Report No. DODIG-2012-058 February 29, 2012

Inspector General
United States Department of Defense

Distribution of Funds and Mentoring of Finance Officers for the Afghanistan National Army Payroll Need Improvement

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Acronyms and Abbreviations

AFMIS	Afghanistan Financial Management Information System
ANA	Afghanistan National Army
ANSF	Afghanistan National Security Forces
ASFF	Afghanistan Security Forces Fund
CJ8	Combined Security Transition Command-Afghanistan, CJ8 Directorate
CSTC-A	Combined Security Transition Command-Afghanistan
DFAS	Defense Finance and Accounting Service
EFT	Electronic Funds Transfer
FMO	Financial Management Oversight
FRO	Finance Reform Office
GSG8	General Staff G8
NTM-A	North Atlantic Treaty Organization Training Mission-Afghanistan
USD(C)/CFO	Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
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February 29, 2012

MEMORANDUM FOR DISTRIBUTION

SUBJECT: Distribution of Funds and Mentoring of Finance Officers for the Afghanistan National Army Payroll Need Improvement (Report No. DODIG-2012-058)

We are providing this report for your information and use. From April 2009 through January 2011, the payroll advances and reporting of $410.4 million of U.S funds distributed to the Afghanistan National Army included $47.8 million in absolute errors. Additionally, there was not enough staff or expertise to adequately mentor Afghanistan National Army personnel during corps site visits on internal controls over the Afghanistan National Army payroll process. Without improvement, the North Atlantic Treaty Organization Training Mission–Afghanistan/ Combined Security Transition Command–Afghanistan cannot accurately calculate quarterly advances to the Ministry of Defense or successfully complete the mission to prepare the Afghanistan government to sustain the Afghanistan National Army payroll process without coalition support.

We considered comments from the North Atlantic Treaty Organization Training Mission–Afghanistan/Combined Security Transition Command–Afghanistan and the Defense Finance and Accounting Service when preparing the final report. Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, we do not require any additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-8905.

Amy J. Frontz
Principal Assistant Inspector General
for Auditing

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Report No. DODIG-2012-058 (Project No. D2011-D000FR-0089.000) February 29, 2012

Distribution of Funds and Mentoring of Finance Officers for the Afghanistan National Army Payroll Need Improvement

What We Did

We audited the accuracy of the distribution of DoD funds to the Afghanistan National Army (ANA) payroll and the mentoring of Afghanistan Ministry of Defense and ANA personnel to sustain the payroll process without the assistance of coalition forces.

What We Found

The North Atlantic Treaty Organization Training Mission–Afghanistan/Combined Security Transition Command–Afghanistan (NTM-A/CSTC-A), CJ8 Directorate (CJ8) Finance Reform Office (CJ8 FRO*), did not implement adequate controls to ensure that $410.4 million of ANA payroll funds were properly advanced and reported to the Ministry of Defense. This occurred because CJ8 FRO personnel did not have written procedures or perform adequate reviews, and they relied on summary and not detailed data when distributing the quarterly advances.

As a result, CJ8 FRO personnel did not have visibility over ANA payroll funds, and they could not accurately calculate and report quarterly advances to the Ministry of Defense. Specifically, CJ8 FRO included $47.8 million in absolute errors in their ANA payroll advances and reporting from April 2009 through January 2011. During the audit, NTM-A/CSTC-A took action to improve controls over the ANA payroll reconciliation process.

Additionally, CJ8 FRO personnel needed to improve the mentoring of the Ministry of Defense personnel. Specifically, CJ8 FRO personnel only assigned one part-time mentor, with no financial expertise, to visit the ANA corps, and they did not provide enough mentoring below the corps level. This occurred because CJ8 FRO did not have enough staff or expertise to mentor the ANA during site visits and on internal controls over the payroll process. Additionally, CJ8 FRO did not have adequate procedures for planning site visits. (See Appendix B for the key aspects and control weaknesses in the ANA payroll process.)

Without improving its mentoring, CJ8 FRO personnel cannot successfully complete the mission to prepare the Afghanistan government to sustain the ANA payroll process without coalition support. During the audit, NTM-A/CSTC-A increased the number of mentors for the ANA payroll process.

What We Recommend

Among other recommendations, the Director, CSTC-A, CJ8 Directorate, should implement procedures to ensure the accuracy of the reconciliation and distribution process and partner with the Defense Finance and Accounting Service (DFAS) to develop control procedures in the ANA payroll audit and mentoring areas.

Management Comments and Our Response

Overall, management comments were responsive and no additional comments are required. The CSTC-A, CJ8 Directorate, was implementing procedures to ensure the accuracy of the reconciliation and distribution process and would partner with DFAS to the extent possible to develop procedures in the area of ANA payroll. Please see the recommendations table on the back of this page.

*Now called the Financial Management Oversight Office as a result of NTM-A/CSTC-A reorganization.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Director, Combined Security Transition Command–Afghanistan, CJ8 Directorate		A.1.a, A.1.b, A.1.c, A.2, A.3, A.4, B.1.a, B.1.b, B.1.c, B.1.d
Director, Defense Finance and Accounting Service Indianapolis		B.2

Table of Contents

Introduction 1

Objectives 1
Background on the ANA Payroll and Mentoring 1
Review of Internal Controls 4

Finding A. NTM-A/CSTC-A CJ8 FRO Did Not Adequately Reconcile and Distribute ANA Payroll Funds 5

CJ8 FRO Distribution and Reconciliation Process of ANA Payroll Funds 5
CJ8 FRO Personnel Made Mistakes During the Reconciliation and Reporting of ANA Payroll Funds 6
Management Took Action to Improve the Reconciliation Process 10
Adequate Controls and Guidance Over the Reconciliation and Distribution Process Are Needed 10
CJ8 FRO Lacked Visibility Over ANA Payroll Funds Distributed 12
Recommendations, Management Comments, and Our Response 13

Finding B. NTM-A/CSTC-A CJ8 FRO Attained Some Success Through ANA Payroll Mentoring but Improvements Would Achieve More Benefits 16

Regular Mentoring on the ANA Payroll Process Was Provided 17
Insufficient Personnel to Provide Mentoring During Site Visits 18
Management Took Action to Add Resources to the Internal Control Team and Mentoring Efforts 19
Planning for Performing Site Visits Was Not Adequate 19
Personnel Lacked Expertise to Mentor the ANA on Payroll Internal Controls 20
Management Took Action to Provide Financial Management Oversight at the ANA Corps 22
Without Improvement, the ANA Payroll Process Was Susceptible to Errors and Fraud 22
Recommendations, Management Comments, and Our Response 23

Appendices

A. Scope and Methodology 25
Use of Computer-Processed Data 26
Prior Coverage on the ANA Payroll and Salary Support 26
B. Key Aspects and Control Weaknesses in the ANA Payroll Process 27

Management Comments

North Atlantic Treaty Organization Training Mission-Afghanistan/ Combined Security Transition Command-Afghanistan 29
Defense Finance and Accounting Service 38

Introduction

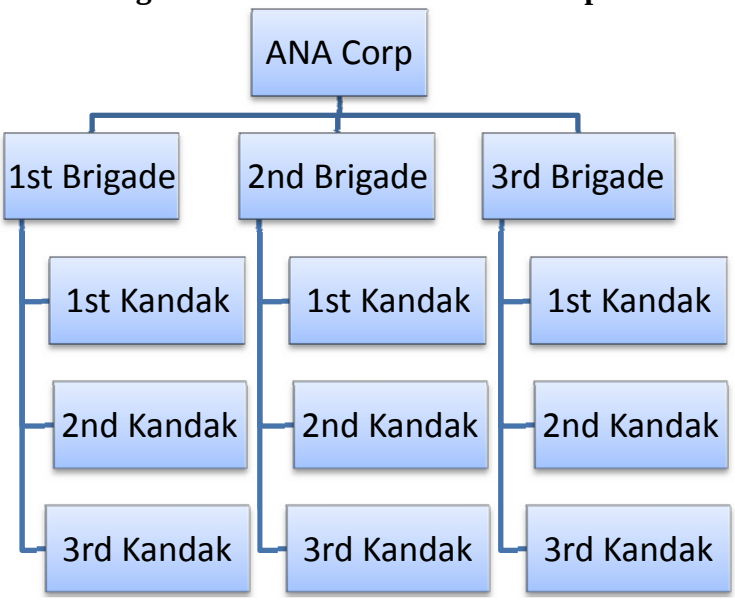
Objectives

Our objective was to determine whether the North Atlantic Treaty Organization Training Mission–Afghanistan/Combined Security Transition Command–Afghanistan (NTM-A/CSTC-A) had adequate controls in place to ensure that it distributed DoD funds accurately and in a timely manner to the Afghanistan Ministry of Defense for the Afghanistan National Army (ANA) payroll. In addition, we determined whether NTM-A/CSTC-A implemented an adequate mentoring process to assist the Afghanistan Ministries in providing accurate payments to their ANA personnel. See Appendix A for a discussion of our scope and methodology and prior coverage on the ANA payroll.

Background on the ANA Payroll and Mentoring

ANA is one element of the Afghanistan National Security Forces (ANSF), which also includes the Afghanistan National Police. The ANSF mission is to provide a professional, enduring, and self-sustaining security force for Afghanistan. The majority of ANA personnel are assigned to one of the six ANA corps, which consist of multiple brigades per corps and multiple kandak[1] units per brigade. Figure 1 shows the structure of an ANA corps.

Figure 1. Structure of an ANA Corps*



*One of six corps.

According to NTM-A/CSTC-A, the ANA grew quickly from November 2009 through June 2011. Specifically, the total ANA end strength increased 76 percent from

[1]A kandak is considered to be equivalent to a battalion.

November 2009 to June 2011 (from 97,011 to 171,050 individuals). NTM-A/CSTC-A officials told us that in June 2011, the six ANA corps accounted for 52 percent of the ANA end strength, or 88,804 individuals.

DoD Provides Financial Support for ANA Payroll

DoD provides financial support for the ANA payroll through the Afghanistan Security Forces Fund (ASFF) appropriation. From July 2007 through January 2011, DoD provided $467.4 million related to ANA payroll. Congress appropriated these funds for the Commander, CSTC-A, to assist the security forces of Afghanistan, with the concurrence of the Secretary of State, by providing equipment, supplies, services, training, facility and infrastructure repair, renovation, construction, and funding. The purpose of the funds is to enable the manning, training, and equipping of the ANSF and to provide the security to allow the Afghanistan government to grow and mature.

CSTC-A is a combined command with NTM-A and is stationed in Kabul, Afghanistan. The NTM-A/CSTC-A mission is to generate and sustain the ANSF, develop leaders, and establish an accountable Afghan-led security. To accomplish this mission, the NTM-A/CSTC-A CJ8 Directorate (CJ8) Finance Reform Office (FRO)[2] uses ASFF appropriations to supplement ANA payroll and help grow the ANA.

CJ8 FRO personnel work with the Ministry of Defense to establish quarterly budgets and advance funding to sustain the ANA payroll. CJ8 FRO personnel also perform high-level reconciliations to determine DoD advance payments for ANA payroll. The reconciliations determine whether the prior quarter's advance was more or less than actual expenses, and that difference is used to determine the advance payment for the next quarter. Further, agreements between NTM-A/CSTC-A and the Afghanistan government establish the percentage of ANA monthly salary, combat or hazard pay, professional allowance, and food expenditures that CJ8 FRO personnel will reimburse the Ministry of Defense to sustain the ANA payroll.

