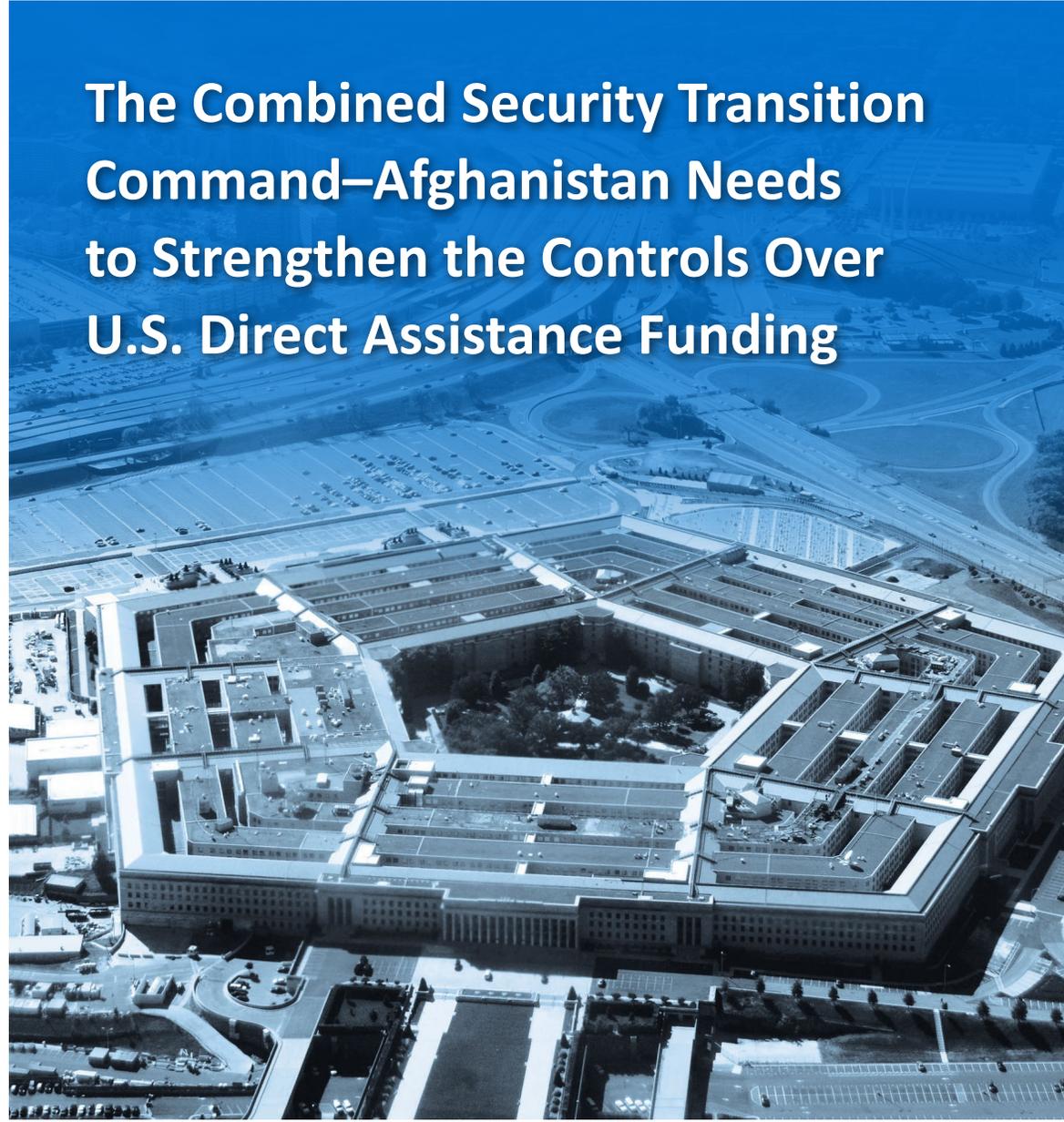




INSPECTOR GENERAL

U.S. Department of Defense

DECEMBER 1, 2016



The Combined Security Transition Command–Afghanistan Needs to Strengthen the Controls Over U.S. Direct Assistance Funding

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Results in Brief

The Combined Security Transition Command–Afghanistan Needs to Strengthen the Controls Over U.S. Direct Assistance Funding

December 1, 2016

Objective

We determined whether the Combined Security Transition Command–Afghanistan (CSTC-A) and the Government of Islamic Republic of Afghanistan’s (GIROA’s) Ministries of Defense and Interior (MoD and MoI) have established and implemented effective controls over the contract management process.

This is one in a series of DoD Office of Inspector General audits and evaluations of controls over U.S. direct assistance provided to GIROA in support of the Afghan National Defense and Security Forces. We initiated the series of audits in response to the FY 2015 National Defense Authorization Act, which required that the DoD Office of the Inspector General conduct a comprehensive assessment of the financial management capacity and risks within the Afghanistan MoD and MoI. Previous audits focused on CSTC-A and GIROA controls over the contract management process and GIROA’s controls to effectively manage asset accountability for vehicles; while an ongoing audit is currently focused on CSTC-A and GIROA’s oversight of large fuel contracts.

Finding

GIROA and CSTC-A initiated several measures to strengthen the controls over the contract management process. Specifically, GIROA established the National Procurement Authority and National Procurement Commission to scrutinize contracting actions and CSTC-A created a process to review new project requirements

Finding (cont’d)

packages. These initiatives improved GIROA’s capacity to independently identify and develop requirements. In addition, CSTC-A has begun imposing limited penalties for failure to comply with the FY 1395¹ Bilateral Financial Commitment Letter (commitment letter) requirements.

