIGAR has begun to draft training policy that provides for mandatory periodic refresher training in a number of law enforcement subject matter areas, including trial process; federal criminal and civil legal updates; interviewing techniques and policy; law of arrest, search, and seizure; and physical conditioning, and defensive tactics as required by the Attorney General Guidelines.

Finding 4 – Firearms Training and Recertification

Investigators assigned to SIGAR headquarters in Arlington, Virginia have not been issued weapons and therefore are not currently required to meet firearms training certification standards. Prior to the issuance of weapons to headquarters investigators, SIGAR will be in compliance with the Attorney General Guidelines pertaining to training and recertification and will maintain the appropriate certification records. The six SIGAR investigators assigned to Afghanistan have been issued weapons and are in compliance with the training and recertification requirements. The certification records are maintained at the SIGAR office in Afghanistan by the Deputy Assistant Inspector General for Investigations.

The adopted SIGIR firearms and use of force policy provides the training required by the Attorney General Guidelines. Also, SIGAR has prepared a draft of an independent firearms and use of force policy mandating the required training.

Finding 5 – Deadly Force Policy

SIGAR has adopted the Department of Justice deadly force policy. The SIGIR firearms and use of force policy adopted by SIGAR, and the draft of SIGAR's independent firearms and use of force policy, mandate deadly force training in accordance with the Attorney General Guidelines referenced in Finding 4. SIGAR provides instruction on the Department of Justice deadly force policy to every armed investigator during each Quarterly Firearms Qualifying (QFQ) session, during which the investigators are required to certify their receipt and review of the policy by signing a QFQ Deadly Force Review Sheet. These sheets are maintained at the SIGAR office in Afghanistan by the DAIG for Investigations.

Finding 6 – Priorities and Objectives

During the initial period subject to review, SIGAR lacked an adopted, documented, agency-wide prioritization document specifying that individual case tasks are performed efficiently and effectively. This deficiency has been remedied and SIGAR is currently in full compliance with this requirement.

Finding 7 – Planning Document

At the time of the onsite review, the Investigations Directorate had not adopted a strategic plan or other similar instrument to present the organization's goals, allocation of resources, budget guidance, performance measures, and guide for managers to implement these plans. Relevant excerpts from a working draft of the strategic plan were implemented in SIGAR's overall Five-Year Strategic Oversight Plan approved by the Inspector General in May 2010. The working draft of the Investigations Directorate plan is near finalization and implementation is anticipated by July 31.

Findings 8 & 9 – Record Maintenance and Information Management System

As the peer review team noted, SIGAR is aggressively pursuing the identification of an electronic file management system. Implementing such a system is one of the Investigations Directorate's top priorities.

Finding 10 – Case Files

As noted by the peer review team, SIGAR was in compliance with these requirements at the time of the onsite review.

Thank you again for taking the time and effort to conduct this peer evaluation.

Very respectfully,

Arnold Fields, Inspector General
Special Inspector General for Afghanistan Reconstruction

Appendix VI

SIGAR Response to Peer Evaluation

SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION
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Arnold Fields, Inspector General

August 6, 2010

Honorable Phyllis K. Fong
Inspector General, U.S. Department of Agriculture
Chair, Council of the Inspectors General
on Integrity and Efficiency (CIGIE)

Dear Ms. Fong:

SIGAR is working aggressively to implement the suggestions made in the peer evaluation draft report we received on July 16, 2010, and to remediate the concerns identified earlier in CIGIE's peer reviews of the Audits and Investigations Directorates. We accept all of the CIGIE team's suggestions and expect to have implemented them by September 30, 2010. We are providing our detailed responses to those suggestions in the attachment to this letter.

We appreciate that the capstone report acknowledges that the peer review was conducted far earlier in SIGAR's existence than would be the norm and that the scope of the peer review was unprecedented. Not only did the CIGIE team employ 26 auditors and investigators, but this is the first time CIGIE has produced a capstone report on the overall operations of an Inspector General. We also appreciate the acknowledgement in the capstone report that SIGAR is a young organization and that the peer review standards are intended to be applied to more mature organizations.