Once CJ8 FRO personnel determine the amount of ANA payroll funds to advance to the Ministry of Defense, they submit a request to the Defense Finance and Accounting Service (DFAS) for payment. DFAS processes the payment and generally releases the funds to the Afghanistan Ministry of Finance within 7 days of receiving the request. According to CJ8 FRO personnel, the Ministry of Finance will not release the funds to the Ministry of Defense without documentation from DFAS and CJ8 FRO personnel that the funds are designated for the ANA payroll.

As the ANA has grown, CJ8 FRO personnel have increased the funds advanced for ANA payroll. Although the Ministry of Defense has the responsibility of distributing ANA payroll, CJ8 FRO personnel mentor Ministry personnel on the payroll process and

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[2] After the drafting of this report, FRO was renamed the CJ8 Financial Management Oversight office as a result of the NTM-A/CSTC-A reorganization.

auditing of ANA payroll source documents. Table 1 shows that ANA personnel and funds provided for ANA payroll were steadily increasing each solar year (SY).[3]

Table 1. ANA Personnel Paid and ANA Payroll Funds Advanced
($ in millions)

Category	First Quarter (March 21 through June 21)		
	SY 1388	**SY 1389**	**SY 1390**
No. of ANA Personnel Paid*	268,735	374,967	503,090
Funds for ANA Payroll	$34.9	$73.3	$114.4

*These numbers were calculated by adding the number of ANA personnel paid during each month of the SY quarter noted; therefore, they are much higher than the ANA end strength for each month.

ANA Payroll Process

The Ministry of Defense ANA payroll process is manual and takes between 20 and 25 days and 25 and 35 signatures to process. There are three components in the ANA payroll process: payroll processing, approval and financing, and pay delivery.

Payroll Processing

Processing payroll consists of taking attendance and preparing and delivering payroll documents to the Ministry of Finance. ANA finance officers create M41 and M16 payroll forms using attendance rosters prepared by ANA personnel officers.

- The M41 form is a salary disbursement document and contains all payroll information, such as the rank of the individual, identification number, base pay, incentive pay, deductions, net pay, and an individual's bank account number.

- The M16 form is a cover sheet with all personnel on the M41 form for a kandak, brigade, or corps.

The ANA finance officers physically transport M41 forms from unit levels to the brigade and corps finance officers, where they become the substantiating record for ANA payroll. The corps finance officer prepares three copies of the M41 forms and keeps one copy on file and provides two copies to the Ministry of Finance. One of the two copies is a softcopy M41 form used by the regional banks to make Electronic Funds Transfer (EFT) payments to soldiers.

Approval and Financing

Approval and financing is the second component of the ANA payroll process. The Ministry of Finance and regional branches (mustofiats) review the M41 forms and prepare two types of checks, which they provide to the corps finance officer. One check

[3] Afghanistan follows the solar year calendar, which runs from March 21 to March 20. For example, SY 1389 began on March 21, 2010 and ended on March 20, 2011.

type is for EFT to soldiers with bank accounts, and the other is for cash payments to soldiers without bank accounts.

Pay Delivery

Pay delivery is the final component of the ANA payroll process. The corps finance officer takes the two checks issued by the Ministry of Finance or mustofiat to the Central Bank and cashes one check to pay the soldiers at the unit level and deposits the second check for EFT payments. The Central Bank sends funds by EFT to regional banks to pay soldiers.

In addition, the corps finance officer must provide the softcopy M41 forms, which include an individual's name, amount owed, and bank account number, to regional banks for payment. The regional bank processes the softcopy M41 forms for EFT payment to the soldiers. According to CJ8 FRO personnel, the ANA pays 97 percent of its personnel through EFT.

Recording Payroll Expenses in AFMIS

The ANA and Ministry of Defense account for the ANA payroll expenses in the Afghanistan Financial Management Information System (AFMIS).[4] According to CJ8 FRO personnel, the ANA finance officers physically carry ANA payroll supporting documents to the Ministry of Defense-Finance Hawala Directorate, which reviews and passes the forms onto the Ministry of Defense–Finance accounting director. The accounting director accounts for the forms in a logbook and then passes the forms to the Ministry of Defense–Finance Information and Technology Directorate. The Directorate personnel manually input the data on payroll forms into AFMIS for the ANA units in the Kabul area, and regional mustofiats input the data for the regional corps. Specifically, they input the summary amounts for each category code on the ANA payroll forms. AFMIS totals all summary-level amounts to account for all ANA payroll expenses.

Review of Internal Controls

We determined that internal control weaknesses in the CJ8 FRO ANA payroll reconciliation and distribution process existed as defined by DoD Instruction 5010.40, "Managers' Internal Control Program (MICP) Procedures," July 29, 2010. Specifically, CJ8 FRO personnel lacked written procedures for reconciling and distributing quarterly advances of ANA payroll funds to the Ministry of Defense. In addition, CJ8 FRO personnel did not complete adequate reviews over the reconciliation and distribution process.

Additionally, CJ8 FRO personnel relied on summary-level data when calculating quarterly advances to the Ministry of Defense. Errors in ANA payroll supporting documents are not identifiable in the summary-level data used to calculate advances of ANA payroll funds. We will provide a copy of the report to the senior official responsible for internal controls in NTM-A/CSTC-A for compliance followup.

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[4] AFMIS is the official accounting system of the Ministry of Defense.

Finding A. NTM-A/CSTC-A CJ8 FRO Did Not Adequately Reconcile and Distribute ANA Payroll Funds

The CJ8 FRO personnel did not implement adequate controls to ensure that $410.4 million of ANA payroll funds were properly advanced and reported to the Ministry of Defense. Specifically, when determining the quarterly advance of ANA payroll, CJ8 FRO personnel:

- used incorrect pay rates,
- made mathematical errors,
- included civilian personnel payroll, although the agreement provided that only military personnel would be paid, and
- reported erroneous quarterly overpayments and underpayments of payroll funds to the Ministry of Defense.

This occurred because CJ8 FRO personnel lacked written procedures on, and did not perform adequate reviews of, the reconciliation and distribution process for the ANA payroll. In addition, CJ8 FRO personnel relied on the AFMIS summary-level expenses to obtain ANA payroll amounts without performing detailed-level testing as the Defense Security Cooperation Agency policy required.

Therefore, CJ8 FRO personnel included $47.8 million in absolute errors in their ANA payroll advances and reporting from April 2009 through January 2011, resulting in a $4.5 million underfunding of the advance to the Ministry of Defense for SYs 1388 and 1389. Without improved controls, CJ8 FRO personnel could continue to process reconciliation and distribution errors and not accurately calculate quarterly advances to the Ministry of Defense. If CJ8 FRO cannot provide the Ministry with an accurate and representative funding amount for the ANA payroll, the Ministry may not prepare future budgets accurately and be able to sustain payroll without coalition support. Improvement is needed for CJ8 FRO personnel to increase their visibility over funds disbursed.

CJ8 FRO Distribution and Reconciliation Process of ANA Payroll Funds

From April 2009 through January 2011, CJ8 FRO personnel advanced $410.4 million of ASFF to the Ministry of Defense for the ANA payroll. To advance these funds, they performed quarterly reconciliations of ANA payroll expenses to the previous payroll advance. Specifically, CJ8 FRO personnel received an AFMIS expense report from the Ministry of Defense that included the codes for the quarter that identified salary pay, incentive pay, and food expenditures. (Codes 21102 and 21103 collected expenses for ANA monthly salaries for officers and enlisted soldiers, and codes 21110, 21125, and 21200 collected expenses for ANA professional allowances, hazard pay, and food expenses, respectively.)

Since the AFMIS expense reports were cumulative totals for the solar year, CJ8 FRO personnel used the AFMIS reported amount for the first quarter and manually calculated expenses incurred for the remaining quarters. They then compared the actual expenses to the amount of funds advanced to determine whether they overfunded or underfunded the ANA payroll for the quarter. They considered the overpayment or underpayment amount when calculating future quarterly advances. CJ8 FRO would then send a request to DFAS, which processed the payments in a timely manner and generally distributed the funds to the Ministry of Finance within 7 days.

CJ8 FRO Personnel Made Mistakes During the Reconciliation and Reporting of ANA Payroll Funds

CJ8 FRO personnel did not implement adequate controls to determine the quarterly advance of ANA payroll funds during the reconciliation of funds distributed between SY 1388 (March 21, 2009, to March 20, 2010) and SY 1389 (March 21, 2010, to March 20, 2011). Specifically, CJ8 FRO personnel used incorrect rates, made mathematical errors, included civilian personnel payroll in the reconciliation, and erroneously reported quarterly overpayments and underpayments of payroll funds to the Ministry of Defense. Table 2 provides a breakdown of the quarterly advance and reporting errors.

CJ8 FRO personnel did not implement adequate controls to determine the quarterly advance of ANA payroll funds.

Table 2. Errors in the SY 1388 and SY1389 ANA Payroll Reconciliation
(in millions)

Type of Reconciliation Error	Quarterly Advance	Reporting Errors	Absolute Error Amount
Used incorrect rates	$(5.1)		$8.9
Mathematical errors	0.1		0.1
Incorrectly included civilian payroll	0.5		0.5*
Reporting errors		(18.5)	$38.3
Total	**$(4.5)**	**$(18.5)**	**$47.8**

*This amount is only for 1 month of the specified time frame.

CJ8 FRO Used Incorrect Rates

CJ8 FRO personnel used incorrect reimbursement rates when reconciling actual expenses during SY 1389 to calculate the next quarter's advance. Specifically, for the first quarter of SY 1389, NTM-A/CSTC-A personnel agreed to reimburse the Ministry of Defense 52.9 percent of the monthly ANA salary expenditures for military officers and armed forces. However, in the first quarter of SY 1389, CJ8 FRO personnel reimbursed 55.5 percent of actual expenses, resulting in an error of $1.9 million. The $1.9 million error resulted in an overadvance the following quarter. CJ8 FRO personnel increased the agreed-upon rate to 55.5 percent of ANA salary expenditures from the second quarter of

SY 1389 through the fourth quarter SY 1389. However, for these quarters, CJ8 FRO personnel incorrectly reimbursed the Ministry of Defense 52.9 percent of ANA salary expenditures, resulting in an error of $7 million. The $7 million error resulted in an underadvance in the second, third, and fourth quarters. Table 3 provides a breakdown of the net and absolute rate errors by quarter.

Table 3. Incorrect Rates Used in SY 1389
(in millions)

SY 1389	Net Error	Absolute Error
1st Quarter	$1.9	$1.9
2nd Quarter	(2.0)	2.0
3rd Quarter	(2.4)	2.4
4th Quarter	(2.6)	2.6
Total Error	**$(5.1)**	**$8.9**

NTM-A/CSTC-A and the Ministry of Defense revised their agreement in SY 1390, and CJ8 FRO no longer reimburses the Ministry based on a percentage of the ANA payroll. Instead, the Ministry agreed to fund payroll and food for the first 100,000 ANA military officers and armed forces and NTM-A/CSTC-A agreed to fund payroll and food for the remaining ANA military officers and armed forces up to 192,000. However, even though NTM-A/CSTC-A agreed to reimburse the Ministry of Defense based on the number of individuals in the ANA in SY 1390, CJ8 FRO personnel told us that, quarterly, they would calculate a percentage of ANA personnel they agreed to reimburse and use the percentage to determine actual expenses for the SY 1390 reconciliation. Therefore, CJ8 FRO should implement additional procedures, such as a detailed review to ensure they use correct rates when calculating actual expenses for ANA payroll.