However, GIROA and CSTC-A need to implement additional controls to improve continuing shortfalls in GIROA’s contracting process. Provincial leaders entered into informal agreements with contractors to provide goods and services without the authority to obligate the ministry, which put the contractors at risk of not being paid for goods and services provided. This occurred because the MoI’s decentralized procurement process allowed provincial leaders the ability to interfere with the procurement process without repercussions. GIROA also has not identified areas of high risk within the procurement process because GIROA has not fully implemented a Ministerial Internal Control Program. In addition, CSTC-A did not consistently penalize commitment letter violations or have a formal process in place to determine and enforce penalties for violations.

As a result, U.S. direct assistance funding continues to be vulnerable to fraud waste, and abuse. In addition, GIROA may not be able to fulfill integral requirements reliably. For example, in April 2016, GIROA submitted a requirement for 195,000 Afghan National Defense and Security Forces uniforms to be funded through an on-budget² contract. CSTC-A’s Requirements Approval Board identified shortfalls with the development of contract requirements packages, including the lack of clear and measurable evaluation criteria; not including experts in clothing fabrication; and the ministry’s Acquisition Agency not conducting a bidder’s conference. As a result, the Requirements Approval Board recommended restarting the contract process.

¹ The Afghanistan fiscal year is December 21 through December 20; therefore, FY 1395 is from December 21, 2015, through December 20, 2016.

² According to CSTC-A, on-budget contracts are U.S. direct assistance-funded contracts, awarded and managed by GIROA.



Results in Brief

The Combined Security Transition Command–Afghanistan Needs to Strengthen the Controls Over U.S. Direct Assistance Funding

Recommendation

We recommend that the Commander, Combined Security Transition Command–Afghanistan:

- assist the MoI with centralizing its procurement process to eliminate provincial leaders' ability to enter into informal agreement with contractors.
- include in the FY 1396 commitment letter the requirement for the ministry Inspectors General to conduct risk-based audits that identify high-risk areas in the procurement and contracting processes of the ministries.
- formalize and document policies and procedures in the FY 1396 commitment letter regarding the roles and responsibilities for determination and enforcement of commitment letter penalties.

Management Actions Taken

During the audit, we advised the Commander, CSTC-A, that deficiencies existed in the controls over the contract management process. Specifically, MoI contractors performed work without formal contracts, ministry Inspectors General did not perform high-risk assessments, and CSTC-A did not consistently enforce penalties for violating the commitment letter. We discussed with CSTC-A officials several suggestions to address these issues and improve the contract management process.

The Commander agreed with our observations and initiated steps to implement corrective actions. First, CSTC-A officials stated that they would monitor the effectiveness of the new Minister of Interior Affairs decree to determine whether it eliminates provincial leaders from entering into agreements with contractors for goods and services without a formal contract. With respect to the lack of high-risk assessments within the contract management process, CSTC-A officials stated that a requirement will be included in the FY 1396 commitment letter requiring the ministry Inspectors General to conduct risk-based audits. CSTC-A officials stated that they will include in the FY 1396 committee letters formal procedures designed to consistently enforce penalties for violating the commitment letter.

The CSTC-A management actions taken during the audit addressed the recommendation; therefore, we are not making any additional recommendations in this report.

Recommendation Table

Management	Recommendation Requiring Comment
Commander, Combined Security Transition Command–Afghanistan	None





**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500**

December 1, 2016

MEMORANDUM FOR COMMANDER, U.S. FORCES–AFGHANISTAN
COMMANDER, COMBINED SECURITY TRANSITION
COMMAND–AFGHANISTAN

SUBJECT: The Combined Security Transition Command–Afghanistan Needs to Strengthen the Controls Over U.S. Direct Assistance Funding (Report No. DODIG-2017-027)

We are providing this report for your information and use. The Government of Islamic Republic of Afghanistan (GIROA) and the Combined Security Transition Command–Afghanistan (CSTC-A) initiated several measures to strengthen the controls over the contract management process. However, GIROA and CSTC-A need to address continuing shortfalls in the contract process. We conducted this audit in accordance with generally accepted government auditing standards.

GIROA updated its procurement law and established the National Procurement Authority and National Procurement Committee to scrutinize contracting actions, and CSTC-A created a process to improve the development of new project requirements packages. These initiatives improved GIROA's capacity to reduce corruption and to independently identify and develop requirements. In addition, CSTC-A began imposing limited penalties for noncompliance with commitment letter requirements. However, GIROA and CSTC-A need to take additional measures to prevent provincial leaders from entering into informal agreements with contractors for goods and services, identify high-risk areas in the procurement process, and formalize a process to determine and consistently enforce penalties for commitment letter violations. During the audit, we notified CSTC-A officials of our findings and recommendation. The CSTC-A management actions taken during the audit addressed the recommendation; therefore, we will not make any additional recommendations in this report.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-9187 (DSN 664-9187).

A handwritten signature in black ink that reads "Michael J. Roark".

Michael J. Roark
Assistant Inspector General
Contract Management and Payments

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Introduction

Objective

We determined whether the Combined Security Transition Command–Afghanistan (CSTC-A) and the Government of Islamic Republic of Afghanistan’s (GIROA) Ministries of Defense and Interior (MoD and MoI) have established and implemented effective controls over the contract management process.