We have instituted processes to ensure high-quality work and to accomplish our mission in Afghanistan with the greatest success possible. We are continuing to address all the areas needing improvement and are giving top management attention to 4 specific areas:

(1) We are establishing a team to develop a robust process to systematically obtain stakeholder input, identify and mitigate risks, and set work priorities consistent with SIGAR's legislative mandate. Among other activities, the team will reach out to other Inspectors General and obtain input on best practices to use in developing a risk-based strategic plan for audit and investigations that is commensurate with SIGAR's mission and constraints.

(2) We are correcting deficiencies identified in the peer reviews of audits and investigations by establishing and clarifying policies and procedures; developing checklists and other tools to ensure compliance; continuing to provide training; and conducting internal compliance inspections and follow-up on the recommendations made by the peer review teams.

(3) We are enhancing quality assurance by both (a) continuing and expanding the Audit Directorate's program of quality control checks and activity monitoring to maintain reasonable assurance the Directorate is conducting its work in conformity with applicable professional standards and (b) establishing a comprehensive Self-Inspection Program in the Investigations Directorate by August 31, 2010. As part of the overall quality assurance initiative for Investigations, we are immediately putting into place an independent monitor with extensive experience in federal law enforcement policies, procedures, and standards. This monitor will act as a neutral expert in reviewing, evaluating, and to the extent necessary, further enhancing the comprehensiveness and effectiveness of SIGAR's responses to the peer review's suggestions.

(4) We are developing systems to better assess performance of our organization as a whole, as well as of individual staff.

We will be contacting CIGIE within the next several months to schedule follow-up reviews.

Very Respectfully,

Arnold Fields, Inspector General
Special Inspector General for Afghanistan Reconstruction

Attachments: 1

cc: The Honorable Jon Rymer, Inspector General FDIC
The Honorable Richard Moore, Inspector General TVA
Mr. Ben Wagner, Deputy Inspector General TVA

2

Appendix VI

Attachment 1: Responses to Peer Evaluation Suggestions

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

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

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

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

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

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

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

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

Attachment 1: Responses to Peer Evaluation Suggestions

maintain reasonable assurance the Directorate is conducting its work in conformity with applicable professional standards.

5. We suggest that SIGAR pursue the adoption and deployment of a functional electronic information management system to enhance its investigative operations. Throughout this report we cite the benefits of an information management system in managing an organization.

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

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

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

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

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

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

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

Appendix VI

Attachment 1: Responses to Peer Evaluation Suggestions

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

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

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

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

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

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

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

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

Attachment 1: Responses to Peer Evaluation Suggestions

priorities, providing tools for supervisors and managers to assess performance systematically, and establishing the basis for effective supervision.

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

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

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

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

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

Accept. SIGAR responses in #13 and #14 above address this suggestion. It should be noted that SIGAR is unique because we report to the six "appropriate congressional committees" as defined in our enabling legislation—the Senate Committees on Appropriations, Armed Services, and Foreign Relations; the House Committees on Appropriations, Armed Services, and Foreign Affairs; the Secretary of State; and the Secretary of Defense.

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

Accept. SIGAR will maintain diligence in its coordination with task force members and planning working groups to prevent duplication of efforts and leverage resources efficiently and effectively. This includes continued participation in the Southwest Asia (SWA) Planning Group; the Afghanistan-Pakistan SWA subgroup; in-country Shura meetings with the military and U.S. Embassy; vetting of individual audit announcement letters with other IGs to ensure audit coverage is not duplicated; and frequent communication with various task forces and other appropriate planning and working groups. Furthermore, SIGAR will continue its close working relationship with members of the International Contract Corruption Task Force (ICCTF) and the

Attachment 1: Responses to Peer Evaluation Suggestions

National Procurement Fraud Task Force, whose 10 members include SIGAR; SIGIR; the Federal Bureau of Investigation (FBI); the Department of Defense Inspector General; the USAID Inspector General; the Naval Criminal Investigative Service; the U.S. Army Criminal Investigation Command; the Air Force Office of Special Investigations; the Defense Criminal Investigative Service; and the Internal Revenue Service (IRS). SIGAR continues to maintain a Special Agent assigned full-time to the ICCTF's Joint Operations Center in Washington, D.C., and conducts regular briefings on joint and independent investigative activity.