Mathematical Errors

CJ8 FRO personnel made mathematical errors during the reconciliation of ANA payroll funds distributed in SY 1388. Specifically, they reported an overpayment of $15.729 million to the Ministry of Defense in the third quarter of SY 1388, although the actual overpayment was $15.785 million, resulting in a $56,000 error. The third-quarter overpayment resulted from the advanced amount exceeding the actual payroll expense amount. Further, CJ8 FRO personnel reported that they rolled over $18.600 million of advanced funds from the fourth quarter of SY 1388 to the first quarter of SY 1389. However, this figure is a rounded amount, and they should have rolled over $18.640 million, resulting in a $40,000 error. Therefore, the CJ8 FRO reconciliation understated actual funds provided for ANA payroll by $96,000 because of the mathematical errors and, consequently, overfunded the subsequent quarter advance payment. CJ8 FRO personnel need to develop additional procedures to ensure a consistent and adequate calculation and review process of the ANA payroll reconciliation.

CJ8 FRO Included Civilian Personnel Pay

CJ8 FRO personnel advanced ANA payroll funds for civilian personnel pay although the agreement between NTM-A/CSTC-A and the Ministry of Defense provided that they would only reimburse military officers and armed forces. CJ8 FRO agreed to reimburse codes 21102 (Military Officers) and 21103, (Armed Forces). In addition, CJ8 FRO personnel provided documentation that civilian employees were recorded separately: specifically, codes 21100 (Civilian Employees [permanent]) and 21101 (Civilian Employees [workers]).

CJ8 FRO personnel advanced ANA payroll funds for civilian personnel pay although the agreement between NTM-A/CSTC-A and the Ministry of Defense provided that they would only reimburse military officers and armed forces.

Based on the M41 forms for the ANA Central Kabul Unit for the first month of SY 1389, CJ8 FRO personnel advanced approximately $525,000 for 3,751 civilian personnel, as identified by "CIV" identification numbers.[5] ANA finance officers confirmed that personnel with identification numbers starting with "CIV" were civilians; however, ANA finance officers coded "CIV" personnel either as military officers or armed forces and, therefore, included them in the advance payments from CJ8 FRO. By including civilians in the military officers and armed forces payroll, CJ8 FRO personnel overstated the actual expenses and overfunded the agreed-upon account.

CJ8 FRO personnel were unaware that civilian personnel were being reported under military personnel pay codes. During the audit, CJ8 FRO personnel said they performed additional research on this issue and determined that the ANA reports civilian personnel on the same tashkil[6] as ANA officers and soldiers and pays them using the equivalent military pay grade. CJ8 FRO personnel also said that the Ministry of Defense uses the civilian employee codes to record contractor expenses. They further stated that the civilians were mainly filling senior-level positions, such as the chief of a directorate, at Ministry of Defense headquarters and the general staff level because the Ministry of Defense did not have enough qualified military personnel to fill those positions. Even though they stated that the civilian positions were listed on the ANA tashkil, ANA personnel did not use the tashkil to identify AFMIS transactions, such as paying ANA soldier or civilian salaries. Therefore, using the same tashkil for civilian and military personnel should not prevent the Ministry of Defense from properly accounting for civilian pay.

CJ8 FRO personnel also told us that NTM-A/CSTC-A Command determined that reimbursement of civilians was appropriate, explaining that the NTM-A/CSTC-A Command and the Ministry of Defense decided to keep the individuals on the ANA tashkil and continue to provide funding for ANA civilian personnel pay instead of

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[5] See Appendix A for additional details of our sample.

[6] The tashkil is a report of all ANA positions, number of individuals needed at the positions, and the required rank to fill the positions.

creating a separate tashkil and payroll code for civilian personnel. CJ8 FRO personnel were unable to provide documentation to support this decision. In addition, they were unable to provide any supporting documentation that the civilian employee codes were used for contractors, as opposed to civilian employees. Therefore, CJ8 FRO personnel need to obtain an official decision from NTM-A/CSTC-A Command as to whether they can appropriately pay civilian salaries. Even though CJ8 FRO could not provide an official NTM-A/CSTC-A decision to pay civilian salaries, it is not feasible to recover those funds from the Ministry of Defense because they have already been distributed to pay civilian salaries.

Erroneous Reconciliations Sent to the Ministry of Defense

CJ8 FRO personnel provided official reconciliations to the Ministry of Defense each quarter that included erroneous overfunding and underfunding of actual payroll expenses because the reconciliations included nonpayroll advances for vehicle, medical and lab expenses, and excluded other valid payroll advances and expenses. During the audit, CJ8 FRO personnel created a more detailed reconciliation, "SY 1389 Reconciliation for DoD IG," which indicated that CJ8 FRO correctly separated transactions for different expense types. However, this reconciliation did not match the official document sent to the Ministry of Defense. Table 4 provides a breakdown of the transactions erroneously reported on CJ8 FRO memoranda to the Ministry of Defense.

Table 4. Transactions Erroneously Reported to Ministry of Defense
(in millions)

Nonpayroll Codes in ANA Reconciliation	Over/(Under) Reporting Errors	Absolute Error
Exclusion of 1st-quarter actual overfunded payroll expenses when calculating overfunding of 2nd-quarter actual	$(12.9)	$12.9
Inclusion of 2nd-quarter advancement for goods and services and acquisition of assets when calculating overfunding of 2nd-quarter actual	9.0	9.0
Exclusion of 3rd-quarter advances and expenses for wages and salaries	(14.6)	16.4
Total Error	**$(18.5)**	**$38.3**

When reconciling the SY 1389 second-quarter actual payroll expenses to the second-quarter payroll advance, CJ8 FRO personnel erroneously excluded the first-quarter payroll overfunding of $12.9 million and included a $9 million advance for nonpayroll-related transactions in the reconciliation provided to the Ministry of Defense. CJ8 FRO personnel stated that the $9 million was for medicine, vehicles, medical and lab equipment, and water tankers. This advance should not have been included in the ANA payroll reconciliation. Because they excluded the payroll funds and included the

nonpayroll funds, CJ8 FRO personnel reported that they underfunded the second-quarter SY 1389 payroll expenses by $4.6 million. Based on their methodology, they should have reported an underfunding of $0.9 million.

When reconciling SY 1389 third-quarter actual payroll expenses to the third-quarter payroll advance, CJ8 FRO personnel mistakenly excluded payroll advances and expenses, resulting in an absolute error of $16.4 million. Specifically, CJ8 FRO personnel understated the ANA payroll reconciliation by a net $14.6 million because they excluded a $15.5 million payroll advance and included $0.9 million of nonpayroll expenses. Therefore, the CJ8 FRO personnel reconciliation provided to the Ministry of Defense understated the amount of funds remaining in the ANA payroll account at the end of the third quarter SY 1389. CJ8 FRO personnel told us that the Ministry of Defense did not perform quarterly reconciliations to determine whether CJ8 FRO accurately advanced funds for ANA payroll. Rather, the Ministry of Defense relied on documents provided by CJ8 FRO to determine whether they accurately advanced funds for ANA payroll in accordance with established agreements. CJ8 FRO personnel, including the CJ8 FRO Chief, should ensure that the correct overpayments or underpayments are reported to the Ministry of Defense.

Management Took Action to Improve the Reconciliation Process

During the audit, CJ8 FRO personnel made improvements when reconciling the ANA payroll. Specifically, they no longer report the advances and expenses for wages and salaries, goods and services, and acquisition of assets on the same reconciliation. Instead, CJ8 FRO personnel created three separate reconciliations for SY 1390, one for wages and salaries, one for goods and services and one for acquisition of assets, which would allow for CJ8 FRO and Ministry of Defense personnel to more accurately account for ANA payroll funds disbursed and calculate quarterly advances.

Adequate Controls and Guidance Over the Reconciliation and Distribution Process Are Needed

CJ8 FRO personnel, who were limited to 6-month to 1-year rotations, did not have adequate reconciliation controls to follow, even though the ANA reconciliation process was manual and complex, requiring a large learning curve. Specifically, CJ8 FRO personnel needed to develop written procedures, perform adequate reviews, and perform detailed-level testing when reconciling the quarterly payments. During the reconciliation process, CJ8 FRO personnel used several pieces of information to calculate the net of cumulative payroll advances and expenses. Specifically, using the prior quarter's advance and actual payroll amounts, they calculated the subsequent quarter's advance of funds. Due to the complexity of this, CJ8 FRO needs adequate controls in place for distributing and reconciling advances of ANA payroll funds to the Ministry of Defense.

CJ8 FRO Lacked Written Procedures

CJ8 FRO personnel did not have written procedures for reconciling quarterly advances for ANA payroll. In addition, staff rotated every 6 months to a year and, therefore,

verbally passed down the reconciliation and distribution process to rotating staff. Further, CJ8 FRO personnel said that the lack of written procedures and the learning curve associated with ANA payroll created a challenge for individuals deploying to their office and directly contributed to the incorrect rates, mathematical errors, and reporting errors that occurred in the reconciliation. By implementing written procedures, CJ8 FRO personnel would ease the transition for individuals deploying to their office and potentially reduce the amount of errors in the reconciliation and distribution of ANA payroll funds.

Also, when CJ8 FRO personnel implement the written procedures, they will be in compliance with the Under Secretary of Defense Comptroller/Chief Financial Officer, DoD (USD[C]/CFO), guidance. Specifically, on February 4, 2011, in response to a November 12, 2009, Deputy Secretary of Defense memorandum, "Management of Afghanistan Security Forces Funds," USD(C)/CFO issued guidance requiring the NTM-A/CSTC-A Command to establish written standard operating procedures to ensure compliance with all applicable laws, regulations, and guidance. The guidance also requires NTM-A/CSTC-A to ensure that adequate oversight and fiscal controls are in place to safeguard any appropriated funds provided to the Afghanistan government and maintain auditable records of all disbursements and supporting documents.

In response to the USD(C)/CFO February 2011 memorandum of interim guidance, NTM-A/CSTC-A Command issued guidance on April 15, 2011. However, the guidance lacked enough detail to be considered a standard operating procedure for the CJ8 FRO reconciliation and distribution of quarterly advances for ANA payroll. Therefore, CJ8 FRO personnel need to develop procedures for quarterly advances of ANA payroll to ensure consistency and accuracy in the calculation of payments made to the Ministry of Defense.

Adequate Reviews Are Needed

CJ8 FRO personnel did not perform adequate reviews of the ANA payroll reconciliation and distribution process. Although written procedures related to the internal control environment are essential, procedures for reviewing are also needed to create a strong internal control environment that ensures that personnel are following the written procedures.

CJ8 FRO personnel said that the CJ8 FRO Chief as well as the CJ8 Director reviewed the reconciliation and disbursement requests for ANA payroll. However, they did not have written guidance that described the specific procedures that reviewers should follow for the reconciliation and distribution of ANA payroll funds before providing DFAS with a request for payment. The specific procedures should include a review of the rates used to calculate actual ANA payroll expenses, verification of the arithmetic, and a review of the types of funds that should be included in the ANA payroll reconciliation. Therefore, the CJ8 FRO Chief and CJ8 Director should develop control procedures to ensure that their reviews of the quarterly reconciliations are adequate to prevent future errors.