This is one in a series of DoD Office of Inspector General audits and evaluations of controls over U.S. direct assistance provided to GIROA in support of the Afghan National Defense and Security Forces (ANDSF). We initiated the series of audits to address a requirement in the FY 2015 National Defense Authorization Act, which directed that the DoD Office of Inspector General conduct a comprehensive assessment of the financial management capacity and risks within the Afghanistan MoD and MoI. Previous audits focused on CSTC-A and GIROA controls over the contract management process and GIROA’s controls to effectively manage asset accountability for vehicles; while an ongoing audit is currently focused on CSTC-A and GIROA’s oversight of large fuel contracts. See the Appendix for our scope and methodology and prior audit coverage.

Background

In a February 2011 memorandum,³ the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, authorized CSTC-A to provide Afghanistan Security Forces Fund (ASFF) resources directly to the Afghanistan MoD and MoI to sustain the ANDSF. The goal of this support is to develop ministerial capability and capacity in the areas of budget development and execution, payment of salaries, acquisition planning, and procurement. Establishing a formal process to manage these contributions ensures the Afghanistan ministries develop the skills and experience to provide security independently and operate successfully within GIROA. Furthermore, the process ensures contributions are provided and executed responsibly to directly benefit the ANDSF. For FY 2016, the U.S. Government provided GIROA with approximately \$3.7 billion in ASFF funding.⁴

³ Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, memorandum, “Interim Guidance on Afghanistan Security Forces Fund (ASFF) Contributions to the Government of the Islamic Republic of Afghanistan (GIROA),” February 4, 2011.

⁴ According to OSD personnel, the ASFF contributions include paying for Afghan National Security Forces salaries, and DoD contracts through Foreign Military Sales cases; however, the total amount provided for contracting is \$761.4 million.

Roles and Responsibilities

Combined Security Transition Command–Afghanistan

CSTC-A is the DoD command that directs U.S. efforts to organize, train, and equip the ANDSF. It is responsible for providing oversight and ensuring adequate fiscal controls are in place to safeguard appropriated ASFF direct contributions provided to the Afghanistan ministries. CSTC-A provides trained staff to collaborate with the MoD and MoI for budgeting, acquisition planning, procurement, financial management, and contract management and oversight. Finally, CSTC-A must ensure the MoD and MoI establish standard operating procedures and maintain adequate fiscal controls and auditable records to oversee ASFF direct contributions.

Resolute Support Mission

In January 2015, a new noncombat mission (Resolute Support) began to train, advise, and assist the MoD and MoI at the ministerial, institutional, and operational levels. Specifically, Resolute Support shifted the emphasis from unit-based combat advising to a functionally based advising approach organized into eight essential functions.⁵ U.S. and Coalition advisors are aligned with Afghan components to perform the eight essential functions and associated sub-functions in an effort to improve the capacity of the MoD and MoI to execute functions such as planning, programming, and budgeting processes; resource management; and procurement.

Essential Function 1 focuses on the ANDSF's resource management and procurement departments, with an emphasis on generating funding requirements, developing a resource-informed budget, and following through by responsibly executing the spending plan.

Essential Function 2 focuses on improving the transparency, accountability, and oversight in the ANDSF's financial and nonfinancial processes.

Afghanistan Ministries of Defense and Interior

The MoD and MoI are responsible for managing the Afghan National Army and the Afghan National Police, respectively. The Afghanistan MoD and MoI are responsible for developing, validating, and justifying requirements for their annual budget, including the use of ASFF direct contributions. The ministries must also design and implement internal controls to ensure that they use ASFF direct contributions as intended. The MoD and MoI are required to build the capacity and capability to manage the commitment, obligation, and expenditure of ASFF direct contributions, including the development and maintenance of supporting documentation.

⁵ The eight essential functions are intended to provide the framework and desired outcomes in target areas to achieve Afghan sustainability.

Bilateral Financial Commitment Letter

CSTC-A and GIRoA sign an annual Bilateral Financial Commitment Letter (commitment letter) that commits CSTC-A to fund specified portions of the MoD and MoI budgets. The commitment letter serves as a bilateral agreement between CSTC-A and GIRoA and is intended to help GIRoA implement the necessary oversight and controls to satisfy auditors and the international community. In addition, a commitment letter establishes the conditions under which CSTC-A will provide funding to GIRoA and serves as GIRoA's acknowledgement of those conditions. This bilateral agreement is not intended to bind either party under international law.

Review of Internal Controls

DoD Instruction 5010.40⁶ requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses related to the improper awarding of contracts and the lack of consistent enforcement of penalties for commitment letter violations. However, GIRoA and CSTC-A have initiated corrective actions to centralize the procurement process, which will limit the ability of provincial leaders to enter into informal agreements with local contractors.

In addition, CSTC-A has drafted new requirements to include in the FY 1396 commitment letter to address enforcement of penalties for future commitment letter violations. These actions should help mitigate the internal control weaknesses we identified. We will provide a copy of the report to the senior officials responsible for internal controls at CSTC-A.