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

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

18. We suggest that in the future SIGAR carefully evaluate the operational impact that delays in recruiting senior leadership have on the organization and develop alternative plans to ensure negative impacts are not experienced.

Accept. SIGAR leadership is committed to making timely decisions in recruiting and hiring senior staff. SIGAR has identified seven mission critical positions and is developing succession plans to ensure that any vacancy of a critical position will not have a negative impact on the agency. The positions are Inspector General; Deputy Inspector General; Assistant Inspectors General for the Directorates of Management and Support, Audits, and Investigations; the Director of the Information Management Division; and the Director of Forward Operations. SIGAR has had a Principal Deputy Inspector General position which has been occupied since January 2009 and posted at the U.S. Embassy, Kabul. His principal duties have been to facilitate the standup of SIGAR permanent operations in Afghanistan and serve as the SIGAR primary day-to-day representative to U.S. Government and Afghan Government officials. Recruitment for the Deputy Inspector General position in SIGAR headquarters is under way. Succession plans for key positions will have been completed by October 31, 2010.

19. We suggest that SIGAR re-evaluate staffing and skill-set needs in conjunction with efforts to improve its risk assessment and planning process.

Accept. In conjunction with SIGAR's risk-based analysis and assessment, SIGAR will continuously evaluate staffing and skill-set needs.

The Audit Directorate has 39 auditors or program analysts on board with 16 more in various stages of the hiring process, for a total of 55. Our audit staff comes from a wide range of organizations: 29 have prior GAO experience; 20 have worked with one or more Federal

Attachment 1: Responses to Peer Evaluation Suggestions

Inspectors General; 13 have prior experience working on Afghanistan issues; 7 have worked with SIGIR; 5 bring expertise in the Dari and Pashtu languages; and 2 have worked with the Wartime Contracting Commission.

The Investigations Directorate has assembled a staff of highly experienced professional investigators, analysts, and other personnel. The Directorate's investigators have previous experience with the FBI; IRS; Drug Enforcement Administration; U.S. Customs and Border Protection; Department of Interior; U.S. Army Criminal Investigations Command; Naval Criminal Investigative Service; and SIGIR. SIGAR's current 19 Special Agents are senior-level, career law enforcement officers with an average of 26 years of relevant, federal law enforcement experience. Many have advanced degrees and professional certifications in disciplines such as accounting, fraud examination, and white-collar crime. Additionally, all 19 Special Agents are recertified and qualified in the use of firearms in accordance with FLETC standards and are current in required training and certification in the DOJ deadly force policy. As the Directorate grows, it continues to devote substantial managerial effort to hiring employees who can help expand its investigative capabilities. For instance, Directorate managers are evaluating the advantages of hiring additional speakers of Afghanistan's native languages. In defining all new positions and filling all future vacancies, the Directorate also will be mindful of the importance of hiring employees with skill sets that improve risk assessment and planning.

20. We suggest that SIGAR proceed with its effort to put in place a more formal performance appraisal process to ensure a more structured approach to evaluating performance and making decisions related to pay and promotions.

Accept. As noted in the response to question #12, SIGAR employees are identified as Department of the Army civilians for the purpose of administration of pay, leave, benefits, and entitlements. Therefore, SIGAR will use the performance evaluation system detailed in Army regulations as a basis for designing a performance evaluation system. The new system will be in place by September 30, 2010.

21. We suggest that SIGAR continue to establish and implement requisite training and document and retain records relating to training.

Accept. SIGAR will complete the procurement of tracking software for training by September 30, 2010, which will greatly assist SIGAR in the process of documenting and retaining training records.

22. We suggest that SIGAR ensure that the draft hotline policy is revised and made final to reflect the current practice.

Accept. The Investigations Directorate has drafted a revised hotline policy to reflect the current practice. The policy will be issued by September 30, 2010.