Detailed-Level Testing Not Performed

CJ8 FRO personnel did not perform detailed-level testing on summary-level expenses before advancing ANA payroll funds to the Ministry of Defense as required by the Defense Security Cooperation Agency September 2007 policy, "Afghanistan Security Forces Fund (ASFF) Afghan National Army Salary Reimbursement Standard Operating Procedure (SOP)." Specifically, the policy stated that NTM-A/CSTC-A should routinely audit the reimbursement program to ensure that the financial data provided by the Ministry of Defense were accurate. CJ8 FRO personnel were unaware of the Defense Security Cooperation Agency policy requirement and, consequently, did not perform audits of the detailed-level data.

> *CJ8 FRO personnel did not perform detailed-level testing on summary-level expenses before advancing ANA payroll funds to the Ministry of Defense.*

Instead, CJ8 FRO personnel relied on the AFMIS summary-level expenses provided by the Ministry of Defense when calculating quarterly advances for ANA payroll. Even though the Ministry did not provide source documents in its quarterly reimbursement packet, CJ8 FRO personnel had the ability to obtain ANA payroll source documents from the Ministry and ANA corps. If CJ8 FRO personnel had performed detailed-level testing, they could have identified that they were paying civilian salaries during SY 1389 and taken appropriate action at that time. CJ8 FRO personnel need to routinely perform detailed-level testing of the Ministry of Defense source documents so they are aware of who is paid with ANA payroll funds and ensure that they are reimbursing the Ministry of Defense within the terms of the agreement.

In addition, although they worked with the ANA finance officers to audit ANA source documents monthly, CJ8 FRO personnel did not consider the results of the audits when calculating advances for ANA payroll. CJ8 FRO personnel should incorporate the results of their source documentation audits when they advance the Ministry of Defense funds.

CJ8 FRO Lacked Visibility Over ANA Payroll Funds Distributed

Improvement is needed for CJ8 FRO personnel to increase their visibility over ANA payroll funds disbursed to the Ministry of Defense and to prevent errors in ANA payroll reimbursement amounts. Between April 2009 and January 2011, CJ8 FRO personnel had $47.8 million of absolute errors when determining or reporting the quarterly advance of ANA payroll funds. Specifically, $9.5 million of absolute errors related to incorrect rates, mathematical errors, and civilian payroll and resulted in either an overfunding or underfunding of the ANA payroll expenses. The remaining $38.3 million of errors resulted in incorrect overfunding or underfunding reported to the Ministry of Defense. Without an adequate reconciliation and distribution process, CJ8 FRO cannot accurately calculate quarterly advances to the Ministry of Defense.

Calculating quarterly advances to the Ministry of Defense is important to ensure that the CJ8 FRO mission to prepare the Afghanistan government to sustain the ANA payroll

process without North Atlantic Treaty Organization support is met. Specifically, CJ8 FRO personnel need to ensure that the quarterly advances are accurate because the Ministry of Defense is relying on the advances to sustain ANA payroll. If CJ8 FRO cannot provide the Ministry with an accurate and representative funding amount for the ANA payroll, the Ministry may not prepare future budgets accurately.

Recommendations, Management Comments, and Our Response

A. We recommend that the Director, Combined Security Transition Command-Afghanistan, CJ8 Directorate:

1. Develop procedures to ensure that:

a. Consistent and adequate reconciliations of funds advanced for the Afghanistan National Army payroll are being performed.

b. Correct rates, verification of arithmetic, and only payroll-related transactions are being used during the payroll distribution process.

NTM-A/CSTC-A Comments

The Deputy Director, NTM-A/CSTC-A CJ8, agreed and stated that the CJ8 ANA Financial Management Oversight (FMO) office created and completed in March 2011 a fund tracking spreadsheet to facilitate quarterly reconciliations, including formulas to prevent calculation and rate mistakes. Further, he said the spreadsheet broke out funding codes to ensure the reconciliations only included payroll-related transactions.

In addition, the Deputy Director said that every transaction must be entered into the fund tracking spreadsheet and analyzed before the CJ8 FMO Chief and Director approve the request, reducing the chance of mathematical errors. He also stated that the mandatory use of the spreadsheet by CJ8 ANA FMO personnel would ensure consistent and adequate reconciliations of ANA payroll funds.

Finally, the Deputy Director stated that the CJ8 ANA FMO and Comptroller divisions were revising the standard operating procedures to clarify proper payroll review processes and identify how to reconcile payroll expenditures to prevent the recurrence of errors. The expected completion date was April 1, 2012.

c. Correct amount of funds being advanced are accurately reported to the Ministry of Defense.

NTM-A/CSTC-A Comments

The Deputy Director, NTM-A/CSTC-A CJ8, agreed and stated that the revised standard operating procedures would detail procedures to ensure the reconciliation matches the official document sent to the Ministry of Defense. He said that before NTM-A/CSTC-A CJ8 requests that DFAS transfer any funding to the Ministry of Defense, CJ8 ANA FMO

personnel must reconcile expenditures by budget code; the CJ8 Director must send a letter informing the Ministry of Defense-Finance of the upcoming payment; and the Ministry of Finance must send an acceptance letter to the CJ8 Director.

2. Develop written procedures to ensure there are adequate reviews of the quarterly reconciliations to prevent future errors.

NTM-A/CSTC-A Comments

The Deputy Director, NTM-A/CSTC-A CJ8, agreed and stated that in addition to the revised standard operating procedures referenced in the above recommendation, corps finance advisors were being trained to facilitate a detailed review process, which would be in place by April 1, 2012. He said that once the advisors were in place, NTM-A/CSTC-A CJ8 would finalize procedures to ensure verification of salary payments.

Further, he stated that a new system, the Budget Preparation and Expenditure Tracking Database, would give each corps and CJ8 ANA FMO personnel the ability to pull detailed financial reports, which are not available through AFMIS. The Budget Preparation and Expenditure Tracking Database is an electronic, structured budget process developed by an Afghan Ministry of Finance contractor and is expected to be completed by April 1, 2012.

3. Perform quarterly detailed-level testing of the Ministry of Defense source documents to ensure that the Afghanistan National Army payroll records in the Afghanistan Financial Management Information System are accurately reported before advancing funds to the Ministry of Defense.

NTM-A/CSTC-A Comments

The Deputy Director, NTM-A/CSTC-A CJ8, agreed and stated that CJ8 ANA FMO personnel were training corps finance advisors to perform quarterly detailed-level reviews of source documents to ensure the accuracy of ANA payroll records. He said the advisors and CJ8 ANA FMO personnel would also review monthly the Ministry of Defense payroll documents at all levels, including corps and below. Further, he stated this additional oversight, expected to be implemented no later than April 1, 2012, would ensure proper accountability and accuracy of reports through comparison of reports and training of ANA finance officers on proper procedures.

The Deputy Director also stated that CJ8 ANA FMO personnel were working with the Ministry of Defense to gain access to AFMIS, which would allow more visibility and a more in-depth review of the data. In addition, he said that the Computerized Payroll System would provide another means to verify the data and interface with the personnel management system and was expected to be implemented no later than October 2012. Finally, the Deputy Director stated that access to these systems would help NTM-A/CSTC-A CJ8 verify that personnel were being paid correctly, and would minimize the number of ghost accounts and enhance transparency and accountability in the payroll system.

Our Response

The Deputy Director, NTM-A/CSTC-A CJ8, comments on Recommendations A.1 through A.3 were responsive, and no additional comments are required.

4. Obtain an official decision from the North Atlantic Treaty Organization Training Mission–Afghanistan/Combined Security Transition Command–Afghanistan Command as to whether it can appropriately pay civilian salaries.

NTM-A/CSTC-A Comments

The Deputy Director, NTM-A/CSTC-A CJ8, agreed and stated that civilian salaries were paid by the Afghanistan government under budget codes 21100 and 21101, which were not funded by ASFF. The Deputy Director also stated that his office expected to receive official guidance from NTM-A/CSTC-A leadership on civilian pay salaries by April 1, 2012. In addition, he said that the new corps finance advisors would be able to confirm that civilians were not receiving U.S.-funded pay.

Our Response

The Deputy Director, NTM-A/CSTC-A CJ8, comments were responsive, and no additional comments are required. Specifically, he stated that his office would obtain an official decision from NTM-A/CSTC-A leadership on civilian pay salaries. However, the Deputy Director's remaining comment that civilian salaries were not funded by ASFF was not accurate. Our audit results showed that civilian salaries were paid under budget codes 21102 and 21103, Military Officers and Armed Forces, respectively, and were funded by ASFF. During our audit, NTM-A/CSTC-A CJ8 personnel stated that budget codes 21100 and 21101 were for contractor employees, not civilian salaries. The data obtained by the corps financial advisors should show that NTM-A/CSTC-A personnel paid Afghan civilians under budget codes 21102 and 21103.

If the data obtained by the advisors do not show that NTM-A/CSTC-A personnel paid Afghan civilians with ASFF, we request that the Deputy Director CJ8 provide us with the supporting documentation that the advisors obtained.

Finding B. NTM-A/CSTC-A CJ8 FRO Attained Some Success Through ANA Payroll Mentoring but Improvements Would Achieve More Benefits

Although CJ8 FRO personnel established a framework to regularly mentor the Ministry of Defense-Finance[7] and the General Staff Finance Office (GSG8)[8] to sustain the ANA payroll process without coalition support, some improvement was needed. Specifically, CJ8 FRO personnel:

- only performed site visits to mentor and audit each of the six ANA corps twice a year, and rarely performed site visits below the corps level;
- only dedicated one part-time mentor, who had no financial experience, to visit all sites to complete audits of the ANA payroll and mentor the ANA finance officers;
- did not always adequately plan the site visits to ensure that necessary documentation and ANA personnel were available; and
- did not provide adequate mentoring on key controls in the ANA payroll process.

This occurred because the CJ8 FRO did not have enough staff to adequately mentor the ANA during corps site visits. In addition, CJ8 FRO personnel did not have procedures in place for planning sites visits and ensuring that documentation existed to complete reviews. Further, CJ8 FRO personnel lacked the expertise to adequately mentor the ANA on internal controls over the payroll process. As a result, the ANA payroll process was susceptible to errors and fraud, which were difficult to detect, and at least one instance of fraud occurred that was not detected by CJ8 FRO personnel.

In addition, it will take longer for CJ8 FRO personnel to complete and reinforce proper business practices and determine what controls are needed to improve the ANA payroll process without a better understanding of the issues at all levels. Therefore, without improving the mentoring program, CJ8 FRO personnel cannot successfully complete the mission to prepare the Afghanistan government to sustain the ANA payroll process without coalition support.

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[7] The Ministry of Defense-Finance receives and allocates funds from the Ministry of Finance, develops and submits ordinary and developmental budgets, monitors current-year budget execution and publishes budget guidance for the Ministry of Defense.

[8] GSG8 is responsible for all financial matters affecting the ANA for budget and execution, pay and evaluation of the general staff, and subordinate and unit budgets.

Regular Mentoring on the ANA Payroll Process Was Provided

CJ8 FRO personnel established a framework to regularly mentor the Ministry of Defense-Finance and GSG8 personnel on the ANA payroll process, such as improving controls over verifying ANA payroll amounts and expansion of banking services. The following are some of the focus areas to help build internal controls into the payroll process.

- **Computerized Payroll System.** CJ8 FRO personnel have been mentoring the Ministry of Defense on implementing and using the Computerized Payroll System at its headquarters. According to CJ8 FRO personnel, the Computerized Payroll System is an Access database owned and managed by the Ministry of Finance and is intended to expedite the ANA pay process, eliminate ghost accounts, and create a more auditable force. If implemented correctly, this system should help improve the controls over the payroll process.