⁶ DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

Finding

GIRoA and CSTC-A Initiated Measures to Strengthen the Controls Over U.S. Direct Assistance Funding, but Further Improvements Are Needed

GIRoA and CSTC-A initiated several measures to strengthen the controls over the contract management process. Specifically, GIRoA updated its procurement law and established the National Procurement Authority (NPA)⁷ and National Procurement Committee (NPC)⁸ to review contracting actions, and CSTC-A created a process to improve the development of new requirements packages. These initiatives improved GIRoA's capacity to reduce corruption and independently identify and develop requirements. In addition, CSTC-A imposed limited penalties for noncompliance with commitment letter requirements.

However, GIRoA and CSTC-A need to implement additional controls to improve continuing shortfalls in GIRoA's contracting process. Specifically:

- GIRoA provincial leaders entered into informal agreements with contractors to provide goods and services without the authority to obligate the ministry. Entering into this type of agreement put the contractors at risk of not being paid for goods and services provided. This occurred because the MoI's decentralized procurement process allowed provincial leaders the ability to interfere with the procurement process without repercussions.
- GIRoA did not identify areas of high risk in the procurement process. This occurred because GIRoA has not fully implemented a Ministerial Internal Controls Program.
- CSTC-A did not consistently penalize GIRoA for repeated commitment letter violations. This occurred because CSTC-A has not established a process for determining which commitment letter violations require financial penalties or how to implement the penalties.

⁷ The NPA operates for improvement of procurement system, policy and professional development, consolidation of procurement plans, monitoring procurement proceedings, facilitating procurement affairs and monitoring progress of contract implementation.

⁸ The President of Islamic Republic of Afghanistan established the NPC to review and approve procurement contracts award beyond the level of authority [threshold limits] of award authority and determine the limits for the entity's scope of work and authority.

As a result, future U.S. direct assistance funding continues to be vulnerable to fraud, waste, and abuse. In addition, GIRoA may not be able to fulfill ANDSF requirements. For example, in April 2016, GIRoA submitted a requirement for 195,000 ANDSF uniforms to be funded through an on-budget contract. However, numerous shortfalls with the development of contract requirements packages, including the lack of clear and measurable evaluation criteria; not including experts in clothing fabrication; and the ministry's Acquisition Agency not conducting a bidder's conference, resulted in restarting the contract process.

GIRoA and CSTC-A Initiated Steps to Improve the Contracting Process

GIRoA has taken steps to improve its ministerial contracting processes by establishing and implementing the new Afghan Procurement Law, the NPA, and the NPC. In addition, CSTC-A has improved MoD and MoI processes for reviewing requirements packages and enforcing commitment letter penalties.

Afghan Public Procurement Law Was Approved in 2015

Until 2015, the Procurement Law of 2008 (as amended in 2009) governed public procurement in Afghanistan. Public procurement reform was an integral part of the governance reform agenda for Afghanistan's National Unity Government to bring in a transparent procurement system. The new Public Procurement Law, dated October 2015, introduced an institutional mechanism for overseeing and managing the public procurement system. The law focuses on reforming the procurement system to improve efficiency, effectiveness, fairness, and accountability by aligning the procurement system with international standards, best practices, and deployment of electronic procurement.

NPA Was Established to Help Reduce Corruption

According to CSTC-A, the NPA was established in October 2014 to provide better goods and services through an effective, efficient, and transparent procurement system. The NPA regulates the national procurement system by developing and implementing comprehensive legal, regulatory, policy, and capacity-building frameworks and programs. The NPA centralizes the vetting and approval of contracts above established thresholds by reviewing potential contract packages to determine whether all required documentation has been submitted and the Afghan procurement law has been followed. For example, during the review of a food contract, the NPA pointed out several discrepancies, such as missing documentation, problems with the performance guarantee, and the fact the MoI negotiated the price, which violates the procurement law for open bid

As of August 2016, the NPA has debarred 54 companies from doing business with GIRoA.

procurements. In addition, one of the NPA's founding principles is zero tolerance for corruption. Specifically, to bar any government procurement personnel or private sector entities associated with corruption from future procurements. As of August 2016, the NPA has debarred 54 companies from doing business with GIRoA. Among the reasons identified for a company's debarment were providing false documents, such as false bank statements, and colluding with other companies. The length of debarments ranged from 1 to 3 years.

NPC Was Established to Improve the Contracting Process

According to CSTC-A officials, the NPC was established in the spring of 2015 and is responsible for reviewing and approving procurement contracts above \$300,000. According to CSTC-A, the NPC consists of the President of Afghanistan, Chief Executive Officer, Second Vice President, and the Ministers of Finance, Economy, and Justice and meets weekly to review contracts submitted by the NPA for approval. CSTC-A officials explained that each ministry submits individual contracts for the committee's review and that committee members scrutinize the contract and ask questions to clarify any unclear points. According to CSTC-A, ultimately, the President approves all Operations and Maintenance contracts above \$300,000 and Construction contracts above \$1.5 million before formal award. Since its establishment, the NPC has approved over 600 contracts with a total value of over \$1.3 billion.

Although CSTC-A has not identified any metrics to determine the NPC's effectiveness, CSTC-A officials believe the NPC involvement has enforced contracting standards and decreased corruption in the contracting process. For example, during one meeting, the President of Afghanistan, citing the MoI's disregard for laws and rules, suspended the MoI Deputy Minister for Support and appointed a special committee to take over the procurement actions for the MoI.