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Arnold Fields, Inspector General

October 29, 2010

Honorable Phyllis K. Fong
Inspector General, U.S. Department of Agriculture
Chair, Council of the Inspectors General
on Integrity and Efficiency (CIGIE)

Dear Ms. Fong,

SIGAR has worked diligently to remediate all of the concerns identified in the audit and investigations peer reviews and to implement the suggestions made in the overall peer evaluation report.

The *Peer Evaluation of the Special Inspector General for Afghanistan Reconstruction* report, dated August 2010, included two suggestions for follow-up peer reviews of audit and investigative operations:

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

SIGAR's response to both suggestions, stated in the peer evaluation report, was to pursue scheduling a follow-up review by November 1, 2010. We propose that the follow-up peer review focus on the recommendations made in the System Review Report and Quality Assessment Review for audits and investigations, respectively. We would not expect, nor advocate, the CIGIE audit community to commit the resources to the extent assembled for the overall evaluation. As such, we are requesting a follow-up peer review which would address the extent to which we have implemented the specific recommendations by the end of calendar year 2010. This letter represents implementation of those two suggestions.

Please let us know the specific timing for such a review.

Sincerely yours,

Arnold Fields, Inspector General
Special Inspector General for Afghanistan Reconstruction

Council of the
INSPECTORS GENERAL
on INTEGRITY and EFFICIENCY

November 9, 2010

The Honorable Arnold Fields
Special Inspector General
for Afghanistan Reconstruction
400 Army Navy Drive
Arlington, Virginia 22202-4704

Dear General Fields:

In your letter dated October 29, 2010, to the Chair of the Council of the Inspectors General on Integrity and Efficiency (CIGIE), you advised that you were implementing two of the suggestions included in the Peer Evaluation of the Special Inspector General for Afghanistan Reconstruction report, dated August 10, 2010. Specifically, you were pursuing with the CIGIE Audit and Investigations Committees the scheduling of follow-up reviews. In your letter, you proposed that the reviews focus on the recommendations made in the System Review Report and Quality Assessment Review for audits and investigations, respectively, and address the extent to which your office has implemented the specific recommendations. The CIGIE Chair forwarded your letter to me, as Chair of the Investigations Committee, and to Jon Rymer, in his capacity as Chair of the Audit Committee, and we are providing separate responses to you.

The purpose of this letter is to advise you that the Tennessee Valley Authority Office of the Inspector General (OIG) will conduct a follow-up review to determine if the Special Inspector General for Afghanistan Reconstruction (SIGAR) has, in fact, remediated the deficiencies identified in the Quality Assessment Review of August 2010. Paul Houston of my office and Chris Fair of the Department of Defense OIG (Defense Criminal Investigative Service) will conduct a focused, limited-scope review to assess the progress of SIGAR in remediating the findings that resulted in an opinion of noncompliance for your investigations component. You will receive an engagement letter for this work defining the scope of the work to be completed and setting mutually agreeable dates for the field work and issuing the report. Our report will be forwarded to the CIGIE Chair and to the Attorney General upon completion. We will add this report and supporting documentation to the files supporting the Quality Assessment Review. That addition, however, will not affect the outcome of the review.

Please be advised that the focused, limited-scope review described above will not qualify as a separate external peer review of your investigations component. A peer review, governed by the CIGIE *Qualitative Assessment Review Guidelines for Federal Offices of Inspector General* (May 2009) and based on the requirements in the PCIE/ECIE *Quality Standards for Investigations* (December 2003) and applicable *Attorney General Guidelines* is a backward-looking review, requiring a peer review team to examine and opine on the investigation component's system of quality control over a period of time. Peer reviews generally cover a one-year period to ensure that there are sufficient investigative reports, policies, and systems to review and test for compliance and arrive at an opinion.

SIGAR will be scheduled for a full-scope investigations peer review that will cover the period October 1, 2010, (the effective date of your new policies and procedures) through September 30, 2011. The CIGIE Investigations Committee is currently updating its peer review schedule for the next three years, and I will ensure that your review is appropriately scheduled.

Please call me if you wish to discuss what I have proposed.

Very truly yours,

Richard W. Moore
Chair, Investigations Committee
Council of the Inspectors General
on Integrity and Efficiency

cc: The Honorable Phyllis Fong, CIGIE Chair