- **Personnel Asset Inventory.** CJ8 FRO personnel, along with the Afghanistan government and other NTM-A/CSTC-A personnel, have been conducting a personnel asset inventory of ANSF, which includes a head count, biometrics enrollment (such as finger printing), financial data verification, and new identification cards. This inventory review is intended to help ensure an accurate baseline of the personnel and financial accountability. If implemented correctly, this system should help identify ghost accounts and reconcile pay inquiries.

- **Internal Control Teams.** CJ8 FRO personnel helped develop GSG8 internal control teams, which consist of one CJ8 FRO personnel and three GSG8 personnel that travel each month to regional ANA corps to inspect the ANA payroll process. CJ8 FRO personnel train and mentor the GSG8 teams and unit finance officers. CJ8 FRO personnel, along with their GSG8 counterparts, conduct audits and perform financial internal control assessments of the corps finance offices and ANA payroll process. CJ8 FRO personnel are attempting to standardize the audit process with the ANA and establish a new inspection protocol with the GSG8 teams. Creating and mentoring internal control teams is a vital element of developing a strong internal control system and, if implemented correctly, should help the ANA payroll process.

- **Electronic Payroll Disbursements.** CJ8 FRO personnel mentored the Ministry of Defense-Finance and GSG8 officers on the expansion of banking services for the ANA payroll. CJ8 FRO personnel told us that they were reducing the cash disbursements paid to soldiers to 3 percent. Paying the soldiers in cash is inherently vulnerable to corruption; therefore, reducing cash payments will in turn reduce corruption and fraud.

Insufficient Personnel to Provide Mentoring During Site Visits

Although CJ8 FRO personnel regularly mentored the Ministry of Defense-Finance and GSG8 officers, they needed to improve the quantity and expertise of the mentors performing the mentoring duties and audits of ANA payroll as well as the planning of those site visits. In addition, CJ8 FRO personnel needed to improve their mentoring of finance officers in implementing internal controls to help prevent ANA payroll fraud.

CJ8 FRO personnel needed to improve their mentoring of finance officers in implementing internal controls to help prevent ANA payroll fraud.

Although the development of the internal control teams improved the ANA payroll process, CJ8 FRO still needed more staff to perform the mentoring duties at the corps level and below. Specifically, CJ8 FRO assigned one part-time staff member who did not have a financial background to fulfill the mentoring duties. Also, the part-time mentor and the GSG8 internal control team personnel only visited each of the six ANA corps twice a year and rarely performed site visits to the brigade or kandak units, even though mentoring was necessary at all levels because the documentation originated at the brigades and kandaks.

Within the six ANA corps are brigade and kandak units. The finance officers from these units manually transported the payroll documentation to their respective corps. As of June 2011, the ANA assigned 88,804 soldiers to the six corps–more than half of the ANA end strength. Because of the volume of the payroll documents being prepared, it was important for CJ8 FRO to complete audits of ANA payroll and mentor the ANA finance officers. However, the auditing and mentoring on the ANA payroll process at the sites for more than 88,000 soldiers was a task too large and complex for one CJ8 FRO individual on a part-time basis, especially one without financial and accounting experience.

Auditing and mentoring on the ANA payroll process at the sites for more than 88,000 soldiers was a task too large and complex for one CJ8 FRO individual on a part-time basis.

CJ8 FRO personnel stated that the reason they only assigned one part-time staff member to mentor at the corps level was because they did not have enough staff to complete audits of ANA payroll and mentor the ANA finance officers. Mentoring more regularly at all levels was necessary, in part because according to NTM-A/CSTC-A personnel, in 2010, only about 15 percent of the ANA soldiers were at a first-grade literacy level. With that type of challenge, consistent mentoring was key to ensuring comprehension and retention. Additionally, CJ8 FRO personnel noted the danger in sending CJ8 FRO personnel to the remote brigades and kandaks for mentoring. While we recognize the danger of requiring CJ8 FRO personnel to travel to the brigade and kandak units, CJ8 FRO should develop procedures to ensure that the brigade and kandak finance officers are also mentored. These procedures could include:

- requiring the finance officers to travel to the corps level when the mentors visit,
- requiring extensive training before deploying ANA finance officers to the brigade or kandak, or
- implementing a "train-the-trainer" approach.

Management Took Action to Add Resources to the Internal Control Team and Mentoring Efforts

During the audit, CJ8 FRO officials took steps to add resources to the internal control team and mentoring efforts. Specifically, they requested three full-time Army finance officers to fill the internal control team positions, which are 365-day deployments. Along with mentoring the GSG8 internal control teams on how to audit ANA payroll, CJ8 FRO personnel said that the three Army finance officer positions would conduct a 5-percent forensic audit of each unit's payroll documents. The audit would include an inspection of the ANA corps monthly entitlement report, M41 documentation, and banking deposit report. The additional finance officers will allow the CJ8 FRO to perform more site visits and audits of ANA payroll supporting documents.

We commend CJ8 FRO officials for taking action, and they should also monitor the effectiveness of the new personnel to determine whether additional personnel are needed.

Planning for Performing Site Visits Was Not Adequate

CJ8 FRO personnel did not adequately plan the site visits to ensure the best use of resources. Specifically, CJ8 FRO personnel performed site visits even though the corps did not always have the M41 salary disbursement documents available. For example, during an April 2011 site visit to one corps, M41 forms and other supporting documents were not available to audit. According to the ANA internal control team officer-in-charge, the corps did not have budgetary authority in SY 1389 to process the M41 documents for payment. Therefore the corps sent the M41 documents to the Ministry of Defense–Finance in Kabul for processing the pay for the ANA soldiers. The audit of the M41 documentation was a key part of the site visit that could not be completed.

In addition, ANA finance officers were not always available for mentoring during site visits. For example, during a December 2010 internal control team site visit to another corps, CJ8 FRO personnel found that one of the kandak units did not have a finance officer. According to CJ8 FRO personnel, the previous finance officer recently traveled to Kabul to have his title of "Finance Officer" finalized at the General Staff headquarters. Upon arriving in Kabul, General Staff decided this person did not have the qualifications to be a finance officer. The corps and brigade finance officers did not know that this kandak did not have a finance officer, and this limitation impeded the CJ8 FRO personnel's ability to verify payroll amounts and mentor ANA finance officers.

The lack of adequate planning occurred because CJ8 FRO did not have procedures in place for planning site visits to ensure that documentation existed and to have ANA

finance officers available to complete audits. CJ8 FRO personnel told us they were placing a corps finance advisor at each corps, which would allow them to mentor ANA finance officers and audit ANA source documents more frequently.

Once the six regional corps finance advisors are in place, the CJ8 FRO should coordinate with them and develop procedures for planning future internal control team site visits. For the teams to be effective, payroll documentation and ANA finance officers need to be readily available.

Personnel Lacked Expertise to Mentor the ANA on Payroll Internal Controls

In addition to the lack of adequate site visits, CJ8 FRO personnel needed to improve their mentoring on internal controls over all stages of the ANA payroll process. For instance, CJ8 FRO should help the Ministry of Defense implement better internal controls for the following.

- **Verification of Incentive Pay and Entitlement.** ANA G8 (Finance Office) personnel told us that they relied on ANA G1 (Personnel Office) certifications, such as being certified in explosive ordnance disposal, without any supporting documentation or testing. Without proper internal controls to ensure that the incentive pay and entitlements were correct, there was a significant risk that these amounts were not accurate.

- **Unique Identification Numbers.** ANA identification numbers on the M41 form were not unique. This internal control weakness left the ANA payroll process vulnerable to duplicate payments and ghost soldiers. In addition, duplicate identification numbers would create a challenge for the ANA when transitioning to an automated payroll system.

- **Separation of Duties.** The ANA finance officers manually input all employee data into the M41 and M16 forms, including salary amount and employee personnel information. The softcopy M41 forms are reviewed and are manually transported by the same ANA finance officers to banks, where they are used as the sole basis for paying a soldier's salary. With no separation of duties, this control weakness increased the potential for fraud and errors. In addition, the ANA payroll process did not have procedures in place for easily identifying the individuals responsible for creating payroll documents. Moreover, it required between 25 and 35 signatures, many of which were not legible.

- **Transfer of Softcopy Banking Records.** ANA finance officers physically transported the softcopy M41 forms to the regional bank for processing and paying soldiers. Physically moving data on compact discs or flash drives would leave the data vulnerable to change or loss. Further, having ANA finance officers

who prepare the M41 forms and cash checks at the Central Bank to pay soldiers would increase the risk of theft and fraud. The ANA could use regional bank mobile pay teams to pay soldiers in areas without banking access.

- **Lack of Access to Bank Records.** ANA did not have access to the bank records to verify that the bank disbursed the payroll funds appropriately. This increased the risk that the bank could erroneously or fraudulently disburse employee payroll. However, NTM-A/CSTC-A personnel stated that in July 2011, they requested the Ministry of Finance provide the CJ8 FRO a monthly summary EFT report with the total number of EFT transactions that Afghan banks made into the ANA soldiers' bank accounts. Further, CJ8 FRO personnel stated they were requesting that the EFT report list the total EFT transactions for the regional corps and central units. The details the reports provided were softcopy individual account transactions that were cross-checked for duplicate and multiple transactions to an account.

These weaknesses occurred, in part, because CJ8 FRO did not have the expertise to identify where internal controls could be strengthened, such as assigning personnel without a financial background to mentor ANA finance officers. DFAS should be able to provide the payroll processing expertise that CJ8 FRO needs. DFAS was created to standardize, consolidate, and improve accounting and financial functions throughout DoD. DFAS pays all DoD military and civilian personnel, retirees and annuitants, as well as DoD contractors and vendors.

Because of DFAS personnel's extensive experience with paying military and civilian personnel, CJ8 FRO personnel should coordinate with them to review the ANA payroll process to determine what internal controls are lacking. In addition, DFAS should make the appropriate resources available to CJ8 FRO to adequately mentor the Ministry of Defense on the ANA payroll process.

One area in which CJ8 FRO and DFAS should work together and mentor the Ministry of Defense personnel is verifying whether ANA personnel are authorized to receive incentive pay and entitlements. DFAS could also assist the Ministry in determining where to implement separation of duties.

Further, CJ8 FRO and DFAS personnel could mentor the Ministry personnel in the use of techniques to reduce the amount of human interaction required before paying soldiers. For example, the Ministry of Defense could transfer funds from the Ministry of Finance to the Central Bank by EFT and remove this responsibility from ANA finance officers. This could help to eliminate the theft or loss of checks transferred manually. In addition, CJ8 FRO and DFAS personnel should ensure that the Ministry of Defense implements controls to minimize the altering of softcopy M41 forms before the banks process the forms for EFT payment. Appendix B shows the key aspects of the ANA payroll process and also highlights the control weaknesses where NTM-A/CSTC-A could work with DFAS to implement controls.

Management Took Action to Provide Financial Management Oversight at the ANA Corps

To address the payroll-related internal control weaknesses, CJ8 FRO took action in June 2011 to request six contracted regional corps finance advisors to provide financial management oversight, train on pay resolution issues, and implement policies and procedures to reduce the opportunity for fraud at the ANA corps level. According to the CJ8 FRO, finance advisors would assist in advising in all areas of standardizing and executing proper payroll procedures. Finance advisors would also advise and train ANA corps finance officers in developing a pay issue inquiry and resolution process and improving the efficiency and effectiveness of the pay process. CJ8 FRO personnel told us that the NTM-A General Officer Steering Committee approved the requirement, and funding for the six regional corps finance advisors and the statement of work was under review.