Requirements Approval Board Was Established to Improve Contract Requirements Review

In October 2015, CSTC-A established the Requirements Approval Board (RAB) to review and approve MoD and MoI contract requirements. Report No. DODIG-2015-082⁹ found that GIRoA did not properly develop contract requirements and improvements were needed to accurately define contract requirements. According to CSTC-A officials, CSTC-A helps GIRoA develop acceptable

⁹ DODIG-2015-082, "The Government of Islamic Republic of Afghanistan's Controls Over the Contract Management Process for U.S. Direct Assistance Need Improvement," February 25, 2015.

requirements packages by embedding advisors into the MoD and MoI requirements development process. In addition, CSTC-A has established a requirements checklists review process to ensure acceptable ministry requirements packages are developed and submitted to the RAB.

The RAB meets weekly to discuss each GIROA-submitted requirements package. The RAB, consisting of senior representatives from CSTC-A, GIROA, and the NPA,¹⁰ vote on allowing the requirements package to proceed to the contracting process. For example, at a recent RAB meeting, the MoD presented a Strategic Communications and Public Affairs Office equipment requirement for review. A Public Affairs Office representative briefed that there was a lack of equipment in several offices and that the requirement was for items, such as digital cameras, voice recorders, video cameras, and laptops. In addition, the representative outlined the controls to reduce the pilferage of the equipment by using property control officers, a system for property accountability, and referring missing items to the MoD Inspector General (IG) for investigation. After a thorough discussion, the RAB voted to move the requirement to the procurement phase.



Figure 1. Afghanistan MoD and U.S. officials attend a RAB meeting in February 2016
Source: U.S. Army

¹⁰ The NPA is not a voting member of the RAB as it relates to the approval or disapproval of the requirements packages.

According to CSTC-A officials, implementing the RAB has improved the contracting process, resulting in more thorough and detailed contracts requirements packages; improved CSTC-A and GIRoA time management; and reduced labor hours in the procurement process. For example, CSTC-A officials stated that the MoD recently submitted 10 requirements packages for review. The RAB determined that 9 of the 10 packages included acceptable requirements.

Some Progress Was Made in the Determination and Enforcement of Commitment Letter Penalties

In the past year, CSTC-A has made progress in determining and enforcing GIRoA commitment letter violations. Report No. DODIG-2016-040¹¹ found that CSTC-A did not enforce the penalties outlined in the commitment letter. For example, CSTC-A did not impose the 25 percent “bad performer” penalty when GIRoA did not provide the required MoI fuel consumption documentation. The report recommended that CSTC-A, in subsequent commitment letters, provide clearer consequences to GIRoA for noncompliance with commitment letter requirements.

In the FY 1395¹² MoI commitment letter, CSTC-A outlined the MoI’s reporting responsibilities and the consequences for failure to meet those requirements. Specifically, the commitment letter states CSTC-A may reduce the MoI’s fuel budget by up to 10 percent each week for noncompliance.

PENALTY: If MoI Department of Logistics fails to meet any of the conditions set forth above, CSTC-A may reduce the fuel budget by up to 10% each week until the condition is met.

جریمه: در صورت عدم برآورده ساختن شرایط فوق الذکر توسط ریاست لوژستیک وزارت امور داخله، سیستمکا بودجه تیل را الی 10% در هر هفته تا زمانیکه شرایط برآورده میشود، کاهش خواهد داد.

Figure 2. Penalty Statement from the FY 1395 MoI Commitment Letter
Source: CSTC-A

In addition, in early 2016, CSTC-A began conducting formal quarterly commitment letter reviews to identify whether commitment letter conditions were being met. For example, in May 2016, CSTC-A determined that, of the 47 MoD commitment letter conditions reviewed, 28 reflected satisfactory progress to date, and 19 indicated insufficient progress. As a result, CSTC-A assessed several incentives (for satisfactory progress) and penalties (for insufficient progress), such as a \$936,000 penalty for not meeting the commitment letter deadline of April 1, 2016, for the MoI Defense Prioritization Procurement Plan.

¹¹ DODIG-2016-040, “Controls Over Ministry of Interior Fuel Contracts Could Be Improved,” January 20, 2016.

¹² The Afghanistan fiscal year 1395 is December 21, 2015, through December 20, 2016.

GIRoA Continues to Face Contracting Shortfalls

GIRoA's inadequate contracting practices continue to place U.S. direct assistance funding at risk. Specifically, GIRoA allows contractors to begin work without formal contracts, has not identified areas of high risk in the contracting process, and continues to struggle to meet commitment letter requirements.

Contractors Begin Work Without a Formal Contract

MoI contractors provided goods and services without a formal contract award. CSTC-A management stated that traditionally, provincial leaders use informal agreements with local Afghan contractors to provide reimbursable services and goods without prior ministry contract approval, which places contractors "at risk."¹³ For example, CSTC-A documented for FY 1394 (2015) that MoI contractors and vendors provided goods and services for 120 requirements, valued at approximately \$142 million, before formal contracts were awarded. These goods and services included food purchases, fuel, gasoline, wood for heating and cooking, well water and septic services, and generator maintenance. CSTC-A officials are concerned about funding "at risk" contracts due to corruption concerns and lack of adherence to Afghan procurement law.



CSTC-A documented for FY 1394 (2015) that MoI contractors and vendors provided goods and services for 120 requirements, valued at approximately \$142 million, before formal contracts were awarded.

CSTC-A and GIRoA continue to address the ongoing challenge with the "at risk" contracts. Specifically, in December 2015, CSTC-A signed a memorandum of understanding with the MoI outlining the responsibilities and procedures that the MoI and its vendors will take to address the FY 1394 at risk requirements. The memorandum requires a committee¹⁴ to review and either accept or reject claims from vendors for the goods and services that did not receive proper approvals before being provided to the MoI. For each vendor claim approved, payment will be made with FY 1395 (2016) funds. The memorandum requires that all claims be supported by persuasive documentation for an approval for payment ruling. The committee members determine whether to accept a vendor's claim based on the preponderance of the evidence using the following criteria.

- The goods or services met the contract or approved requirements documents,
- The goods or services were delivered,

¹³ According to CSTC-A, because there is no formal contract with the ministry, the contractor may not be paid for goods and services rendered—hence the contractor is "at risk" of not being compensated.

¹⁴ The committee consists of the CSTC-A Essential Function 1 Director, Essential Function 2 Transparency, Accountability, and Oversight; Budget Advisors; representatives from MoI Procurement, and Finance Departments; and a CJ8 audit observer.

- The goods or services were accepted by the MoI, and
- Supporting statements that bills or claims were not previously paid.

According to CSTC-A, the President of Afghanistan did not sanction these procurement activities, and the NPA has questioned their legal status. Therefore, the committee has not approved any at risk requirements, and the review of the at risk claims is being delayed.

In addition, GIRoA has taken steps to address the at risk issue, such as bringing in local commanders to Kabul for meetings and training, sending delegates to the provinces, and analyzing ways to restructure the MoI's procurement. The President of Afghanistan requested CSTC-A's assistance with the MoI's procurement deficiencies. Furthermore, in March 2016, the President issued a decree directing the MoI to centralize its procurement processes. The decree's objective was to improve the MoI procurement process by modifying the contract award procedures. Specifically, the decree mandated stopping all provincial contracts and clarified that no one, including governors and provincial councils, had the right to interfere in the procurement process.

According to CSTC-A officials, this decree should reduce the number of at risk requirements in the future. However, CSTC-A officials stated that more time is required to monitor and verify the effectiveness of the decree. CSTC-A officials should monitor the MoI's compliance with requirements designed to eliminate the risk of at risk contracts.

GIRoA Ministry Inspectors General Did Not Conduct Risk-Based Audits to Identify Areas of High Risk

GIRoA ministry IGs have not conducted risk assessments to determine the high-risk areas in the contract management process. Report No. DODIG-2015-082¹⁵ found that the GIRoA ministry IGs did not conduct risk assessments, which are critical to effective oversight because they identify high-risk areas that the ministry IGs need to focus on to determine whether GIRoA has adequate internal controls in place to protect U.S. direct assistance funding from fraud, waste, and abuse.

According to CSTC-A officials, risk assessments are part of the Ministerial Internal Controls Program; however, GIRoA has not fully implemented the program. In Report No. DODIG-2015-082, CSTC-A officials stated that the MoD IG originally agreed to fully implement the program by December 2015; however, CSTC-A has postponed the full implementation multiple times from December 2015 until December 2018.

¹⁵ DODIG-2015-082, "The Government of Islamic Republic of Afghanistan's Controls Over the Contract Management Process for U.S. Direct Assistance Need Improvement," February 25, 2015.

According to CSTC-A officials, they have provided Ministerial Internal Controls Program training to the MoD IG at the ministry level; however, training at the provincial level has been problematic and progressing slowly. CSTC-A officials identified challenges at the provincial level, including illiteracy, lack of computer skills, power outages or lack of electricity, and security deficiencies that limit extending the training beyond the ministry level. Specifically, the absence of effective internal control processes increases the risk of poor management and the existence of corrupt practices. CSTC-A officials should include in the FY 1396 commitment letter the requirement for the ministry IGs to conduct risk-based audits that identify potential high-risk areas in the procurement and contracting processes of the ministries.

Mol and MoD Continue to Violate Commitment Letter Requirements

The MoD and MoI continue to violate commitment letter requirements. Commitment letters between GIRoA and CSTC-A serve to implement internal controls over the contract management process and improve transparency and accountability. The May 2016 Commitment Letter Quarterly Review by GIRoA and CSTC-A determined that:

- The MoD violated 19 commitment letter conditions. For example, the MoD did not submit to CSTC-A all required inventory reports and associated change of end-user requests for accountability of night vision devices.
- The MoI violated 18 commitment letter conditions. For example, the MoI did not submit to CSTC-A consumption data reports in accordance with the MoI ammunition policy.

CSTC-A Needs a Formal Process to Consistently Enforce Commitment Letter Penalties

CSTC-A did not have a formal documented process for assessing penalties for continued MoI and MoD commitment letter violations. Although the enforcement of penalties increased, CSTC-A did not consistently apply the penalties. Specifically, CSTC-A did not assess penalties for 16 of the 19 MoD violations and 14 of the 18 MoI violations identified during the May 2016 quarterly review. According to CSTC-A officials, they were reluctant to assess penalties because the excess enforcement of penalties could inhibit the Afghans' ability to conduct offensive and defensive operations. However, CSTC-A needs to determine whether all commitment letter penalties would jeopardize the ANDSF operations.

CSTC-A did not assess penalties for 16 of the 19 MoD violations and 14 of the 18 MoI violations identified during the May 2016 quarterly review.