> *CJ8 FRO took action in June 2011 to request six contracted regional corps finance advisors to provide financial management oversight.*

Without Improvement, the ANA Payroll Process Was Susceptible to Errors and Fraud

The ANA payroll process at the corps, brigade, and kandak levels was a manual process and, thus, susceptible to errors and fraud. Not having adequate staff to mentor the ANA at the corps and lower levels made it difficult to detect errors and fraud. For example, an ANA prosecutor identified payroll fraud at one corps; specifically, kandak GSG8 personnel altered the softcopy deposit reports to shift money into colluders' accounts. During a February 2011 internal control team site visit, a CJ8 FRO mentor observed how the GSG8 personnel implemented the fraud scheme and developed procedures to detect fraud for future site visits. However, CJ8 FRO personnel have been unsuccessful in implementing the procedures because they have been unable to obtain the bank reports from Kabul Bank. CJ8 FRO personnel should continue to work with the Ministry of Defense, Ministry of Finance, and Kabul Bank to obtain ANA payroll bank reports and verify payments made to ANA personnel.

In addition, without adequate staff and planning, it will take longer for CJ8 FRO personnel to implement and reinforce proper business practices within the Ministry of Defense–Finance and GSG8 offices and determine the controls needed to improve the ANA payroll process. Instead of exhausting resources when documentation was not available at a corps, CJ8 FRO personnel could have reviewed the payroll documents where they were stationed and avoided a site visit. Without improving the Ministry's internal controls, CJ8 FRO personnel cannot successfully complete the mission to prepare the Afghanistan government to sustain the ANA payroll process without coalition support.

> *Without improving the Ministry's internal controls, CJ8 FRO personnel cannot successfully complete the mission to prepare the Afghanistan government to sustain the ANA payroll process without coalition support.*

Recommendations, Management Comments, and Our Response

B.1. We recommend that the Director, Combined Security Transition Command-Afghanistan, CJ8 Directorate:

a. Conduct a review of the staffing level of mentors for Afghanistan National Army payroll processing and monitor the effectiveness of the new personnel to determine whether additional personnel are needed.

NTM-A/CSTC-A Comments

The Deputy Director, NTM-A/CSTC-A CJ8, agreed and stated that a CJ8 ANA FMO internal control team cell was created in July 2011 and was comprised of two U.S. Army officers that support the GSG8 internal control team when deployed to the corps for inspections. He said this cell was to travel to each corps four times annually to conduct site visits.

In addition, the Deputy Director stated that CJ8 ANA FMO personnel were training six contractors as corps finance advisors and expected them to be at their respective corps by April 1, 2012. Finally, he said that CJ8 ANA FMO planned to reassess personnel requirements once all corps advisors were fully trained and embedded with their respective units.

b. Develop procedures for planning the internal control team site visits. At a minimum, ensure that the procedures include:

(1) availability of payroll documentation and Afghanistan National Army finance officers, and

(2) mentoring for all levels of Afghanistan National Army finance officers.

NTM-A/CSTC-A Comments

The Deputy Director, NTM-A/CSTC-A CJ8, agreed and stated that the establishment of a CJ8 ANA FMO internal control team cell would enable more complete preparations for site visits. Specifically, he said that the GSG8 internal control team would send a checklist highlighting all requirements to the Corps G8 a few weeks before the visit to ensure that corps personnel were ready for the inspection.

In addition, the Deputy Director stated that the CJ8 ANA FMO internal control team officers would ensure that corps finance officers were mentored and able to assist with issues and that the corps finance advisors would visit and mentor the lower level ANA finance officers. This process was to be implemented by April 1, 2012, and would allow for greater accountability.

c. Request a partnership with Defense Finance and Accounting Service to develop control procedures for the payroll process and for Afghanistan National Army payroll auditing and mentoring.

NTM-A/CSTC-A Comments

The Deputy Director, NTM-A/CSTC-A CJ8, agreed and stated that his office would work with DFAS personnel to the extent possible, but cautioned that the current Ministry of Defense-Finance system was paper-intensive and that developing procedures to allow for accountability while expediting payroll would be a significant effort, requiring trained mentors and advisors.

d. Continue to work with the Ministry of Defense, Ministry of Finance, and Kabul Bank to obtain payroll bank reports and verify payments made to Afghanistan National Army personnel.

NTM-A/CSTC-A Comments

The Deputy Director, NTM-A/CSTC-A CJ8, agreed and stated that his office continued to enjoy a professional relationship with the Ministry of Defense, Ministry of Finance, and Kabul Bank. He also said that NTM-A/CSTC-A CJ8 personnel were receiving payroll bank reports from the Ministry of Defense and Kabul Bank, helping them oversee the payroll process.

Our Response

The Deputy Director, NTM-A/CSTC-A CJ8, comments on Recommendations B.1.a through B.1.d were responsive, and no additional comments are required.

B.2. We recommend that the Director, Defense Finance and Accounting Service Indianapolis, when requested by the Director, Combined Security Transition Command–Afghanistan, CJ8 Directorate, make the appropriate resources available to the Combined Security Transition Command–Afghanistan CJ8 Finance Reform Office, to adequately mentor the Ministry of Defense on developing controls on the Afghanistan National Army payroll process.

DFAS Comments

The Director, DFAS-Indianapolis, stated that DFAS, in coordination with the U.S. Army Financial Management Command, would establish an agreement to provide assistance in mentoring the Ministry of Defense on developing controls for the ANA payroll process upon request from the Director, CSTC-A, CJ8 Directorate. The estimated completion date was March 1, 2012.

Our Response

The Director, DFAS-Indianapolis, comments were responsive, and no additional comments are required.

Appendix A. Scope and Methodology

We conducted this performance audit from December 2010 through December 2011 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.

To accomplish our audit objectives, we coordinated with or interviewed officials from USD(C)/CFO, DFAS, U.S. Central Command, and NTM-A/CSTC-A. We obtained and reviewed Public Law 111-118, "Department of Defense Appropriation Act, 2010," December 19, 2009, and Public Law 111-212, "Supplemental Appropriations Act, 2010," July 29, 2010, as they related to the ASFF. We also obtained and reviewed USD(C)/CFO, Defense Security Cooperation Agency, and NTM-A/CSTC-A ANA guidance for payroll contributions, reconciliation, and distribution, as well as NTM-A/CSTC-A ministerial development guidance prepared to mentor Ministry of Defense-Finance and GSG8 personnel.

We conducted a site visit to NTM-A/CSTC-A at Camp Eggers in Afghanistan. We met with officials from CJ1 (Personnel), CJ2 (Intelligence), CJ3 (Operations), CJ6 (Communications), and CJ8 (Comptroller) offices; ministerial ANA development advisors; and officials from the Ministry of Defense–Finance and GSG8 offices to gain an understanding of ANA payroll and mentoring processes. We also accompanied the CJ8 FRO advisor on a site visit to the 201st Corps to observe how the internal control team inspects and audits the ANA payroll process and mentors ANA corps finance officers. In addition, we obtained ANA payroll source documents for the Central Kabul units, AFMIS summary-level data, and SY 1388 and SY 1389 payroll reconciliation worksheets from CJ8 FRO personnel to determine the accuracy of ASFF funds reconciled and distributed for ANA payroll.

We reviewed ANA payroll supporting documentation for the first quarter of SY 1389 (March 21, 2010 through June 21, 2010). Specifically, CJ8 FRO personnel provided ANA Central Kabul Unit M16 forms for the first quarter of SY 1389. We translated and totaled all AFMIS category codes on the M16 forms. We used NTM-A/CSTC-A and the Ministry of Defense agreed-upon rates for the first quarter of SY 1389 to determine how much NTM-A/CSTC-A should have reimbursed the Ministry of Defense for ANA payroll. We compared the totals for each AFMIS category code to an AFMIS report, provided by the Ministry of Defense, of payroll expenses for the ANA Central Kabul units for the first quarter of SY 1389.

In addition, we obtained and reviewed the ANA Central Kabul units' first-month SY 1389 M41 forms for individuals with "CIV" identification numbers and determined the amount paid for the number of civilians reported under AFMIS military payroll codes 21102 (Military Officers) and 21103 (Armed Forces). We also determined the

percentage of total expenses that CJ8 FRO reimbursed the Ministry of Defense, and we used the percentage to estimate the amount of the civilian payroll CJ8 FRO reimbursed to the Ministry of Defense in the first month of SY 1389.

We determined the universe of ASFF funds distributed to the Ministry of Defense for ANA payroll from April 2009 to January 2011 by obtaining supporting documents for payments made by DFAS Rome and Indianapolis to the Ministry of Finance in support of ANA payroll. We reviewed the CJ8 FRO SY 1388 and SY 1389 ANA payroll reconciliation provided to the Ministry of Defense. Further, we used the payment documentation received from DFAS personnel and AFMIS data provided by CJ8 FRO personnel to recreate a SY 1388 and SY 1389 payroll reconciliation. We compared our reconciliation to the CJ8 FRO reconciliation to determine whether it was accurate and adequate.

Upon completing our initial fieldwork, we coordinated with NTM-A/CSTC-A officials to address concerns we observed during our audit. To validate factual accuracy, we also provided a discussion draft to DoD officials discussed in this report.

Use of Computer-Processed Data

To perform this audit, we used data from AFMIS, which is the official accounting system of the Ministry of Defense. We used AFMIS data when re-creating the CJ8 FRO SY 1389 ANA payroll reconciliation. We assessed the reliability of the data by translating the Ministry of Defense payroll form source documents from Dari to English and comparing the amounts on the source documents to the amounts entered into AFMIS for the first quarter of SY 1389 Central Kabul units. Although we identified errors between the source documents and AFMIS data, we determined that they were immaterial and that the AFMIS data were sufficiently reliable for the purpose of our audit.

Prior Coverage on the ANA Payroll and Salary Support

During the last 5 years, the Special Inspector General for Afghanistan Reconstruction (SIGAR) has issued two reports discussing Afghanistan National Police payroll and salary support to Afghanistan government employees. Unrestricted SIGAR reports can be accessed at http://www.sigar.mil.

SIGAR

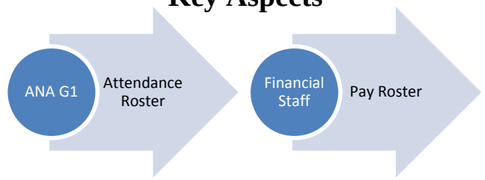
SIGAR-Audit-11-10, "Despite Improvements in MoI's Personnel Systems, Additional Actions Are Needed to Completely Verify ANP Payroll Costs and Workforce Strength," April 25, 2011

SIGAR-Audit-11-5, "Actions Needed to Mitigate Inconsistencies in and Lack of Safeguards over U.S. Salary Support to Afghan Government Employees and Technical Advisors," October 29, 2010

Appendix B. Key Aspects and Control Weaknesses in the ANA Payroll Process

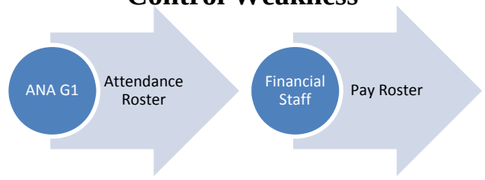
Figure B-1. ANA Payroll Attendance

Key Aspects



– At the ANA kandak, brigade, and corps levels, ANA G1 (Personnel Office) officers take daily counts of ANA soldiers and officers. Individuals present, absent, or on leave are tracked in the attendance rosters, which are provided to financial management staff to build a pay roster, called an M41 form.

Control Weakness



– According to ANA finance officers, incentives and entitlements are recorded by the kandak, brigade and corps G8 officers based on personal knowledge of soldiers' accounts and certificates provided by the soldiers. G8 officers depend on the attendance records provided by the G1 officer to make the payroll forms. However, the G8 officer cannot verify through any system or documentation that soldiers are entitled to the incentives or entitlements.

– Some ANA identification numbers on M41 forms are not unique. This leaves the ANA payroll process vulnerable to duplicate payments and ghost soldiers. In addition, this creates significant concerns when trying to automate and standardize the ANA payroll system.

Figure B-2. ANA Payroll Forms

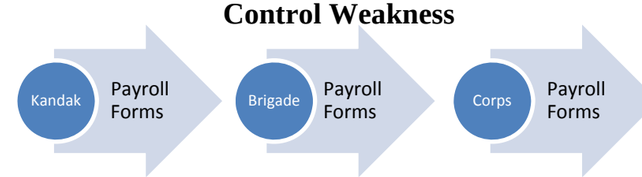
Key Aspects

– The financial management staff at the ANA kandak, brigade, and corps manually creates by pen and paper or by computer-based spreadsheet the M41 pay roster and M16 coversheet forms.

– The M41 form includes an individual's name, position, identification number, base pay, incentives, deductions, net pay, and bank account numbers. The M16 form is a coversheet with all personnel on the M41 form for a respective kandak, brigade, or corps.

– The corps finance officer creates three copies of the approved pay rosters, one copy is for the finance officer's records and the other two for the mustofiats, which are regional branches of Ministry of Finance.

Control Weakness



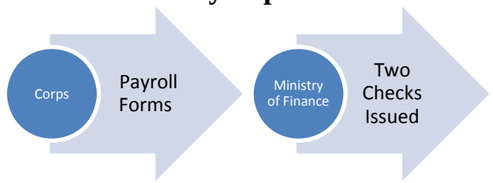
– Kandak, brigade, and corps finance officers create the M41 form for their unit based on G1 attendance records. This creates a separation of duties risk. Specifically, the ANA finance officers have the ability to influence inputs and outputs of the payroll process.

– The manual nature of the ANA payroll process makes it susceptible to errors. Specifically, ANA personnel creating M41 forms may miscalculate base pay, incentives, taxes, and pensions.

– In addition, the ANA does not have a process in place for easily identifying individuals responsible for creating payroll documents and holding them responsible for errors. M41 and M16 forms require between 25 and 35 signatures, and many are not legible.

Figure B-3. Approval and Financing

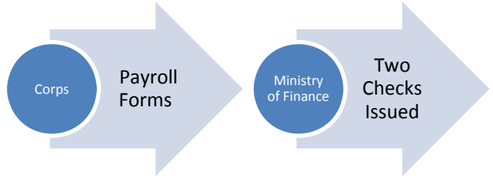
Key Aspects



– Once the Ministry of Finance personnel review and approve M41 and M16 forms, they prepare and issue two checks to the corps finance officer. One is for delivering pay by EFT; the other is for securing cash to deliver to the ANA without bank accounts.

– The ANA finance officer takes the two checks to the Central Bank for processing.

Control Weakness



– ANA corps finance officers are provided two checks for issuing payroll. However, transferring funds electronically between the Ministry of Finance and Central Bank can reduce the risk of fraud or theft.

Figure B-4. Pay Delivery

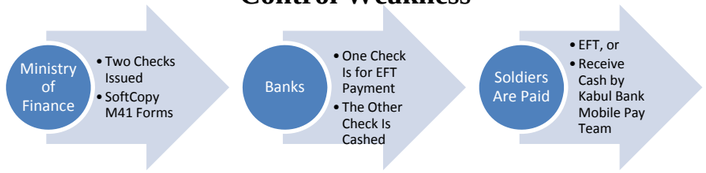
Key Aspects

– The corps finance officer takes one check issued from Ministry of Finance to the Central Bank, which in turn electronically transfers funds to private banks, such as Kabul or AZIZI Bank. In addition, Ministry of Finance provides the banks a softcopy of the M41 and M16 forms for EFT processing and payment.

– The other check is cashed at the Central Bank, and the corps finance officer distributes the cash to the soldiers.

– For ANA units who do not have access to banks, Kabul Bank offers to send mobile pay teams to pay the soldiers in cash.

Control Weakness



– Softcopy M41 forms provided to banks for EFT processing and payment are susceptible to change before to bank processing. The ANA does not have adequate controls in place to ensure that the transfer of information is secure and without error.

– The corps finance officer has the ability to secure cash from the Central Bank to pay soldiers if necessary. However, this leaves the cash susceptible to theft. Kabul Bank mobile pay teams have the ability to perform the same function as the finance officer, which limits the risk of theft.

North Atlantic Treaty Organization Training Mission-Afghanistan/Combined Security Transition Command-Afghanistan Comments

HEADQUARTERS
NATO TRAINING MISSION - AFGHANISTAN
COMBINED SECURITY TRANSITION COMMAND - AFGHANISTAN
KABUL, AFGHANISTAN
APO AE 09356

REPLY TO
ATTENTION OF

NTM-A/CSTC-A

9 January 2012

MEMORANDUM THRU

United States Forces - Afghanistan (CJIG), APO AE 09356
United States Central Command (CCIG), MacDill AFB, FL 33621

FOR Office of the Department of Defense – Inspector General 4800 Mark Center Drive, Alexandria, VA 22350-1500

SUBJECT: NTM-A/CSTC-A Response to the Draft Report "Distribution of Funds and Mentoring of Finance Officers for the Afghanistan National Army Payroll Need Improvement" (Project No. D2011-D000FR-0089.000)

1. Reference: Draft Report, dated 22 December 2011, Department of Defense Office of Inspector General, subject as above.

2. The purpose of this memorandum is to respond to the draft report with the following comments; NTM-A/CSTC-A CJ8 concurs with all findings and recommendations. Details of CJ8 response are enclosed.

3. Point of contact for this action is [redacted]

Encl
NTM-A/CSTC-A CJ8 Comments

RANDY STEVENS
Colonel, US Army
CJ8 Deputy Director

Final Report Reference

DRAFT REPORT – DoD IG Project No. D2011-D000FR-0089.000
"Distribution of Funds and Mentoring of Finance Officers for the Afghanistan National Army Payroll Need Improvement"

NTM-A/CSTC-A
GENERAL COMMENTS ON THE REPORT

NTM-A/CSTC-A CJ8 General Comments

The report refers to the NTM-A/CSTC-A CJ8 Comptroller Office. NTM-A/CSTC-A CJ8 recommends the report reference the formal title, Directorate for Comptroller and Programs, CJ8, to avoid confusing the CJ8 Directorate with the CJ8 Comptroller, a separate division within CJ8 with no direct ANA mentoring or payroll oversight responsibilities.

Revised Pages i, ii, 2, 13, 23 and 24

The report refers to the CJ8 Financial Reform Office (FRO). Subsequent to the drafting of this report, the FRO was renamed the CJ8 Financial Management Oversight (FMO) office as a result of the NTM-A / CSTC-A reorganization. The FMO remains a division within the CJ8 Directorate and is directly involved with ANA mentoring and payroll oversight.

Revised Pages i and 2

NTM-A/CSTC-A CJ8 Comments on Recommendations

Finding A. NTM-A/CSTC-A CJ8 FRO did not adequately reconcile and distribute ANA Payroll Funds

Recommendations:

1.a. Develop procedures to ensure that consistent and adequate reconciliations of funds advanced for the Afghanistan National Army payroll are being performed.

NTM-A/CSTC-A Response:

NTM-A/CSTC-A CJ8 concurs with the findings and associated recommendation.
Findings included:
1. Used incorrect rates to calculate payroll funds which resulted in erroneous reconciliation and fund advances to the ANA.
2. Made mathematical errors to calculate ANA payroll funds and submitted erroneous request for fund transfers.
3. Included Civilian Payroll in calculations which overstated fund execution and advances to the ANA by $525K.
4. Erroneously reported over and under payments of payroll funds.

Actions on Recommendation:
The NTM-A/CSTC-A CJ8 Afghanistan National Army (ANA) Financial Management Oversight (FMO) office has taken two actions in support of the above recommendation: (1) creation of a fund tracking spreadsheet and, (2) revision of the Standard Operating Procedure (SOP) to facilitate quarterly reconciliations.

The fund tracking spreadsheet requires every transactionto be entered and analyzed before the request can be approved, reducing the chance of mathematical errors. It also breaks out accounting codes, ensuring civilian payroll figures are excluded from the calculations. After CJ8 ANA FMO personnel have reviewed the payroll figures using the spreadsheet, funding request must be approved by the CJ8 FMO Chief and CJ8 Director prior to submission to DFAS. The mandatory use of this spreadsheet by CJ8 ANA FMO personnel will provide up-to-date status of fund execution and will ensure consistent and adequate reconciliations of ANA payroll funds. The spreadsheet was completed March 2011 and is currently being used by CJ8 ANA FMO personnel.

CJ8 ANA FMO and Comptroller divisions are also revising the current SOP with an expected completion date of 1 April 2012. The SOP will clarify proper payroll review processes and identify how to reconcile payroll expenditures to prevent the recurrence of the above findings.

1.b. Develop procedures to ensure that correct rates, verification of arithmetic, and only payroll related transactions are being used during the payroll distribution process.

NTM-A/CSTC-A Response:

NTM-A/CSTC-A CJ8 concurs with the findings and associated recommendation.
Findings included:
1. Used incorrect reimbursement rates on payroll resulting in a net error of $5.1M payroll "underadvance".
2. Made arithmetic errors to include rounding which resulted in $96K understatement in actual funds provided for ANA payroll.
3. Included non-payroll related transactions.

Actions on Recommendation:
The NTM-A/CSTC-A CJ8 ANA FMO office has taken two actions in support of the above recommendation: (1) creation of a fund tracking spreadsheet, and (2) revision of the SOP to facilitate quarterly reconciliations.

The new funds tracking spreadsheet was created to facilitate quarterly reconciliations and includes formulas to prevent calculation and rates mistakes. It also breaks out funding codes to ensure only payroll-related transactions are included. Amounts in the spreadsheet are in "dollars" instead of "thousand of dollars" to avoid rounding mistakes. Funding reconciliations are also conducted separately for each budget code (Codes 21, 22,

and 25). The spreadsheet was completed on March 2011 and is currently being used by CJ8 ANA FMO personnel.

CJ8 ANA FMO and Comptroller divisions are also revising the current SOP with an expected completion date of 1 April 2012. The SOP will clarify proper payroll review processes and identify how to reconcile payroll expenditures to prevent the recurrence of the above findings.

1.c. Develop procedures to ensure that correct amount of funds being advanced are accurately reported to the Ministry of Defense.

NTM-A/CSTC-A Response:

NTM-A/CSTC-A CJ8 concurs with the findings and associated recommendation.
Findings included:
1. Erroneous reports to MoD not matching CJ8 ANA FMO reconciliation which resulted in $18.5M underfunding.