CSTC-A officials stated that there was no formal, documented process for determining which commitment letter violations should be penalized. A process should be formalized to provide CSTC-A the opportunity to analyze the potential risk to the ANDSF with enforcement of commitment letter penalties. For example, CSTC-A should weigh the benefits (informing GIRoA of the seriousness of not providing the required consumption documentation) against the potential hazards (the ANDSF not having sufficient ammunition during fighting season) of enforcing the ammunition penalty. While each violation should be addressed on a case-by-case basis, CSTC-A should implement formal, documented procedures to determine whether to enforce the commitment letter penalties and the associated dollar amount of the penalty.

U.S. Direct Assistance Funding Continues to be Vulnerable to Fraud, Waste, and Abuse

Until CSTC-A is able to help GIRoA address its contracting deficiencies, future U.S. direct assistance funding continues to be vulnerable to fraud, waste, and abuse. Specifically, GIRoA allowed provincial leaders to enter into informal agreements with local contractors and has not conducted risk assessments of the procurement process. If GIRoA continues to allow provincial leaders to enter into unofficial agreements with local contractors, the risk of corruption (bypassing the procurement law and using favorite contractors) will remain. Additionally, if GIRoA does not conduct risk assessments, it may not be able to identify areas of potential corruption within the procurement process.

Furthermore, to build capacity and transparency with GIRoA, CSTC-A officials must hold GIRoA accountable for commitment letter violations by enforcing penalties. GIRoA is currently unable to fulfill integral ANDSF requirements consistently. For example, in April 2016, GIRoA submitted a requirement for 195,000 ANDSF uniforms to be funded through an on-budget contract.¹⁶ CSTC-A's RAB identified shortfalls with the development of contract requirements packages, including the lack of clear and measurable evaluation criteria; not including experts in clothing fabrication; and the ministry's Acquisition Agency not conducting a bidder's conference. As a result, the RAB recommended restarting the contract process.

¹⁶ As defined by CSTC-A management, on-budget contracts are U.S. direct assistance-funded contracts, awarded and managed by GIRoA.

Recommendation

We recommend that the Commander, Combined Security Transition Command–Afghanistan:

- a. Assist the Ministry of Interior with centralizing its procurement process to eliminate provincial leaders' ability to enter into informal agreement with contractors.**
- b. Include in the FY 1396 commitment letters the requirement for the ministry Inspectors General to conduct risk-based audits that identify high-risk areas within the procurement and contracting processes of the ministries.**
- c. Formalize and document policies and procedures regarding the roles and responsibilities for determination and enforcement of commitment letter penalties.**

Management Actions Taken

During the audit, we advised senior CSTC-A officials that deficiencies existed in the controls over the contract management process. Specifically, MoI contractors performed work without formal contracts, ministry IGs did not perform high-risk assessments, and CSTC-A did not consistently enforce penalties for violating the commitment letters. The CSTC-A senior officials agreed with our observations.

We discussed several suggestions with CSTC-A officials to address these deficiencies and improve the contract management process. CSTC-A immediately initiated steps to implement correction actions. First, CSTC-A officials stated that they would assist the MoI with centralizing its procurement process to eliminate provincial leaders from entering into agreements with contractors for goods and services without a formal contract.

To address the lack of high-risk assessments within the contract management process, CSTC-A officials stated that they are currently drafting a requirement for the FY 1396 commitment letters requiring that the ministry IGs conduct risk-based audits. To more consistently enforce commitment letter violation penalties, CSTC-A officials created a review and enforcement process. After each quarterly commitment letter review by CSTC-A, recommendations are reviewed by the Security Forces Assistance Board and are then forwarded to the Commanding General, CSTC-A, for final approval.

CSTC-A officials stated they were documenting the procedures, which will be included in the FY 1396 commitment letters. The formalizing and documentation of the process for reviewing commitment letters will provide accountability,

transparency, and consistency regarding commitment letter compliance and enforcement.

The CSTC-A management actions taken during the audit addressed our recommendation; therefore, we will not make any additional recommendations in this report. However, we will monitor progress in implementing the corrective actions to address the recommendation.

Appendix

Scope and Methodology

We conducted this performance audit from March 2016 through August 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We reviewed the internal controls implemented in the GIRoA MoD and MoI for U.S. direct assistance provided for the sustainment of the ANDSF. We reviewed GIRoA criteria to understand their contract management process. Specifically, we reviewed GIRoA's New Procurement Law and Rules of Procedure for Public Procurement to document the contract management process in Afghanistan.

We conducted a site visit to CSTC-A Headquarters in Kabul, Afghanistan. We interviewed CSTC-A officials to discuss GIRoA and CSTC-A controls over U.S. direct assistance. Specifically, we interviewed CSTC-A officials to identify potential internal control weaknesses for the direct funding provided for the continued sustainment of the MoD and the MoI. We reviewed CSTC-A documentation, including:

- Essential Function 2 Ministerial Internal Control Program Plan of Action and Milestones,
- RAB Standard Operating Procedure,
- NPC and RAB meeting minutes,
- MoI Procurement Plan Statistics,
- MoD Procurement Capability Assessment Report,
- National Procurement Authority Strategic Plan 2016–2020,
- FY 1395 Procurement Status Summary,
- Program Budget Activity Council minutes, and
- MoD and MoI first quarter FY 1395 commitment letter conditionality assessments.

In addition, we interviewed CSTC-A's CJ8 officials, who provided financial management oversight of U.S. direct assistance funding, and we reviewed a previous audit report CJ8 conducted.

Use of Computer-Processed Data

We did not use computer-processed data to perform this audit.