Actions on Recommendation:
The revised SOP will detail procedures to ensure reconciliation matches the official document sent to the Ministry of Defense (MoD). Before any funding is transferred to the MoD, the following steps must occur:

- ***Expenditures by Budget Code must be reconciled (initiated March 2011)***
- ***CJ8 Director must send a letter informing the MoD-Finance of the upcoming payment; letter must be co-signed by MoD-Finance***
- ***Minister of Finance (MoF) must send an acceptance letter to CJ8 Director (initiated 3rd quarter SY 1390)***

Only when these steps are completed can NTM-A/CSTC-A CJ8 request payment from DFAS.

DRAFT REPORT – DoD IG Project No. D2011-D000FR-0089.000
"Distribution of Funds and Mentoring of Finance Officers for the Afghanistan National Army Payroll Need Improvement"

NTM-A/CSTC-A
GENERAL COMMENTS ON THE REPORT

2. Develop written procedures to ensure there are adequate reviews of the quarterly reconciliations to prevent future errors.

NTM-A/CSTC-A Response:

NTM-A/CSTC-A CJ8 concurs with the findings and associated recommendation. Findings included:
1. Used incorrect rates to calculate payroll funds which resulted in erroneous reconclitiation and fund advances to the ANA.
2. Made mathematical errors to calculate ANA payroll funds and submitted erroneous request for fund transfers.
3. Included Civilian Payroll in calculations which overstated fund execution and advances to the ANA by $525K.
4. Erroneously reported over and under payments of payroll funds.

Actions on Recommendation:
The NTM-A /CSTC-A CJ8 ANA FMO has taken three actions in support of the above recommendation: (1) revision of the SOP, (2) introduction of Corps Finance Advisors, and (3) development of automated accounting systems.

The CJ8 ANA FMO office is revising the SOP with an expected completion date of 1 April 2012. The SOP will clarify proper payroll review processes and identify procedures for reconciling payroll expenditures to prevent the recurrence of the above findings and ensure continuity in CJ8 procedures.

In addition to the SOP, Corps Finance Advisors are being trained to facilitate a detailed review process. These advisors will be in place by 1 April 2012. Once the advisors are in place, NTM-A/CSTC-A CJ8 will finalize procedures to ensure verification of salary payments.

Lastly, a new system is being developed to give CJ8 ANA FMO and the Corps access to more financial data. This system, known as Budget Preparation and Expenditure Tracking Database (BPET-DB), is an electronic, structured budget process developed by an Afghan MoF Contractor. It will give each Corps and CJ8 ANA FMO personnel the ability to pull detailed financial reports, not available via the Afghanistan Financial Management Information System (AFMIS). Expected completion date on BPET-DB and AFMIS access is by 1 April 2012.

DRAFT REPORT – DoD IG Project No. D2011-D000FR-0089.000
"Distribution of Funds and Mentoring of Finance Officers for the Afghanistan National Army Payroll Need Improvement"

NTM-A/CSTC-A
GENERAL COMMENTS ON THE REPORT

3. Perform quarterly detailed-level testing of the Ministry of Defense source documents to ensure that the Afghanistan National Army payroll records in the Afghanistan Financial Management Information System are accurately reported before advancing funds to the Ministry of Defense.

NTM-A/CSTC-A Response:

NTM-A/CSTC-A CJ8 concurs with the findings and associated recommendation. Findings included:
1. Lack of detailed-level testing on summary level expenses before advancing ANA payroll to MoD.
2. Lack of knowledge of DSCA policy (Sep 2007) to audit the reimbursement rogram.

Actions on Recommendation:
The NTM-A/CSTC-A CJ8 ANA FMO office has taken two actions in support of the above recommendation: (1) introduction of Corps Financial Advisors, and (2) access and oversight of automated accounting systems.

CJ8 ANA FMO personnel are currently training Corps Financial Advisors to work within the six Corps. Their duties will include the detailed-level review of source documents to ensure the Afghanistan National Army payroll records are accurate. These advisors will augment FMO staff and allow for greater oversight. The advisors and CJ8 ANA FMO personnel will also review the payroll documents from MoD at all levels to include Corps and below on a monthly basis. This will ensure proper accountability and accuracy of reports via comparison of reports and training of ANA finance officers on proper procedures. NTM-A/CSTC-A CJ8 expects this additional oversight to be implemented no later than 1 April 2012.

CJ8 ANA FMO personnel are currently working with the MoD to gain access to AFMIS, which will allow more in-depth review of the data. Reviews are currently done via detailed AFMIS reports produced by the MoD-F. Obtaining access to AFMIS or BPET-DB will allow more visibility into MoD data. Computerized Payroll System (CPS) will provide another means to verify the data and interface with the personnel management system. Access to these systems will help NTM-A/CSTC-A CJ8 verify personnel are being paid correctly, and will minimize the number of ghost accounts and enhance transparency and accountability in the payroll system. CPS is expected to be implemented no later than October 2012.

4. Obtain an official decision from the North Atlantic Treaty Organization Training Mission - Afghanistan/Combined Security Transition Command – Afghanistan Command as to whether it can appropriately pay civilian salaries.

NTM-A/CSTC-A Response:

NTM-A/CSTC-A CJ8 concurs with the recommendation.

Currently, civilian employees are not paid from ASFF funds. Civilian salaries are paid by the Government of the Islamic Republic of Afghanistan (GIRoA) under budget codes 21100 and 21101, which are not funded by the Afghanistan Security Forces Fund. The new Corps Financial Advisors will also be able to confirm civilians are not receiving US-funded pay. We expect to receive official guidance from NTM-A/CSTC-A leadership on civilian pay salaries by 1 April 2012.

Finding B. NTM-A/CSTC-A CJ8 FMO attained some success through ANA payroll mentoring but improvements would achieve more benefits

Recommendations:

1.a. We recommend that the Director, Combined Security Transition Command – Afghanistan, Comptroller Office conduct a review of the staffing level of mentors for Afghanistan National Army payroll processing and monitor the effectiveness of the new personnel to determine whether additional personnel are needed.

NTM-A/CSTC-A Response:

NTM-A/CSTC-A CJ8 concurs with the findings and associated recommendation.
Findings included:
1. Lack of site visits to the Corps and below level—each Corps visited twice per year.
2. Lack of adequate staff to visit all sites—only one part-time mentor.

Actions on Recommendation:
The NTM-A/CSTC-A CJ8 ANA FMO has taken two actions in support of the above recommendation: (1) establishment of an ICT cell, and (2) introduction of Corps Financial Advisors.

A CJ8 ANA FMO Internal Control Team (ICT) cell was created in July 2011. This cell, comprised of two US Army Officers, support the GSG8 ICT when deployed to the Corps for inspections. This cell travels to each Corps 4 times annually to conduct site visits.

In addition, CJ8 ANA FMO personnel are in the process of training six contractors as Corps Finance Advisors. These Corps advisors are expected to be at the Corps by 1 April 2012. When all Corps Finance Advisors are established in their respective Corps, they will assist the CJ8 ANA FMO ICT.

CJ8 ANA FMO will reassess personnel requirements once all Corps advisors are fully trained and embedded with their respective units.

1.b. We recommend that the Director, Combined Security Transition Command – Afghanistan, Comptroller Office develop procedures for the planning of the internal control team site visits. At a minimum, ensure that the procedures include:

(1) Availability of payroll documentation and Afghanistan National Army finance officers; and

(2) Mentoring for all levels of Afghanistan National Army finance officers.

NTM-A/CSTC-A Response:

NTM-A/CSTC-A CJ8 concurs with the findings and associated recommendation.
Findings included:
1. Unavailability of payroll documents during Corps site visits.
2. ANA Finance Officers not available during site visits.

Actions on Recommendation:
The NTM-A/CSTC-A CJ8 ANA FMO office has taken two actions in support of the above recommendation: (1) establishment of an ICT cell, and (2) introduction of Corps Financial Advisors.

The establishment of a CJ8 ANA FMO ICT cell enables more complete preparations for site visits. A checklist highlighting all requirements is sent by the GSG8 ICT to the Corps G8 a few weeks prior to the visit, to ensure Corps personnel are ready for the inspection. Payroll documentation is available when required, and staff help with the review as much as possible. The CJ8 ANA FMO ICT officers ensure Corps Finance officers are mentored and able to assist with issues.

The Corps Finance Advisors will visit and mentor the lower level ANA Finance officers. This process will be implemented by 1 April 2012 and will allow for greater accountability.

DRAFT REPORT – DoD IG Project No. D2011-D000FR-0089.000
"Distribution of Funds and Mentoring of Finance Officers for the Afghanistan National Army Payroll Need Improvement"

NTM-A/CSTC-A
GENERAL COMMENTS ON THE REPORT

1.c. We recommend that the Director, Combined Security Transition Command – Afghanistan, Comptroller Office request a partnership with Defense Finance and Accounting Service to develop control procedures for the payroll bank reports and verify payments made to Afghanistan National Army personnel.

NTM-A/CSTC-A Response:

NTM-A/CSTC-A CJ8 concurs with the recommendation.

NTM-A/CSTC-A CJ8 will work with DFAS personnel to the extent possible, but cautions that the current MoD-F system is paper-intensive and the process to develop procedures to allow for accountability while expediting payroll is significant, requiring trained mentors and advisors. Further, the MoD-F process does not resemble the DFAS highly automated process that allows for cross checking and double controls. It is doubtful the MoD-F processes will reach a state that would allow DFAS to fully leverage its sophisticated accounting processes in an Afghan system without significant investment of time and personnel by DFAS.

1.d. We recommend that the Director, Combined Security Transition Command – Afghanistan, Comptroller Office continue to work with the Ministry of Defense, Ministry of Finance, and Kabul Bank to obtain payroll bank reports and verify payments made to Afghanistan National Army personnel.

NTM-A/CSTC-A Response:

NTM-A/CSTC-A CJ8 concurs with the recommendation.

NTM-A/CSTC-A CJ8 continues to enjoy a beneficial professional relationship with the MoD, MoF, and Kabul Bank. NTM-A/CSTC-A CJ8 is also receiving payroll bank reports from MoD and Kabul Bank, helping us oversee the payroll process.

APPROVED BY:

[redacted]

PREPARED BY:

[redacted]

Defense Finance and Accounting Service Comments

DEFENSE FINANCE AND ACCOUNTING SERVICE
8899 EAST 56TH STREET
INDIANAPOLIS, INDIANA 46249

JAN 3 1 2012

DFAS-JBK/IN

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Distribution of Funds and Mentoring of Finance Officers for the Afghanistan National Army Payroll, Project Number D2011-D000FR-0089.000

The Defense Finance and Accounting Service Indianapolis is providing management comments for recommendation B.2 of the subject Draft Report.

My point of contact for this request is [redacted]

Aaron P. Gillison
Director, DFAS Indianapolis

Attachment:
Management Comments

www.dfas.mil
Your Financial Partner @ Work

Recommendation B.2: We recommend that the Director, Defense Finance and Accounting Service Indianapolis, when requested by the Director, Combined Security Transition Command–Afghanistan, Comptroller Office, make the appropriate resources available to the Combined Security Transition Command–Afghanistan CJ8 Finance Reform Office to adequately mentor the Ministry of Defense on developing controls on the Afghanistan National Army payroll process.

Current Management Comments: The Director, Defense Finance and Accounting Service-Indianapolis, in coordination with the United States Army Financial Management Command, will establish an agreement to provide assistance in mentoring the Ministry of Defense on developing controls for the Afghanistan National Army payroll process upon request from the Director, Combined Security Transition Command-Afghanistan, Comptroller Office.

Current Estimated Completion Date: March 1, 2012

Inspector General
Department of Defense