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO), the Department of Defense Office of Inspector General (DoD OIG), and the Special Inspector General for Afghanistan Reconstruction (SIGAR), issued nine reports related to the audit objective. Unrestricted GAO reports can be accessed at <http://www.gao.gov>. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>. Unrestricted SIGAR reports can be accessed at www.sigar.mil/audits/reports.html.

GAO

Report No. GAO-14-680T, “Afghanistan Oversight and Accountability of U.S. Assistance,” June 10, 2014.

The GAO identified several challenges related to U.S. efforts in Afghanistan, including a dangerous security environment, the prevalence of corruption, and the limited capacity of the Afghan government to deliver services and sustain donor funded projects.

Report No. GAO-13-218SP, “Afghanistan Key Oversight Issues,” February 2013.

The GAO identified a number of key issues for the 113th Congress to consider in developing oversight agendas and determining the way forward in Afghanistan. Some specific areas for oversight included Afghanistan’s security environment, transition of lead security to Afghan security forces, future cost and sustainability of Afghan security forces, and DoD planning for the drawdown of equipment in Afghanistan.

Report No. GAO-11-710, “Afghanistan Actions Needed to Improve Accountability of U.S. Assistance to Afghanistan Government,” July 2011.

The U.S. Agency for International Development and the DoD have taken steps to help ensure the accountability of their bilateral direct assistance to Afghan ministries, but the U.S. Agency for International Development has not required risk assessments in all cases before awarding these funds. The GAO made three recommendations to the U.S. Agency for International Development.

DoD OIG

Report No. DODIG-2016-040, "Controls Over Ministry of Interior Fuel Contracts Could Be Improved," January 20, 2016.

CSTC-A and MoI oversight of the MoI fuel contracts was not effective. As a result of the lack of contract oversight and insufficient reporting data, CSTC-A did not have reasonable assurance that the fuel ordered and delivered to the Afghan National Police on the three MoI contracts, valued at \$437.6 million, supported actual Afghan National Police requirements and was used for its intended purpose.

Report No. DODIG-2015-107, "Challenges Exist for Asset Accountability and Maintenance and Sustainment of Vehicles within the Afghan National Security Forces," April 17, 2015.

CSTC-A, MoD, and MoI did not have controls in place to effectively manage accountability of the approximately 95,000 vehicles procured by the DoD for the ANDSF since 2005. As a result, there was a lack of assurance that all vehicles transferred to the MoD and MoI were used for their intended purpose. Among other recommendations, the Commander, CSTC-A should instruct the Security Assistance Office to reconcile information in the Operational Verification of Reliable Logistics Oversight Database to information in the Security Cooperation Information Portal to ensure vehicle information is accurate and complete. The Commander should also assess the accuracy of CSTC-A's records and take the necessary steps to maintain the completeness and accuracy of these records.

Report No. DODIG-2015-082, "The Government of the Islamic Republic of Afghanistan's Controls Over the Contract Management Process for U.S. Direct Assistance Need Improvement," February 25, 2015.

The MoI and MoD did not have effective controls over the contract management process for U.S. direct assistance funding provided to sustain the Afghan National Security Forces. During the audit, the DoD OIG made observations and several recommendations to improve GIRoA and CSTC-A controls over U.S. direct assistance. CSTC-A reported several initiatives either planned or implemented to provide stronger controls over U.S. direct assistance. These initiatives included stricter language added to the commitment letters, improving the ministry IGs' oversight, and building ministerial capacity.

Report No. DODIG-2014-102, “Government of the Islamic Republic of Afghanistan Needs to Provide Better Accountability and Transparency Over Direct Contributions,” August 29, 2014.

GIRoA lacked the basic controls to provide reasonable assurance that it appropriately spent \$3.3 billion of ASFF direct contributions. As a result, CSTC-A could not verify that GIRoA used ASFF direct contributions properly or for their intended purposes. In addition, the \$13 billion in additional direct contributions the DoD plans to provide to the Afghan National Security Forces between FY 2015 and FY 2019 may be subject to wasteful spending and abuse. The report included four recommendations.

SIGAR

SIGAR Special Projects 15-14-SP, “Direct Assistance Review of Processes and Controls Used by CSTC-A, State, and USAID,” October 2014.

This report focused on the processes and controls used by the DoD, Department of State, and U.S. Agency for International Development to ensure the proper use of direct assistance funds.

SIGAR Special Projects 14-12-SP, “Comprehensive Risk Assessments of MoD and MoI Financial Management Capacity could Improve Oversight of Over \$4 Billion in Direct Assistance Funding,” November 2013.

This report discussed SIGAR’s review of safeguards created by the DoD to protect funds provided directly to the MoD and MoI. The report recommended that the Secretary of Defense consider conducting a comprehensive assessment to determine the financial management capabilities and risks within the MoD and MoI and the ministries’ relationship with Afghanistan’s Ministry of Finance.

Acronyms and Abbreviations

ANDSF	Afghan National Defense and Security Forces
ASFF	Afghanistan Security Forces Fund
CSTC-A	Combined Security Transition Command–Afghanistan
DoD OIG	Department of Defense Office of Inspector General
GAO	Government Accountability Office
GIRoA	Government of Islamic Republic of Afghanistan
IG	Inspector General
MoD	Ministry of Defense
Mol	Ministry of Interior
NPA	National Procurement Authority
NPC	National Procurement Committee
RAB	Requirements Approval Board
SIGAR	Special Inspector General for Afghanistan Reconstruction



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